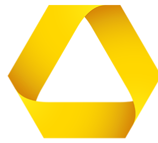

Economic Research

Economic Briefing

US labor market is cooling further

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The US labor market continued to lose momentum in June. This is less evident in the number of new jobs, which at 206 thousand is once again quite high. However, the previous months' data were revised downwards significantly, the unemployment rate rose further to 4.1% and wage growth fell to below 4%. The Fed will probably soon no longer have the luxury of focusing exclusively on combating inflation.

The data …

In June, payroll growth in the US amounted to 206 thousand. This is roughly as expected (consensus 190 thousand, Commerzbank forecast: 200 thousand). However, the figures for April and May were revised downwards by a total of 111 thousand. The unemployment rate rose from 4.0% to 4.1% (consensus and Commerzbank forecast: 4.0%).

… and the background

Virtually all the details of today's US labor market report point to a slowdown. The sharp downward revision in job growth in April and May means that the trend is weaker than assumed. And even the decent June result was boosted by 70 thousand new government jobs. Private business, on the other hand, is apparently holding back on hiring new staff.

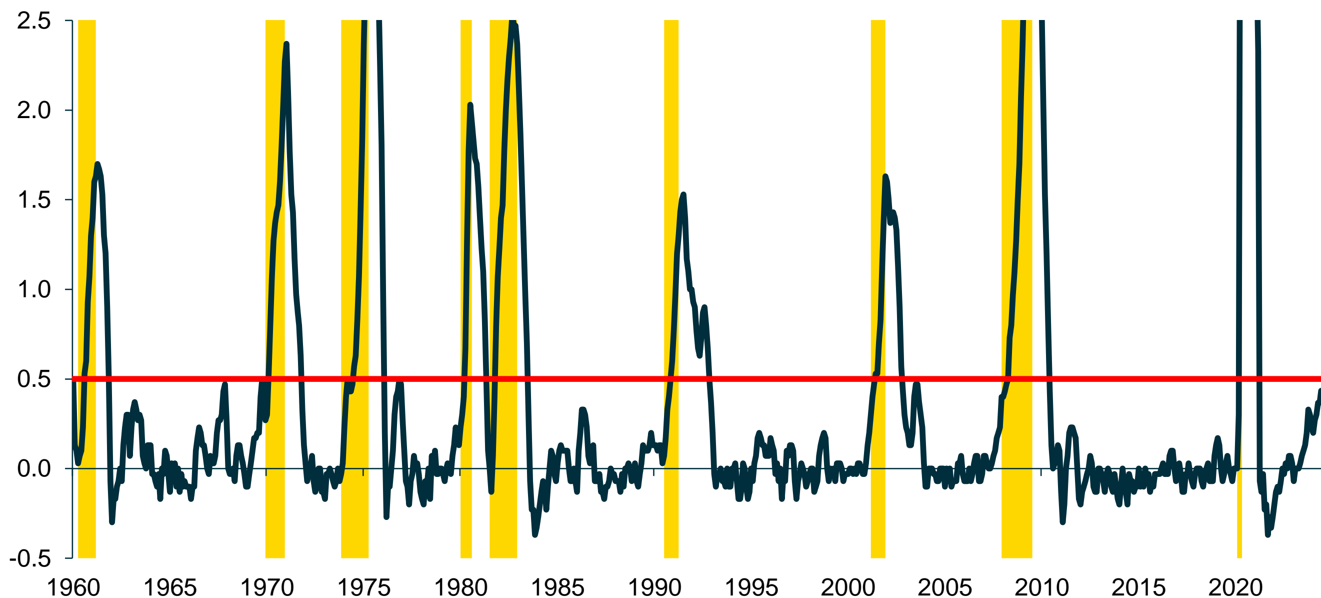
Accordingly, average hourly earnings are rising more slowly. In June, the increase was 0.3% compared to the previous month. Year-on-year growth fell below 4% for the first time since the pandemic, to 3.9%.
At the same time, the unemployment rate is climbing slowly but steadily (the unemployment rate is based on a different survey than nonfarm payrolls). According to a rule established by economist Claudia Sahm, a recession is imminent if the three-month average of the unemployment rate rises by 0.5 percentage points or more from its low reached in the previous twelve months. The increase is now 0.4 percentage points, so the recession threshold could soon be reached (chart).

We see the data as consistent with our view that the US economy is slowing down due to the Fed's high interest rates. However, we believe it is more likely that a recession can be avoided. After all, financing conditions are not dramatically bad, judging by the record high share prices, the low risk premiums on corporate bonds and the banks' lending conditions, which have recently tended to apply the brakes less strongly.

Important disclosure Information at the end of the document

Chart 1 - Sahm rule close to signalling recession

Sahm rule signals the start of a recession when the 3-month moving average of the unemployment rate rises by 0.50 percentage points (red line) or more relative to its low during the previous 12 months. Based on real-time data. Recessions shaded.



Source: FRED Federal Reserve Bank of St. Louis, Commerzbank Research

The Fed's risk assessment might change

The Fed often describes its monetary policy approach as an exercise in risk management. This means that it is primarily concerned with the one of its two objectives – full employment and price stability – that it misses the most. In recent years, this has been a relatively simple assessment. This is because the economy grew strongly at full employment, while inflation was far too high. In the first few months of the current year, too, the focus was on price trends, as underlying inflation in the first quarter was far too high for the Fed's liking.

Gradually, however, the balance is shifting. Inflation calmed down in April and especially in May, and prices are likely to rise only slightly in June. At the same time, relatively weak real economic data and sentiment indicators have increasingly been published in recent weeks. Although the economy is likely to have continued to grow in the second quarter, a further significant slowdown is probably not in the Fed's interest. The Fed's risk management approach should therefore give more weight to the full employment part of its mandate. If the signs of weakness are confirmed in the summer months, the discussion about interest rate cuts is likely to gain considerable momentum. The risk to our forecast of a first rate cut in December clearly lies in an earlier cut.

Table 1 - US employment report

	Jun-24	Consensus	May-24	Apr-24	Mar-24	six month average
Nonfarm payrolls	**206**	190	218	108	310	222
Unemployment rate	**4.1**	4.0	4.0	3.9	3.8	3.9

Source: BLS, Bloomberg, S&P Global, Commerzbank Research

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