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Labor Readings: No Sign of Recession

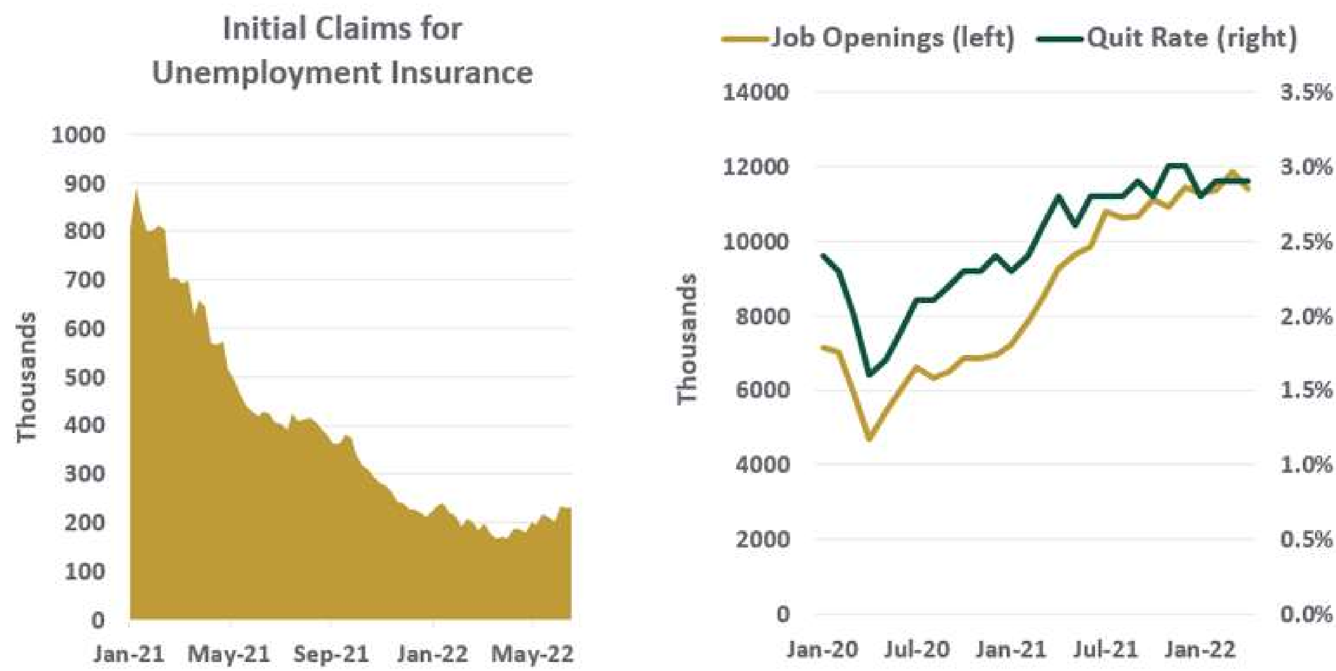
A recession may arrive one day, but the labor market conditions suggest that day is some time off.

By Carl Tannenbaum

The U.S. labor market is always an important barometer of economic performance, but it warrants particularly close watching in the months ahead. The Federal Reserve is actively seeking to reduce excess labor demand, to take the edge off a wage-price feedback loop that threatens to turn temporary price increases into more lasting inflation.

Signs (literally) of worker shortages are still common, but broader indicators of U.S. employment conditions are beginning to moderate. Initial claims for unemployment insurance remain at historically low levels, but they have begun to inch up in recent weeks. Job postings are past their peak. The rate at which workers quit their current jobs to take better ones has leveled off.

Labor market conditions in the U.S. may be easing.



Sources: BLS, Bloomberg

Reduced business confidence is one driver of these developments. A recent Conference Board **survey** of global chief executives foresees rising risk of recession in the coming 18 months. The National Federation of Independent Business **Small Business Optimism Index** has been below its long-term average for 5 consecutive months. When firms anticipate more difficult times ahead, they limit hiring; their collective actions can make their expectations self-fulfilling.

None of this is to suggest that unemployment is poised to surge. In its latest forecasts, the Federal Open Market Committee projected that the U.S. jobless rate would rise to just 4.1% by the end of 2024, hardly an elevated level. But softer demand for labor is taking the edge off employment costs, especially in service sectors where pay levels have risen rapidly over the past year. If compensation gains normalize, that greatly reduces the risk that wages and prices will spiral out of control.

A recession may arrive one day, but the job market suggests that day is some time off. Incoming readings in the months ahead will help refine the timeline.

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