

US Macroeconomics

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Joseph Lavorgna, Chief US Economist | 212.893.1528 | joseph.lavorgna@smbcnikko-si.com

Behavior of Claims Already Consistent with Recession

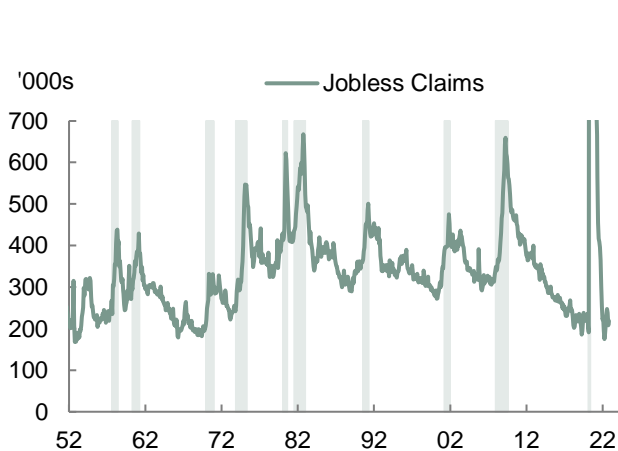
Initial jobless claims are a leading indicator of the labor market and the overall economy in general. They are one of the 10 select series used to construct the Index of Leading Economic Indicators. At present, claims are at a low 219k. The tight labor market is a key reason why the Fed continues to raise interest rates. This is a mistake because the behavior of claims is already consistent with a hard landing.

The lefthand-side chart shows the level of jobless claims covering the last 10 recessions, which are denoted by the grey bars. **At the start of previous recessions, claims averaged 320k**, which is substantially above their current level. On the surface, this appears to minimize recession risk. But look at the righthand-side table below. **There is substantial variation in the level of claims ahead of economic downturns.**

For example, jobless claims were in the low 200-thousands at the onset of the 1953, 1957 and 1969 recessions, but they were well above 400k ahead of the 1980 and 1981 downturns. Before the deep 2008-2009 recession, claims were a relatively low 349k. Consequently, the level of claims is not a particularly useful in predicting economic peaks. Rather, **market participants should focus on the change in claims**, specifically the increase from their cyclical low.

The average (and median) percentage increase in claims from their cyclical low to where they are when a recession begins is 23%. With claims having troughed at 175k this past March, a 23% increase places them at 215k, slightly below their current reading. For optimism's sake, say today's recessionary hurdle is much higher than the past. Assume we need a record large 43% increase in claims, matching the increase in 2000-2001. In this case, the recessionary claims signal kicks in at just 250k, which is just 32k higher than present. The soft-landing crowd has been forewarned.

The Level of Claims May be Low, But History Strongly Suggests the Change is What Matters



Date	Claims at Recession Onset	% Change From Trough
Sep-52	207	23.2
Sep-54	235	15.2
Apr-59	294	20.5
Apr-66	221	23.5
Feb-73	255	14.9
Sep-78	413	27.5
Mar-81	438	7.4
Jan-89	367	26.6
Mar-00	388	42.6
Feb-06	380	30.1
Average >	320k	23%

Sources: BLS, Haver, SMBC

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