The Labor Market is Wobbling But Will it Topple?

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November 3, 2023

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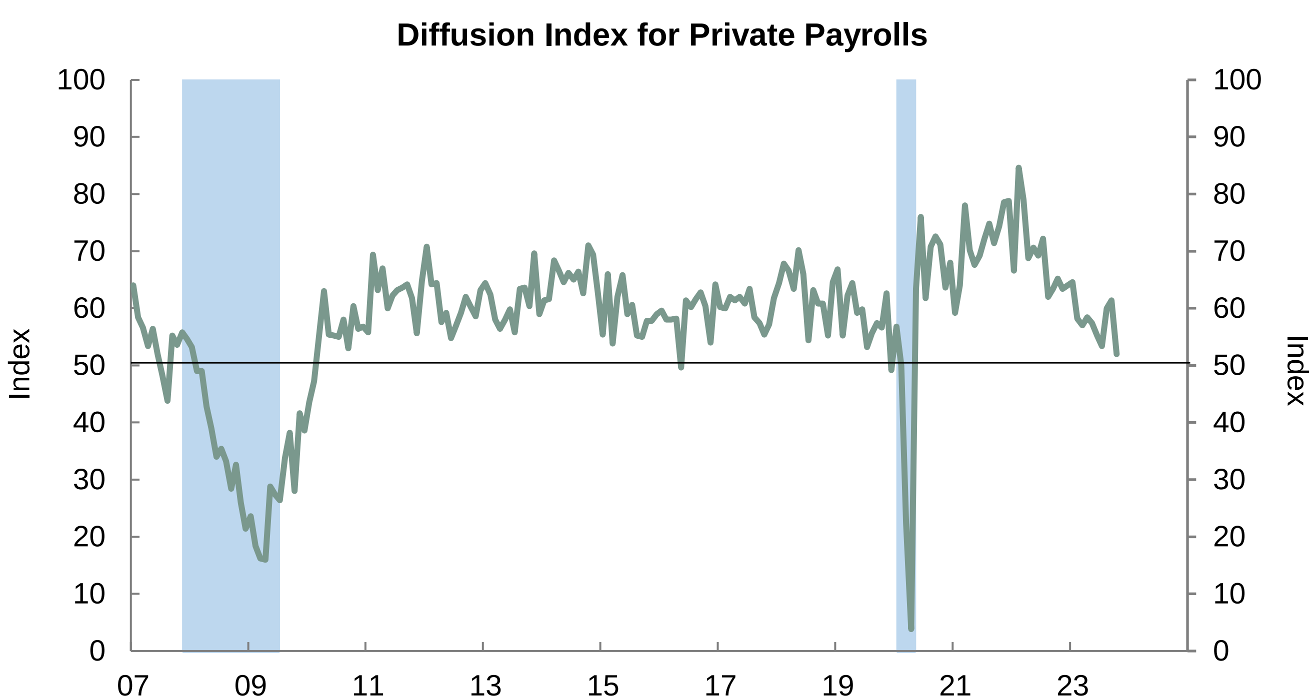
Fewer Sectors Are Hiring

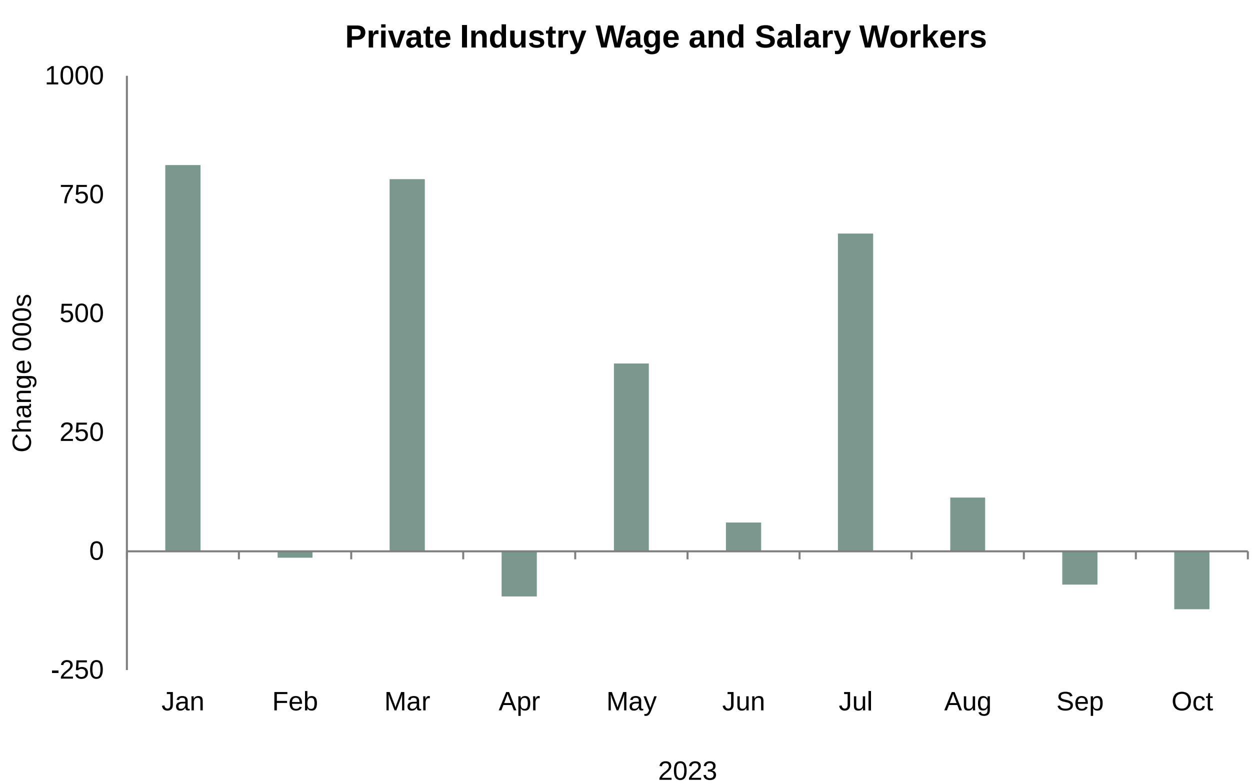
Rising breadth is a sign of durability and strength because when many industries are hiring, the economy is not dependent on just a few sectors to keep growth afloat. Last month, the diffusion index of private employment, which measures breadth, fell to just 52%, a new post-pandemic low. This leaves the labor market vulnerable to both to a pullback in demand due to tight monetary policy as well as negative exogenous shocks from geopolitics.



Source: BLS, Haver, SMBC Nikko

Another Metric Already Shows Job Losses

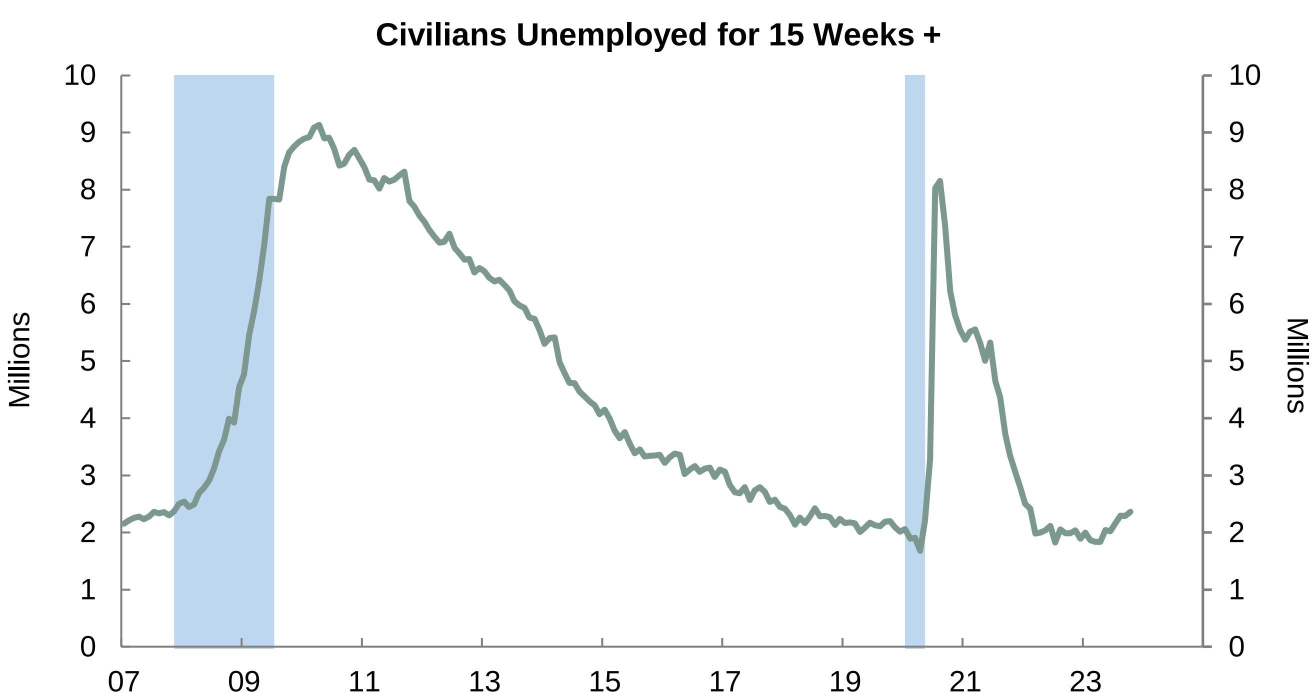
While more volatile than the Establishment Survey, which is where the payroll data are derived, the Household Survey is arguably better at capturing inflection point owing to the fact its sample effectively changes monthly. Private sector wage and salary workers (W&S) in the Household Survey have now fallen in back-to-back months, down 122k in October and -70k in September. Over the last three months, a 538k discrepancy in jobs has emerged between private W&S and private payrolls. This hints of more downward revisions in the latter.



Source: BLS, Haver, SMBC Nikko

More Cracks in the Foundation

Since April when the unemployment rate matched its cyclical low of 3.4%, the number of long-term unemployed has risen 528k. Notably, this is the largest six-month non-pandemic increase since March 2010 and corroborates rising continuing jobless claims. When combined with recent declines in private W&S jobs, the recent increase in the unemployment rate is likely to persist. If so, this would send an ominous sign for 2024 growth prospects.



Source: BLS, Haver, SMBC Nikko

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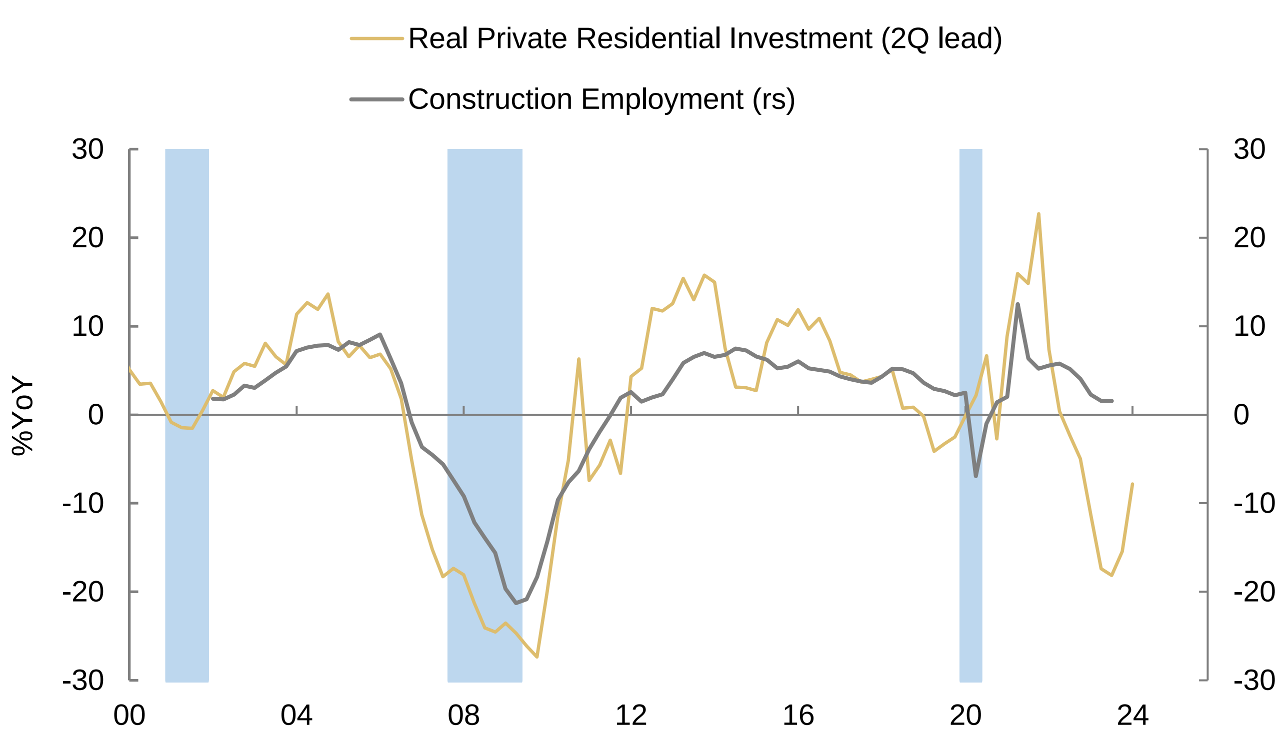
Construction Jobs Poised for a Mighty Drop

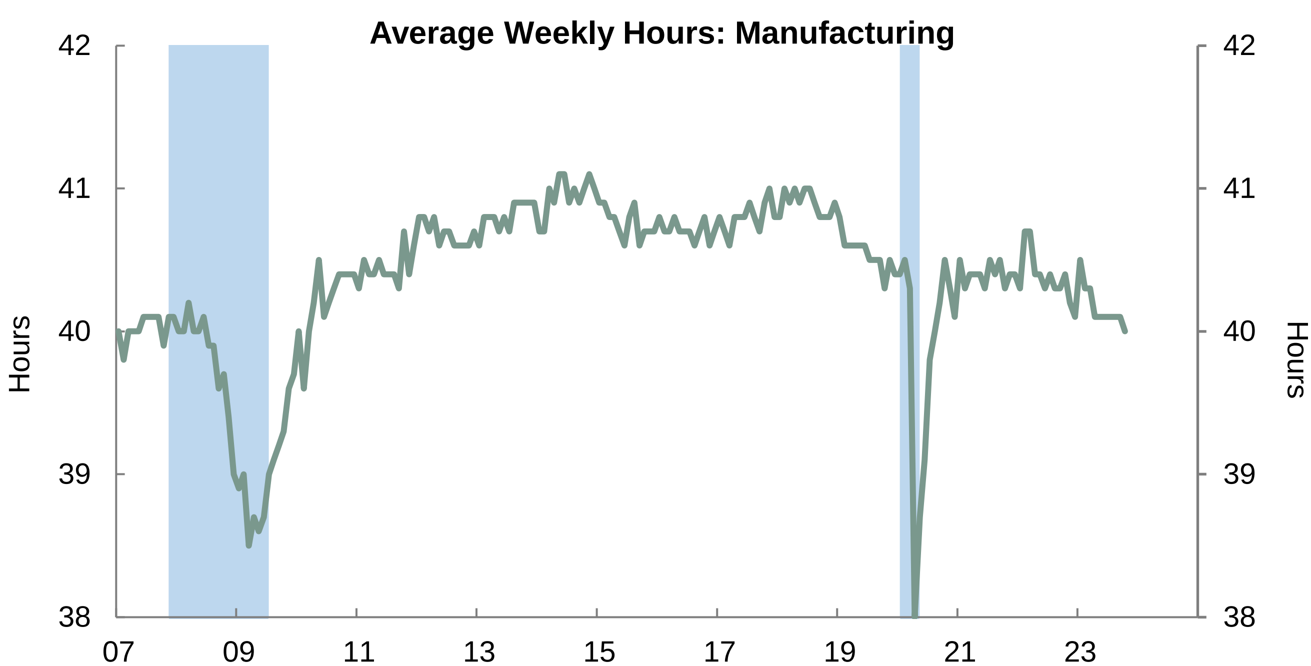
Despite multi-decade highs in mortgage rates and a sharp slowdown in residential building, the construction sector added jobs for the seventh month in a row. Currently, construction employment is at an all-time high. While labor hoarding partially explains this phenomenon, interest rates will need to fall sharply to prevent significant industry-wide layoffs, upwards of nearly 800k.



Source: BLS, BEA, Haver, SMBC Nikko

Another Leading Indicator Continues to Decline

The factory workweek fell a tenth to 40.0 hours in October. While the autoworkers' strike was no doubt a factor, the factory workweek has been in sharp descent for some time, declining to its lowest reading since March. Remember the workweek is one of the 10 key subcomponents of Leading Economic Indicators (LEI), which has declined in 18 consecutive months and is down nearly 8% over the past year. In the past, this has been an excellent predictor of economic inflection points.



Source: BLS, Haver, SMBC Nikko

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