

## US Macroeconomics

January 4, 2023

Joseph Lavorgna, Chief US Economist | 212.610.1741 | joseph.lavorgna@smbcnikko-si.com

### Could Employment Soon Surprise to the Downside?

Investors may be underestimating the possibility of a downward surprise in the December data. The consensus of forecasters is predicting a relatively strong 200k increase in headline jobs and a 165k gain in private employment. But the standard deviation of these estimates is only around 30k, which is relatively low. When forecasts are clustered closely together, we have causally observed that the probability of a surprise goes up.

Moreover, data outliers have been small for the last several months as evidenced by economic surprise indices. In other words, forecasters generally have been close to the mark with their estimates. Typically, this does not last through an economic turning point, which may be near based on what we have observed from the Index of Leading Economic Indicators. Why could employment surprise be to the downside?

Many economists cite historically low initial jobless claims, which are leading indicator of broader trends in hiring, as a reason to be optimistic on the 2023 labor market. And claims are indeed quite low. The 4-week moving average is only around 220k, which is approximately 125k below where they were before of the onset of the 2008-09 downturn. As illustrated in the table below, today's claims are well below where they were prior to the last five (non-pandemic) recessions. However, **our work has found that the percentage rise in claims from their cyclical low is more important than the level of claims in foreshadowing a downswing in the labor market.** On balance, recessions have begun whenever claims have risen 23% from their cyclical low. We are past that threshold.

**The average (and median) percentage increase in initial jobless claims from their cyclical low to where they are when recession hits is 23%.** With claims having troughed at 175k last March, such an increase places them at 215k, which is slightly above their current reading. Consequently, forecasters should not take comfort from today's low level of claims. A downturn in the jobs market is consistent claims around 220k. Hence, current labor market optimism may be misplaced.

#### Initial jobless claims: The level versus the percentage change

Date	Claims at Recession Onset	% Change From Trough
Sep-52	207	23.2
Sep-54	235	15.2
Apr-59	294	20.5
Apr-66	221	23.5
Feb-73	255	14.9
Sep-78	413	27.5
Mar-81	438	7.4
Jan-89	367	26.6
Mar-00	388	42.6
Feb-06	380	30.1
Average >	320k	23%

Sources: DoL, Haver, SMBC

## Disclaimer

This presentation is for discussion purposes only and is not intended to be an offer to sell or the solicitation of an offer to buy any securities, or any commitment to underwrite, subscribe for or place any securities, is not an offer or commitment to provide any financing or extension of credit or service, and does not contain any tax or legal advice. This presentation has been prepared by SMBC Group (which may include, collectively or individually, any of the following entities in the Americas Division: Sumitomo Mitsui Banking Corporation (“SMBC”), SMBC Nikko Securities America, Inc. (“SMBC Nikko”), SMBC Nikko Securities Canada, Ltd. (“Nikko Canada”), SMBC Capital Markets, Inc. (“SMBC-CM”), SMBC Leasing and Finance, Inc., JRI America, Inc., and SMBC Rail Services LLC) and is being furnished by SMBC Group solely for use by the client or potential client to whom such materials are directly addressed and delivered. This presentation is confidential and is the property of SMBC Group subject to copyright. Any reproduction of this presentation, in whole or in part, is prohibited, and you may not release these materials to any person, except to your advisors and professionals to assist you in evaluating these materials, provided that they are obligated, by law or agreement, to keep the presentation confidential. These materials do not constitute research, a recommendation or an offer or solicitation to any person to enter into any transaction or adopt any hedging, trading, or investment strategy. Prior to participating in any such transaction, you should consult your own independent, competent, legal, tax, accounting, and other professional advisors.

In preparing this presentation, SMBC Group has relied upon information available from third parties, including public sources, and we have assumed, without independent verification, the accuracy and completeness of such information. Specific prices, indices, or measures, including ranges, listed in this document were prepared at the time the document was prepared, and are subject to change without notice. SMBC Group makes no representations to and does not warrant this presentation’s accuracy or completeness. SMBC Group expressly disclaims any liability for any use of the information set forth herein, including, without limitation, any use of the information set forth herein in the preparation of financial statements or accounting material.

These materials may contain forward-looking statements, which may include projections, forecasts, income estimates, yield or return, future performance targets or similar analysis. These forward-looking statements are based upon certain assumptions. All forward-looking statements are based upon currently available information and SMBC Group is not obligated to provide an update. Actual events may differ from those assumptions. Opinions, projections, price/yield information and estimates are subject to change without notice. There can be no assurance that estimated returns or projections will be realized, that forward-looking statements will materialize or that actual results will not be materially lower than those presented. Past performance is not necessarily indicative of future results. Any transactions or strategies addressed may not be suitable for all parties. The value, price or income from transactions or strategies may fall as well as rise. SMBC Group or an affiliate may have a position in any of the underlying instruments, assets, indices, or rates mentioned in this document. You should make your own independent judgment or seek independent financial and tax advice with respect to any matter contained herein.

SMBC is subject to Japanese firewall regulations and therefore absent client consent, non-public client information may not be shared with SMBC Nikko Securities Inc.

SMBC Nikko is a U.S. registered broker-dealer of SMBC Group. Nikko Canada is a U.S. and Canadian registered broker-dealer of SMBC Group. SMBC-CM is provisionally registered as a U.S. swap dealer with the CFTC. Capital markets and other investment banking activities for SMBC Group are performed by a combination of SMBC Nikko, Nikko Canada, SMBC Nikko Securities Inc. and SMBC-CM. Lending and other commercial banking activities are performed by SMBC and its banking affiliates. Derivative activities may be performed by SMBC-CM or SMBC. SMBC Group deal team members may also be employees of any of the foregoing entities. SMBC Group does not provide tax advice. Accordingly, any discussion of U.S. tax matters contained herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone unaffiliated with SMBC Group or for the purpose of avoiding U.S. tax-related penalties. © 2022 SMBC Group. All rights reserved.