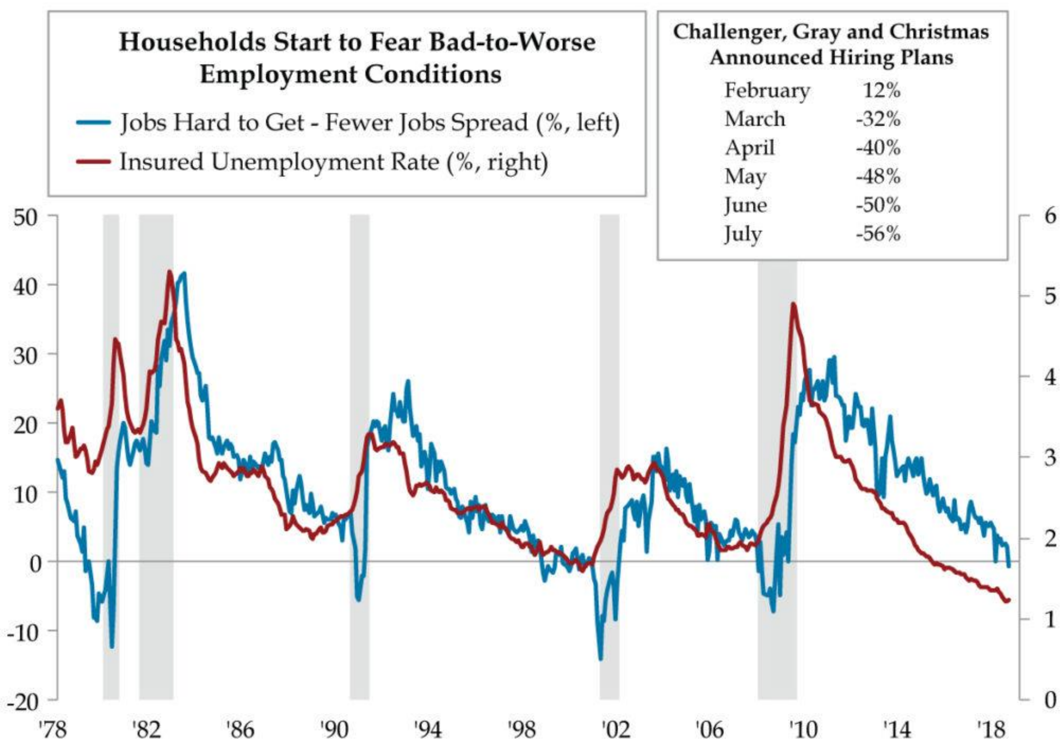
The Daily Feather

Even as Clouds Form, the Unemployment Rate Poised to Improve

3 August 2018



Source: Conference Board, U.S. Dept of Labor. Recessions shaded.

VIPs

- **June's unemployment rate of 4% did not mark the turning point for the cycle**
- **Labor market continues to tighten as announced firings hit a 20-month low**
- **UofM Consumer Sentiment survey Higher Unemployment Expectations indicator signals bottom; it's not there yet**
- **Fed continues to tighten until unemployment bottoms, which may be as low as 3.4%**
- **Conference Board Consumer Confidence survey shows labor outlook worsening vs. perceived current condition, first inversion since February 2009**
- **Year-on-year deterioration in hiring announcements intact since February; July announcements down 56% over 2017**

Would you believe it's already August? Before you know it, it will be Labor Day and we'll be pondering the holidays and new year. The thing about the occasion of the first Monday in September, which marks a holiday we always enjoy but rarely contemplate, is that it's embroiled in controversy to this day. Was it Peter McGuire, co-founder of the American Federation of Labor, or Matthew Maguire of the Central Labor Union who first proposed a holiday for America's workers in 1882?

In the interest of we word-meisters' blatant bias, QI gives credit to McGuire for his wit in honoring those "who from rude nature have delved and carved all the grandeur we behold." Americana at its best, we say. Market watchers are fixated on whether we'll see a bump up or a tick down in the number of hard-working Americans when July's jobs report is released this morning.

Much to the bears' chagrin, the evidence suggests June's rise in the unemployment rate to 4.0% was aberrant and did not mark the cycle's trough. We will likely continue to see 3-handles in the coming months starting with a decline to what could be 3.8% in today's report.

Philippa Dunne and Doug Henwood of TLR On the Economy, a labor market forecasting firm, concur: "Our model suggests a rather large decline in the unemployment rate, and we were tempted to go to 3.8%, but as the June number was dangerously close to rounding up to 4.1%, we expect a 0.1pp decline to 3.9%."

Finishing their thought, further downside is building in the pipeline. The latest layoff data from Challenger, Gray & Christmas corroborate the tightness in the labor market: announced firings fell to a 20-month low.

QI's holy grail of labor market indicators is contained within the University of Michigan (UofM) Consumer Sentiment survey. Participants are asked if they expect higher unemployment in the next 12 months. By this gauge, the tide has yet to turn; until it does, we won't call the bottom on the unemployment rate. Worst case scenario we see a number as low as 3.4% before yearend. Why is this bad news? Jay Powell is all but guaranteed to maintain a tightening mode until this rate bottoms.

The dominos line up from there. The insured unemployment rate, the percentage of those who are out-of-work and covered by unemployment insurance, turns next. What follows is sure to grab investors by the short hairs – a reversal in initial jobless claims. Claims tend to follow survey respondents' expectations for higher unemployment by about six months.

That's not to say we're completely in the dark until the watershed moment when that first UoM survey hits. American workers are seeing clouds forming. The latest Conference Board Consumer Confidence survey showed those perceiving jobs are hard to get fell below those who foresee fewer jobs six months out.

This is the first time we've seen an inversion since February 2009. So we know headed into today's backward-looking jobs report that the labor outlook is deteriorating vs. current conditions. This echoes the dynamic in business conditions.

One sector in particular continues to feed anxiety. The poster child of pain, retail, leads layoffs this year; the seven-month total for the sector is all of 321 jobs shy of 2017's total. One reason TLR sees potential upside risk in the unemployment rate is that the retail carnage has yet to manifest in the data. "Will Godot finally show up Friday morning in the parking lot of an abandoned Bon Ton?"

Another indicator QI watches closely continues to cast a shadow over the outlook. Challenger also tracks hiring announcements. They've been weak vs. last year for months, which stands to reason given last year at this time a huge job engine was revving up that more than offset the bloodletting in retail. In its July 2017 report, Challenger noted that, "New retail jobs could be going to places like fulfillment and distribution centers, which increasingly need talent."

Did one word just come to mind? Was it Amazon? Bezos and Co. were singled out for at least 180,000 hiring announcements through the first seven months of 2017. But large-scale hiring has not repeated in 2018. In fact, the differential has widened and worsened. Every year-to-date comparison since March, when hirings were 32% below the first three months of 2017, has been progressively worse. Through July, announcements are off by 56%.

Challenger issued this warning in March: "As wages grow and the labor market tightens, companies are going to switch to a no-risk strategy and potentially begin contracting."

Where will we be next year as we make plans for Labor Day 2019? From what we're seeing today, it's safe to say the cycle's low for the unemployment rate will be a distant memory for American workers by then.

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