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US Macroeconomics

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Jobs Often Grow in the Early Stages of Recession

Employment is a coincident-to-lagging economic indicator. This means that its trend either moves in unison with real GDP or it *follows* it with a delay. Consequently, the underlying trend in job growth does not tell us anything about the future trajectory of growth.

In the chart below, we show the three-month average change in nonfarm payrolls versus recessionary periods (denoted by blue bars). What should be most obvious from the graph is that although **underlying employment trends downward before the onset of recession, it does not turn negative until the economy is *in* recession**. At no point in the last half century has employment been negative before the start of recession.

For example, the three-month moving average for job growth was 109k in December 1969, the economy's cyclical peak. Payrolls did not turn negative until May 1970, when the economy was already five months into recession.

Jobs averaged 251k in November 1973 just before the economy rolled over. But employment did not fall until almost a year later in October 1974.

When the economy peaked in January 1980, payrolls averaged 106k. Yet, they did not fall until four months later in May 1980. The next recession was similar. The three-month moving average on nonfarm payrolls was also 106k when real GDP peaked in July 1981. But it was not until two months later when the trend in jobs turned negative.

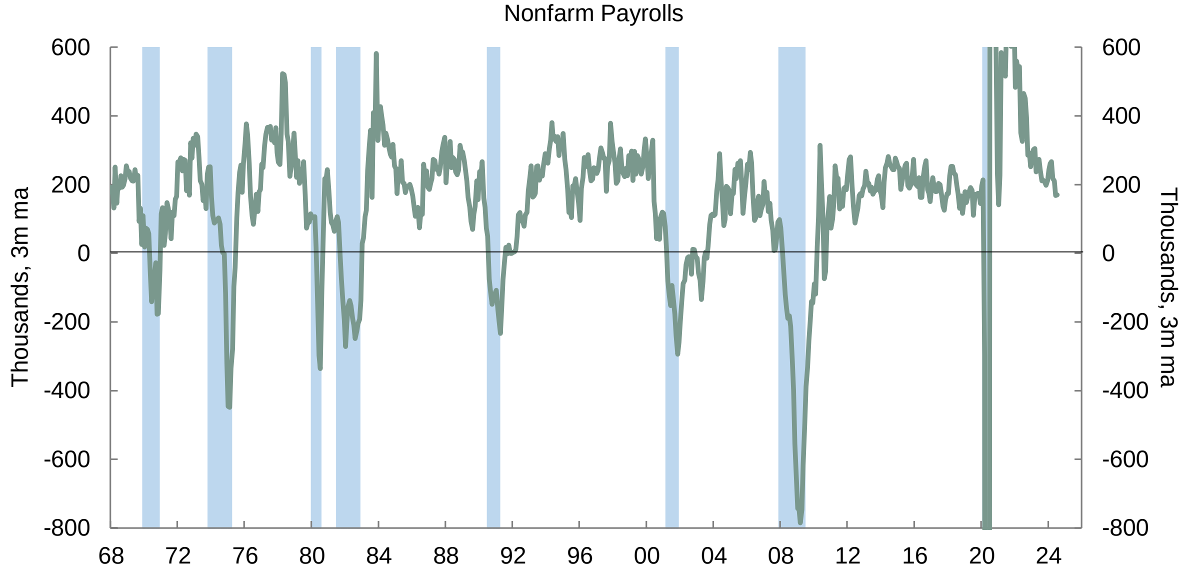
Payrolls averaged 50k in July 1990 when the economy peaked. In the next month, they turned negative.

When the next downturn began in April 2001 employment was trending at -81k. Finally, payrolls averaged 98k in December 2007 which was one month before the economy entered what would be the deepest downturn since the Great Depression. Trend jobs were still positive for three months before they declined in March 2008.

Nonfarm payrolls have averaged a decent, 170k jobs over the past three months. But the Bureau of Labor Statistics (BLS) recently announced that it may have overstated the level of March 2024 employment by 818k. This suggests to us that **underlying job growth may be closer to 100k, a figure similar to those in the runup to past economic inflexion points**. Moreover, it is possible that when the official numbers are released in February 2025, revisions are likely to be closer to *1 million* workers.

The upshot is that market participants should take little comfort if the next few employment reports show only modestly positive job growth. As discussed herein, this is the historical tendency ahead of recession.

Nonfarm Payrolls



Source: BLS, Haver, SMBC Nikko

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