# US Macroeconomics

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## When it Goes, it Goes

The unemployment rate is just 3.4%, matching the lowest business cycle reading since May 1969. A tight labor market is a key reason Fed policymakers lifted rates so much against the backdrop of a 40-year high in inflation. And the fact that labor supply is still sparce is the reason FOMC members are hesitant to pivot toward rate cuts even though the Index of Leading Economic Indicators points to an imminent recession.

Eventually, the labor market is expected to loosen, which is evident from the Fed's most recent forecasts. **Policymakers project a 2024 range on the unemployment rate between 4.0% to 5.2%**. Unfortunately, history tells us the upper end of these estimates is much too low. When the unemployment rate increases, it tends to increase a lot.

The table below shows business cycle troughs in unemployment and their corresponding peaks. **On average the unemployment rate increases 4% during recessions, which implies a 7.4% peak for this period**. However, changes in unemployment are largely the result of the depth of the recession. Mild ones generally elicit a smaller increase than big ones such as the 2008-09 economic downturn.

However, if we assume the next recession is short and mild, something akin to the 2001 downturn which never even experienced back-to-back quarterly declines in real GDP, **the US could still see nearly 6% unemployment in this business cycle, a huge jump from its current reading**. This has profound economic, financial and political implications.

For starters, much higher unemployment likely means much lower for longer interest rates because fiscal policy will be paralyzed by deteriorating government finances. In addition, a near 6% unemployment rate implies many more **defaults and bankruptcies** than what is currently assumed in credit markets.

And lastly, the potential for a slow jobless recovery like the one that followed the 2001 recession means the Fed is likely to take significant flak from Washington, D.C. The fact that there is a high probability of a downturn before next year's **Presidential Election** may get policymakers thinking they need to do more sooner to avoid the pickle of potentially having to cut rates sharply in the midst of the campaign.

| Trough Month | Trough Rate | Peak Month | Peak Rate | Trough to Peak Change |
|---|---|---|---|---|
| January 1948 | 3.4 | October 1949 | 7.9 | 4.5 |
| June 1953 | 2.5 | September 1954 | 6.1 | 3.6 |
| March 1957 | 3.7 | July 1958 | 7.5 | 3.8 |
| March 1960 | 4.8 | May 1961 | 7.1 | 2.3 |
| May 1969 | 3.4 | December 1970 | 6.1 | 2.7 |
| October 1973 | 4.6 | May 1975 | 9.0 | 4.4 |
| May 1979 | 5.6 | July 1980 | 7.8 | 2.2 |
| July 1981 | 7.2 | December 1982 | 10.8 | 3.6 |
| March 1989 | 5.0 | June 1992 | 7.8 | 2.8 |
| April 2000 | 3.8 | June 2003 | 6.3 | 2.5 |
| May 2007 | 4.4 | October 2009 | 10.0 | 5.6 |
| February 2020 | 3.5 | April 2020 | 14.7 | 11.2 |
| Average --> | 4.3% | | 8.4% | 4.1% |

Source: BLS, Haver, SMBC Nikko

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