

Chart of the Day



The US economy is decelerating. For markets, a key question therefore becomes whether the US economy is heading toward recession in 2024, or if a soft landing with below trend growth (i.e., < 2%) is more likely. We think the latter.

US unemployment edged slightly higher from 4.0% to 4.1% in June. **While still low by historic standards, the unemployment rate has been rising steadily for 14 months now, since hitting a cyclical and 54 year low of 3.4% in April 2023.** The report itself was also “soft” with downward revisions to job growth in the prior two months, the slowest wage growth in three years and an uptick in unemployment.

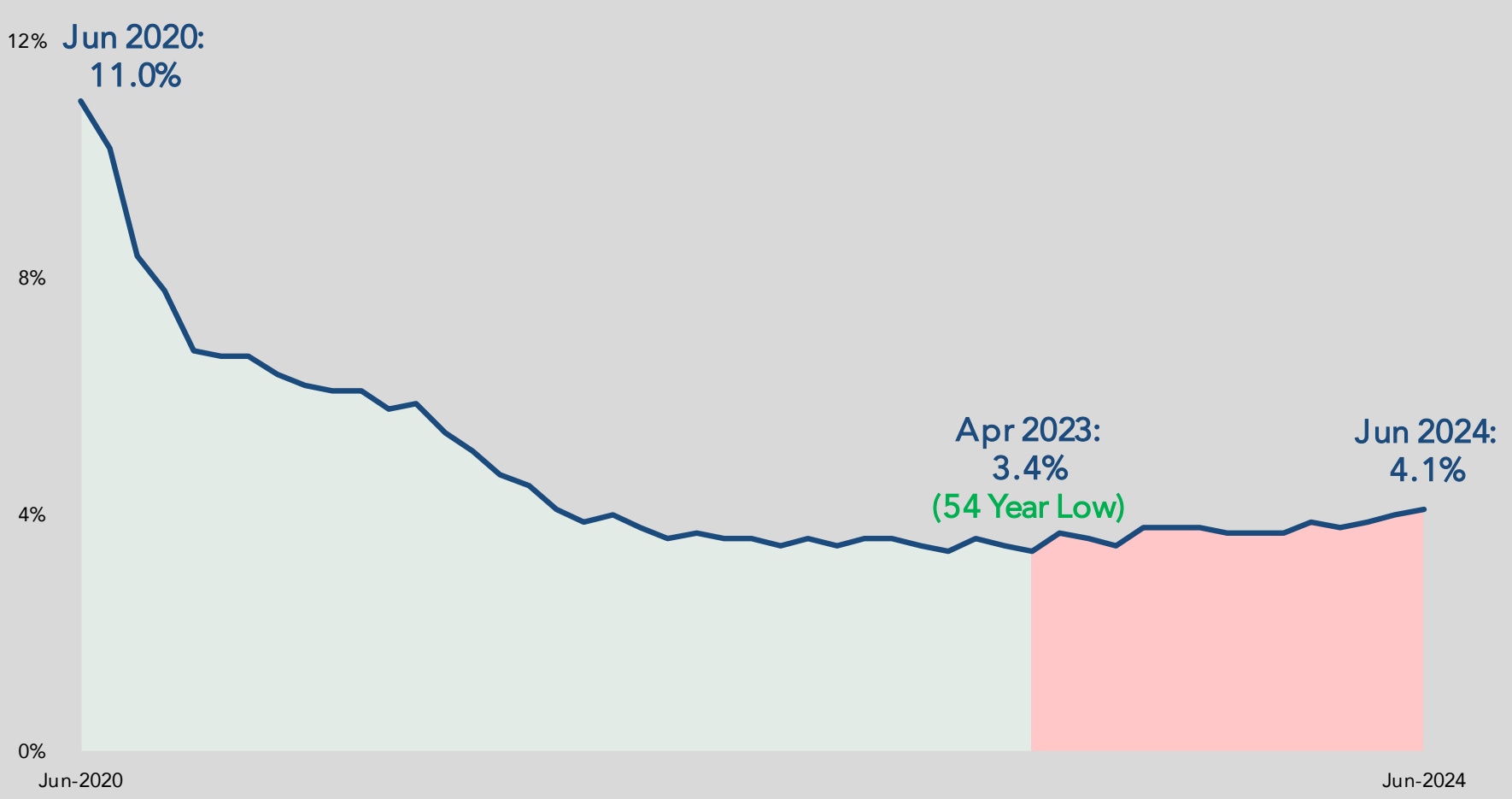
Notably, June’s 4.1% unemployment rate also came close to triggering the so-called **Sahm Rule**, a signal that has accurately predicted all 12 US recessions since WWII, with only two false positives (1959 and 2003). As our team has noted previously, the Sahm Rule was named after former Federal Reserve and Council of Economic Advisors economist Claudia Sahm, who observed in 2019 that US recessions historically “begin” when the **3-month moving average** of the national unemployment rate rises **by 0.5 percentage points or more relative to its low during the prior 12 months.**

In June, the **3-month moving average** rate of US unemployment rose to **4.00%, 43 bps above the 12-month low of 3.57%.** If the unemployment rate continues to rise to 4.2% in July, the 3-month moving average would breach the 50 bps threshold for the Sahm rule. Notably, the unemployment rate “breaching” the Sahm rule threshold is rarely the cyclical “peak” of unemployment.

Despite the move higher in June, it is important to emphasize that the 4.1% US unemployment rate is still low by historic standards. **To this end, the Sahm threshold could be higher this time, given that post COVID US labor markets had become structurally much tighter than would normally be the case, as evidenced by the 54 year lows in April 2023.**

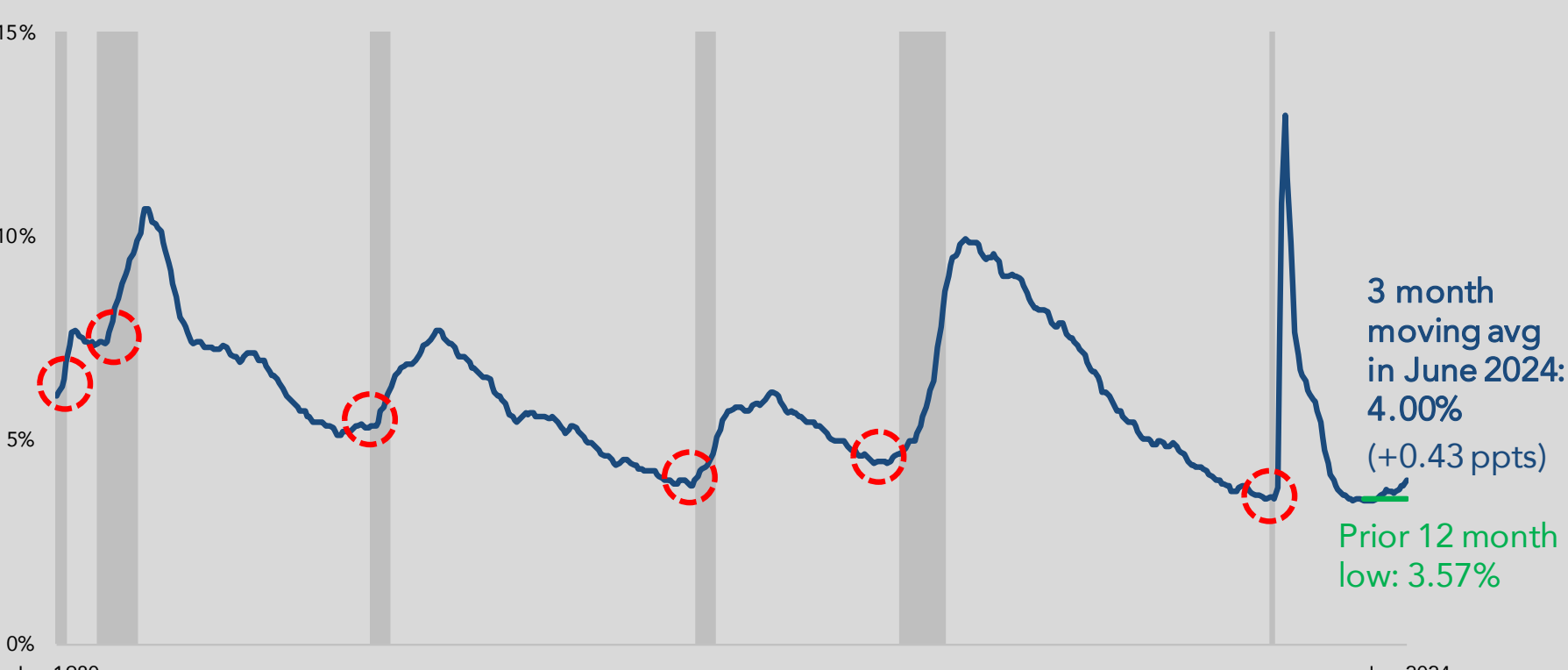
After hitting a cyclical and 54 year low of 3.4% in April 2023, the US unemployment rate has risen gradually over the last 14 months to 4.1% in June 2024.

US unemployment rate



In June, the US unemployment rate edged higher in what was a generally soft report, pushing the 3-month moving average to 4.0%. The 3-month moving average is now 43 bps above the 12-month low and just 7 bps away from “breaching” the historic Sahm rule threshold for US recessions. Given the unusually tight post COVID US labor markets, it remains to be seen whether the historically reliable Sahm Rule threshold will be “higher” this time.

US unemployment rate, 3 month moving average



Source: (1-2) Bloomberg. Data as of July 8, 2024. Prior 12 month low refers to 3 month moving average.

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“Macro stability isn’t everything, but without it, you have nothing.”