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Comment

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Economic Commentary

Is 'stabilizing' Still an Apt Word to Describe the Labor Market?

Economics

"Recent signs point to a firming in spending, markedly improved financial conditions, and labor and product markets that are stabilizing". Fed press statement, June 25th, 2003.

What we take issue with is the widely-held view that labor markets are stabilizing or firming (is that really the same as 'less negative'?). The only data points suggesting this are the claims data, which in the past three years provided some pretty serious headfakes during the summer retooling season. Yes, at 390k, they are back to Feb/03 levels. But last we saw, payrolls were down 121k that month. Claims are still stuck, albeit at the lower end of the 370k-460k range established since early 2002. Note these other job market indicators:

- Non-Farm Payrolls fell 44k in July even as the consensus was looking for a modest increase. Employment in the past three months is down 192k.
- Temp employment is up in each of the past three months (+42k in July) but there is no better leading indicator for future job growth than hours worked, which fell to a fresh low of 33.6 hours. Hours come before bodies.
- The backlog of continuing claims rose again by 72k in the July 26th week to 3.691 mln after a 36k increase the week before.
- The jobs-related components of the July Conference Board confidence survey deteriorated ('jobs plentiful' fell to 10.5% from 11.2% and 'jobs hard to get' rose to a decade-high 33.1% from 31.9%.)
- Challenger layoff announcements may have peaked, but still bounced sharply to 85,177 in July from 59,715 (60% increase) in June. Note that layoff announcements were 5% higher than July/02 level of 80,966.
- The fact that productivity was up as much as 5.7% SAAR in Q2 and up 3.8% y/y likely means that businesses will remain reluctant to add to their staffing requirements. And without employment creation, doubts could resurface over the sustainability of the recent economic pickup. This is what ultimately undid the post-war euphoria in 1991.

Considering that the futures market is pricing in an aggressive Fed tightening cycle to commence as early as 2004Q1, we have this to offer from the early-1990s experience. By the time the Fed tightened in Feb/94, the economy had generated 4.5 million jobs from the job trough 32 months prior to the first rate hike. And it wasn't until the unemployment rate had fallen 130 basis points from the 1992 peak that the Fed began to step on the brakes. Waiting for a similar performance this time around could mean that the first tightening could well be years, not quarters, away.

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Analyst Certification

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