United States: Can the Jobless Rate Rise Without the Cycle Ending?

The jobless rate recently reached a cyclical low of 3.8%, matching that of the 1990s. It is highly likely that the drop has not yet reached bottom, as the jobless rate is expected to decline even further during the current cycle. The Federal Reserve (Fed) leaders are also betting on this. Their most recent medium forecasts are counting on a drop to 3.5% in 2019 and 2020 (the average of the fourth quarter of the year). After this low, however, it appears that the Fed leaders are anticipating a slight increase in the jobless rate for 2021, with a median of 3.7%. The full extent of the forecasts appears to suggest that the increase could be slightly higher, with the range going from 3.3%–4.0% in 2020 to 3.4%–4.2% in 2021. Moreover, since we’re talking about quarterly averages, the monthly numbers could be more volatile and, therefore, higher.

What message is the Fed trying to send? It’s hard to believe that the Fed is expecting volatility instead of a trend. As a result, it appears to be counting on a possible worsening of the job market. Is it also signalling that the cycle may be coming to an end? Excluding the periods around recessions, there have been only seven periods since 1955 during which the jobless rate increased by 0.3 percentage points or more before returning to normal levels within at least six months. The longest periods were in 1966 (peaking at +0.4% and 17 months before returning to normal) and 1995 (peaking at +0.4% and 15 months before returning to normal). If the rate doesn’t return to its initial level at the very least, it’s because a recession will have begun.

**IMPLICATIONS**

A temporary increase in the jobless rate is possible, although rare, without there being a recession. The increase anticipated by the Federal Reserve can, however, be perceived as a reminder that the current growth cycle will not go on forever. Clearly, possible changes in the labour force can limit the conclusions that can be drawn based solely on fluctuations in the jobless rate. Therefore, several indicators will require continuous monitoring.

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