US Macroeconomics

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Goldilocks

Job growth is slowing but the labor market remains tight, reflected in reasonably strong nominal wage gains. While there was nothing robust in the July employment figures, there was also nothing recessionary in the July employment figures. In this regard, it was a Goldilocks-like report, not too fast, not too slow.

Nonfarm payrolls rose 187k in July after 49k in net downward revisions. **Over the last three months, jobs have averaged 218k, which is the slowest pace since the November 2020 to January 2021 (163k)**. Private payrolls have been even softer, up only 185k on average since May.

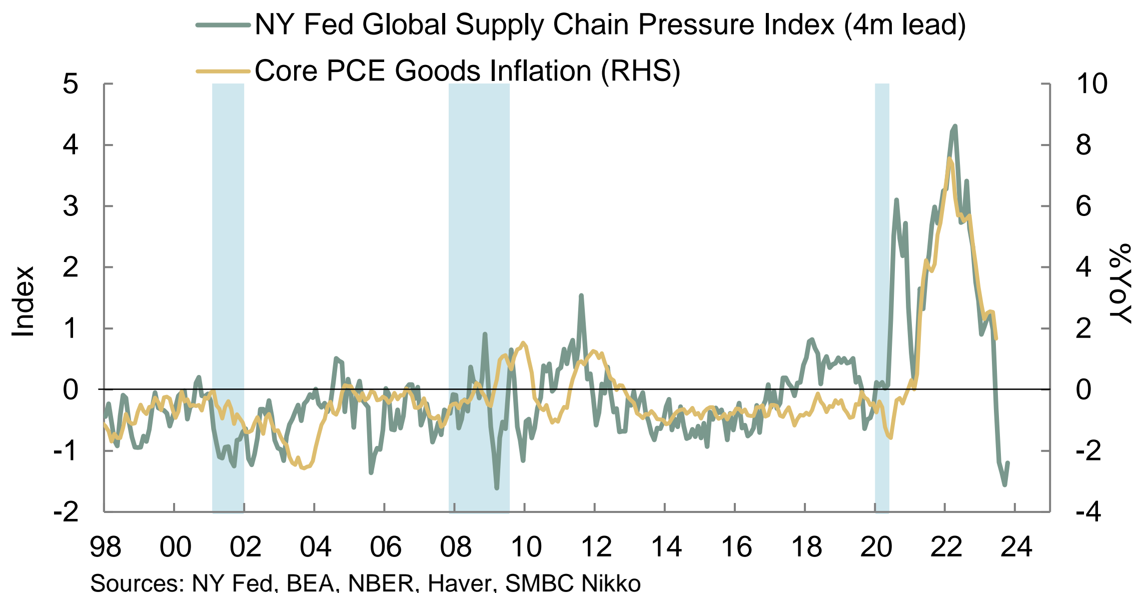
However, the unemployment rate dropped a tenth to 3.5%, and average hourly earnings increased 0.4%. Recessions start when unemployment advances half of a point from its cyclical low — 3.4% in this business cycle. And over the past year, wages are up 4.4%, which is finally above the inflation rate. The economy is going to expand a bit longer.

At present, the Fed is on hold. And the futures market has a similar view. **The probability of a pause at the September 26th FOMC meeting is well over 80%** — we agree. But the inflation data matter, too. Fortunately, there is some evidence pointing to further moderation in prices, particularly in the highly cyclical goods sector.

The pandemic caused massive distortions to the global supply chain, evident from the New York Fed's global supply chain pressure index, which is shown in the chart below. This series soared to a record high in December 2021 which caused inflation to spike because demand massively outstripped supply. As we can see, these global goods supply bottlenecks have finally been eliminated.

Over the past six months, the NY Fed pressure index has collapsed, matching its 2008-2009 recessionary low this past May. Through, July the pressure index remains in negative territory, which is a positive disinflationary sign.

Hence, **the rate of core goods inflation should move significantly lower during the second half of this year** with year-over-year price declines likely. The projected weakness in goods prices could offset some of the stickiness in services prices. Hopefully, a Goldilocks labor market (for now) coupled with further inflation moderation keeps the Fed on the sidelines. Stay tuned.



Sources: NY Fed, BEA, NBER, Haver, SMBC Nikko

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