US Macroeconomics

May 15, 2023

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Macro Data Known for Substantial Revision

Last month, payrolls increased a stronger than expected 253k, but this was after a large 149k in downward revisions. The three-month moving average on payrolls fell to 222k from 295k, the smallest gain since January 2021 (163k). Since last fall, initial jobless claims have been trending higher — continuing claims, too. The 4-week moving average on initial claims is 245k versus last year's 191k cyclical low. This week covers the employment survey period, so claims take on added significance.

Economic data are notoriously volatile and prone to revision, which is why it is so hard to know when we slip into recession. For example, in the first half of 2008, originally reported real GDP data showed positive economic growth even though the economy was entering what would be the deepest recession since the 1930s. The initial readings on Q1 and Q2 2008 real GDP growth were 0.6% and 1.9%, respectively.

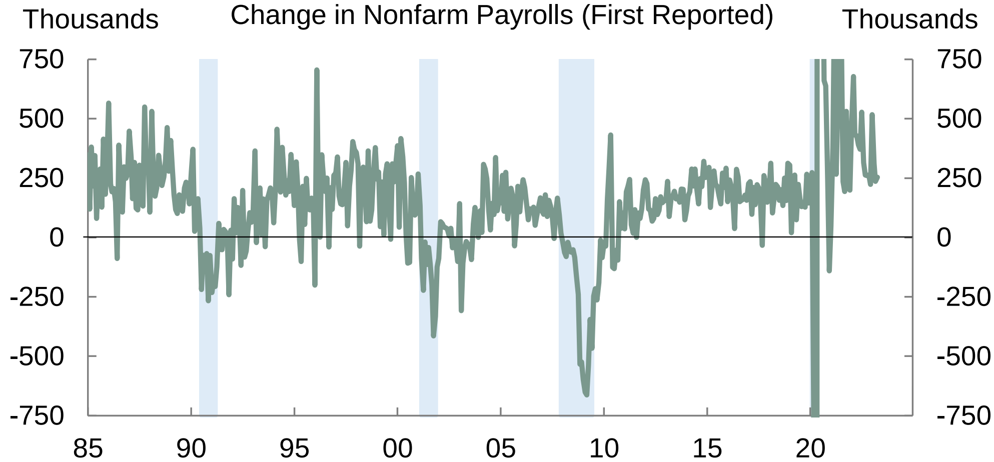
Many economists at the time said the economy had avoided recession, just like many are saying today. And it is worth highlighting that for a time in 2008, other key data confirmed the soft landing scenario such as ISM Services. The survey turned higher in April 2008 following the Bear Stearns rescue and went back above 50 before eventually collapsing in October 2008 in the aftermath of the Lehman Bankruptcy.

Like GDP, employment also gives conflicting signals in real-time. This is illustrated in the chart below, which shows the initially reported nonfarm payrolls data. Notably, job growth is positive right up to the point when the economy enters recession. Then, almost out of the blue, the economy breaks, and payrolls too. And after the fact, the employment data is revised down.

In 1990, nonfarm payrolls were up a small 40k in June following a respectable 164k increase in the previous month. But in July when the economy was on the cusp of recession, jobs plunged an unexpected 219k. The events immediately before the 2001 downturn were even more paradoxical for those wondering whether the economy had skirted a slump.

The labor market started the year on a strong note when January nonfarm payrolls were initially reported to have risen a robust 268k. While February job gains were softer, they still rose a decent 15k. But then in March which marked the peak in economic activity, nonfarm payrolls fell 86k. Recession started the following month.

To sum up, we expect history to repeat. **Job growth will be positive right up to the onset of recession**. This time will not be different.



Sources: Action Economics, NBER, Haver Analytics, SMBC Nikko

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