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US Macroeconomics

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What Should We Look for in the Jobs Report?

The most important series is the unemployment rate because it has been edging higher and has always led economic downturns of which the consensus now firmly believes we have avoided. In the past, **every time the unemployment rate increased 50 basis points (bps) or more from its cyclical trough it has signaled recession onset within six months**.

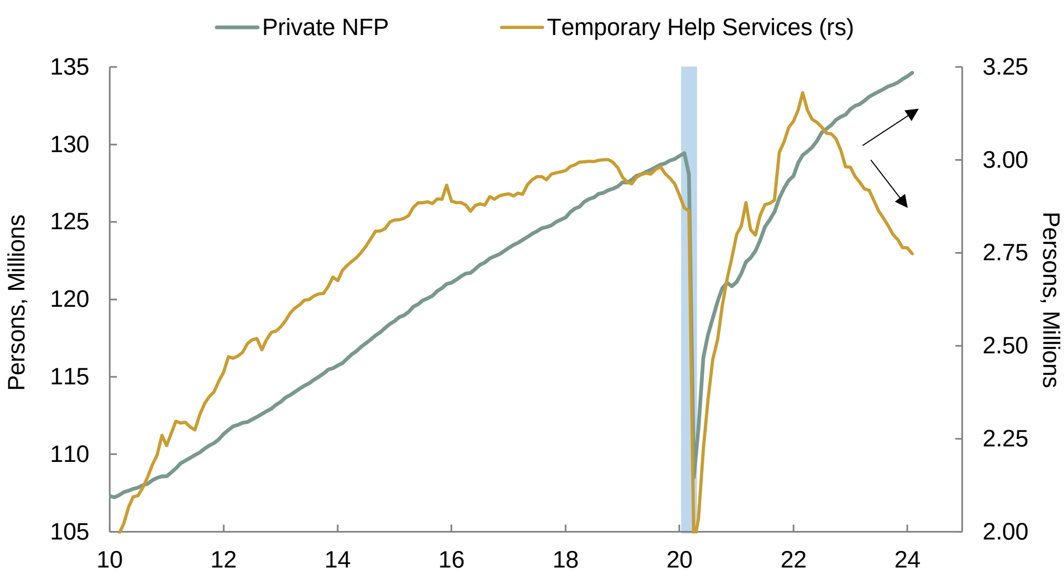
Last year, the unemployment rate went up by the 50 bp threshold, rising from 3.4% to 3.9%. But revisions since then show a rise to only 3.8%, leading investors to breathe a collective sigh of relief. However, the unemployment rate is now back to 3.9%. And there is a good chance it edges higher in the months ahead given the fundamentals in a handful of industry categories.

In particular, the employment trends within temporary help staffing, residential construction, retail trade, and restaurants will be central to the economy's intermediate outlook. **"Temps" have declined for 23 months in a row** thereby pointing to a further slowing in labor demand. This is a troubling development because temps tend to lead overall hiring as shown below.

Demand is also slowing in the housing sector because of low housing affordability. We estimate the **residential construction sector is overstaffed by upwards of 1 million workers**. A pullback here alone could push the unemployment rate up 60 bps. Of course if mortgage rates drop sharply, the need to shed employment will dissipate.

The trends in retail spending suggest that we could soon see weakness in the retail trade and eating/drinking categories of employment. Over the past 12 months, **retail spending is up less than 1% while spending on food services has more than halved its February 2023 pace**. Since these two categories are highly discretionary and pandemic-related excess household savings are depleted, further weakness may be in store. If so, the pace of hiring within retail trade and restaurants should slow.

Lastly, we are watching the nonfarm and factory workweeks, the latter being a subsector of the former. In February, the nonfarm workweek jumped 0.3 to 33.8 hours, which is perhaps payback from a weather-dampened January. But since the **factory workweek has been in a sharp downtrend**, we worry overall hours could soften too. If so, the "no landing" consensus will likely be proven wrong. Stay tuned.



Source: BLS, Haver, SMBC Nikko

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