ECONOMIC VIEWPOINT

Is the U.S. Job Market Beginning to Show Signs of Weakness?

Job creation in the United States has been going strong for 114 months in a row. This performance provides a major boost to households and the economy in general. Other indicators of the strength of the U.S. economy are beginning to show signs of weakness, but is this also the case for the job market? For the time being, job creation remains relatively good. However, there is a sense that other components are slightly less positive. These signs will have to be watched closely over the coming months. Sustained deterioration in the job market would significantly raise the chances of the current economic cycle coming to an end.

A Long Cycle

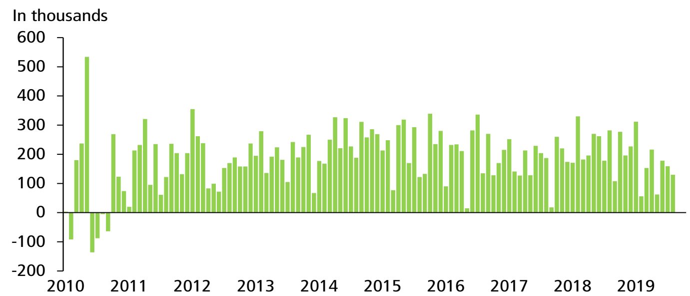
The current U.S. economic cycle started in the summer of 2009. Since then, 21,711,000 private-sector jobs[1] have been created, a little less than during the second longest cycle in the 1990s, when hires totalled more than 22 million. The current cycle is especially noteworthy because job creation has seen no temporary reversal since 2010, amounting to 114 straight months of net hires (graphs 1 and 2). Even in other growth cycles, there are typically some months during which employment sees at least one temporary monthly reversal for one reason or another. The second longest period of private-sector job creation was 59 consecutive months.

This good showing is also evident in the drop in the jobless rate, which fell from a peak of 10.0% ten years ago to a low of 3.6% in April and May of this year (graph 3 on page 2). The jobless rate has since held at 3.7%. We would have to go back to 1969 to see such low rates (the record low is 2.5%, reached in 1953).

Is There Still Unused Capacity?

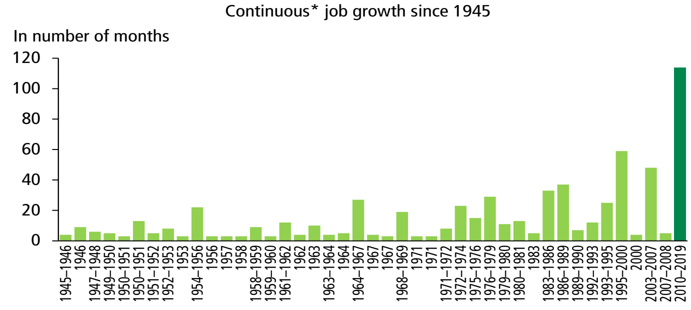
Strong job creation and low unemployment suggest that there should not be much unused capacity in the job market. However, some elements suggest that there may still be some slack. First, the participation rate (employees and job seekers as a % of the civilian population) is still historically very low. While it is true that demographic changes put significant downward pressure

GRAPH 1
There have been no monthly decreases in employment since 2010



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

GRAPH 2
The longest uninterrupted job creation series



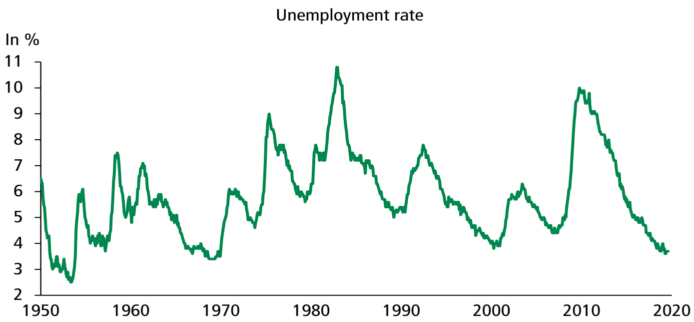
* The 1-month or 2-month series are not included.
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

[1] Generally speaking, job creation is calculated using the nonfarm establishment survey of the Bureau of Labor Statistics (BLS). The jobless rate and labour force indicators come from the BLS household survey.

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Francis Généreux, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2019, Desjardins Group. All rights reserved.

GRAPH 3
The unemployment rate is very low



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

GRAPH 4
The employment rate has finally made up lost ground

Sources: Datastream and Desjardins, Economic Studies

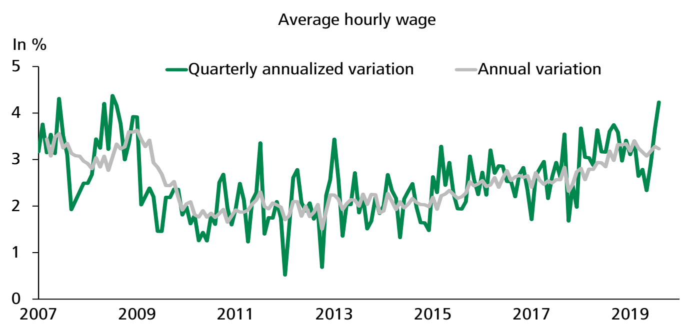
on the participation rate, even adjusted for these effects, it sits below previous highs. Second, the employment rate (number of employed persons as a proportion of the civilian population) for prime-age population, those 25 to 54 years of age, has been higher before, although it has recovered well in recent years (graph 4). Third, the pressures on wages have been fairly modest recently, showing that the job market was not tight enough to lead to very rapid growth in the average hourly wage. Wages have only recently shown some acceleration (graph 5). Together, these elements suggest that the job market still has room to grow. In such case, workers' income could continue to climb and drive consumption and the economic cycle.

Less Positive Signs

The job market's momentum could very well continue. However, there is considerable potential for it to lose steam. It is not spared from the other factors slowing the U.S. economy. Business investment is already dampened by the uncertainties surrounding the trade war and tariff battle being waged by China and the United States. Businesses that are reluctant to invest can also be hesitant to hire. We are already seeing this in some business surveys. The ISM indexes both saw a drop in their employment component (graph 6). However, the movement is much more pronounced among manufacturers than in the other sectors, reflecting the specific problems in the manufacturing and global trade sector.

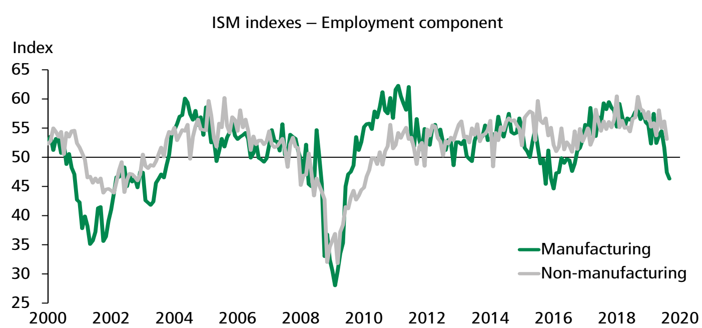
This reluctance is also observed in smaller businesses, associated more with the services sector. The National Federation of Independent Business (NFIB) survey shows that intentions to hire remain relatively high, but the recent trend has declined. The annual variation in intentions to hire has slid down into negative territory and reached the lowest rate since the crisis (graph 7 on page 3).

GRAPH 5
Wages did not accelerate until 2018



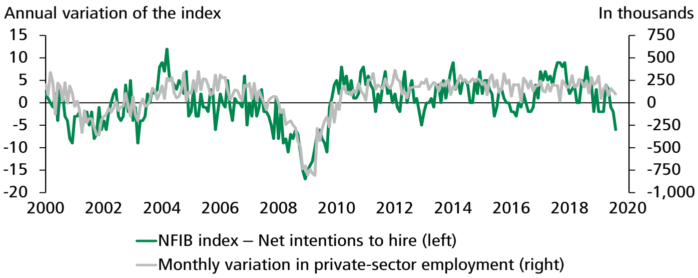
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

GRAPH 6
The ISM indexes show that businesses seem less willing to hire



Sources: Institute for Supply Management and Desjardins, Economic Studies

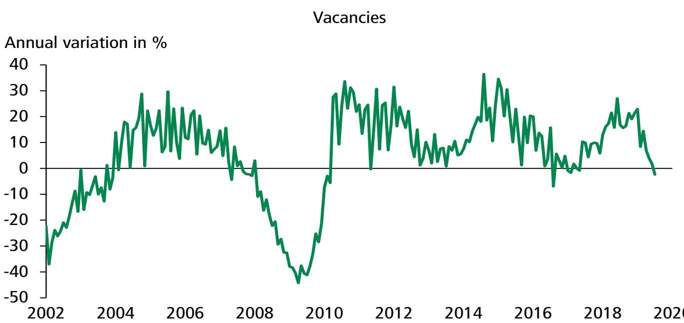
GRAPH 7
The intentions to hire of small businesses suggest a looming weakness in job creation



Sources: Bureau of Labor Statistics, National Federation of Independent Business and Desjardins, Economic Studies

Businesses still have many vacancies, at 7.4 million in July. However, the tide is turning… The number of vacancies reached a cyclical peak in November 2018 and has since dropped by a little over 400,000. The annual variation is now negative (graph 8). This is a sign that the job market is less lively, but is not a convincing factor of the economy's deterioration, as there were negative annual variations in 2016 and 2017.

GRAPH 8
The number of vacancies has begun to shrink

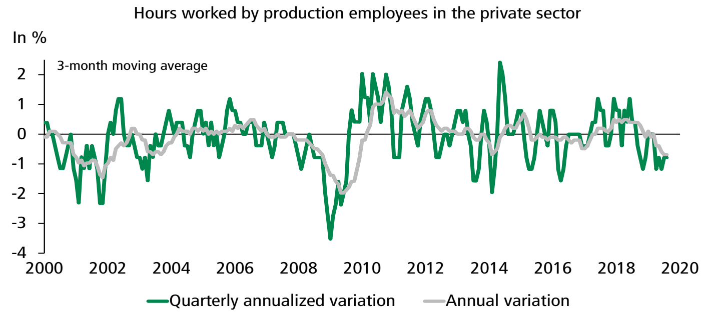


Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Businesses also seem to be reducing the hours worked. The number of average weekly hours for all industries and employees has moved little, but we sense a decrease among production employees in the private sector (graph 9). Hours decreased mainly in the manufacturing sector, especially if overtime is considered. It is worth noting that weekly hours in manufacturing are a component of the leading indicator.

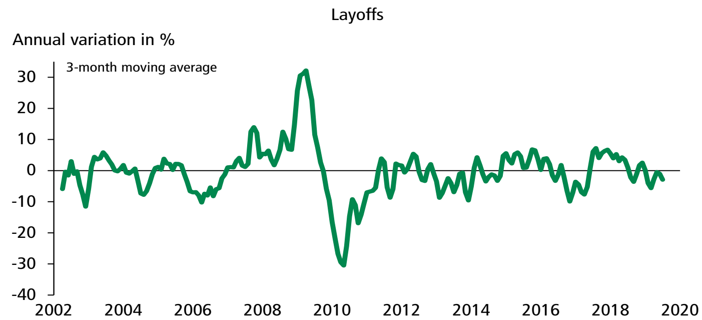
The elimination of vacant positions and the decrease in weekly hours can be considered measures that prevent businesses from having to actually resort to layoffs. Total layoffs continue to be fairly low and are not showing signs of acceleration yet (graph 10). However, an uptrend in layoff announcements seems to be creeping in, according to Challenger, Gray & Christmas, as an increase has been noted since the second half of 2018 (graph 11). Trade challenges were cited to explain more than 10,000 job cuts in August 2019.

GRAPH 9
Hours worked also suggest a slowdown in the job market



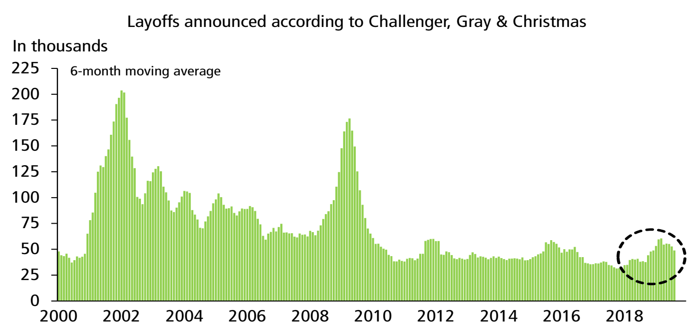
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

GRAPH 10
Total layoffs do not seem to be accelerating



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

GRAPH 11
The number of layoff announcements is still small, but it has increased since mid-2018

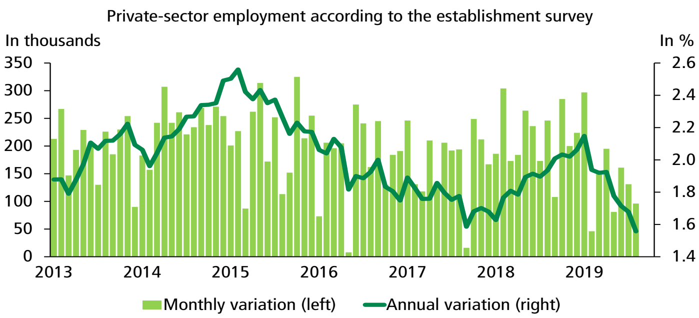


Sources: Challenger, Gray & Christmas and Desjardins, Economic Studies

A Job Market That Is Wavering, but Not Yet Crumbling

We are sensing that businesses are beginning to slow their hires, even though the numbers remain relatively high. This can already be seen in the job data released every month. The trend is no longer what it used to be, and a slower pace has been emerging since late 2018 (graph 12). January is the only month in 2019 where private-sector employment grew by more than 200,000 positions. In 2018, there were seven such months! In August, the annual variation in private-sector employment reached 1.6%, the lowest rate since February 2011. However, we are still far from seeing a negative variation over 12 months. This is a good thing because that would be a sure sign of recession. A series of consecutive declines in private-sector employment would most likely indicate that the cycle that began in 2009 is well and truly over. The emphasis on private-sector employment is due to likely fluctuations caused by the decennial census to take place in the United States in 2020 (see box on page 5).

GRAPH 12
Job creation is slowing

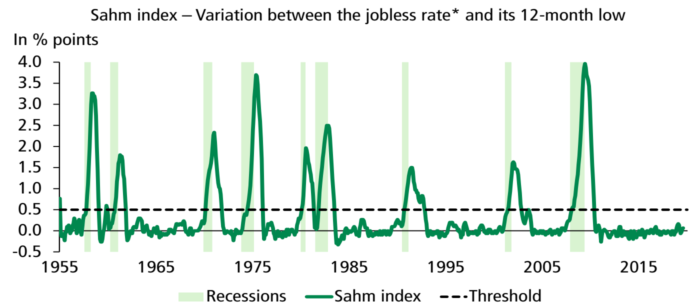


Sources: Datastream and Desjardins, Economic Studies

As we have seen, the jobless rate continues to be very low. A sustained rally would also be a likely sign of recession. The index defined by economist Claudia Sahm in a document on automatic fiscal stabilizers in a recession generally provides a fairly clear signal of an emerging recession (graph 13). It is defined by an increase of 0.5 percentage points in the 3-month moving average of the jobless rate against the low from the previous twelve months. For the time being, the increase in this average is just 0.1%, still quite far from the threshold.

The use of the increase in the jobless rate rather than a certain level makes it possible to take into account structural changes that could keep the jobless rate relatively low, even in a full-blown recession. What we must now ask is whether weighty factors, such as demographic changes, could be a game changer to the point that a modest recession could seriously limit the rise in the jobless rate. This is what we are seeing in Japan. With very low potential growth, the Japanese economy is in more of a position to see its economy contract.

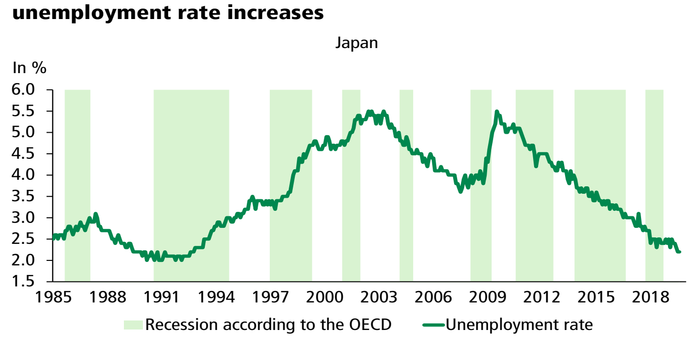
GRAPH 13
The jobless rate is still too close to its recent lows to signal an upcoming recession



* 3-month moving average.
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

According to the Organisation for Economic Co-operation and Development (OECD), there have been six recessions in Japan over the past 20 years (compared to two in the United States), with only two episodes leading to a considerable increase in unemployment (graph 14).

GRAPH 14
Demographics and a chronic labour shortage could limit unemployment rate increases



OECD: Organisation for Economic Co-operation and Development
Sources: Ministry of Internal Affairs and Communications, OECD and Desjardins, Economic Studies

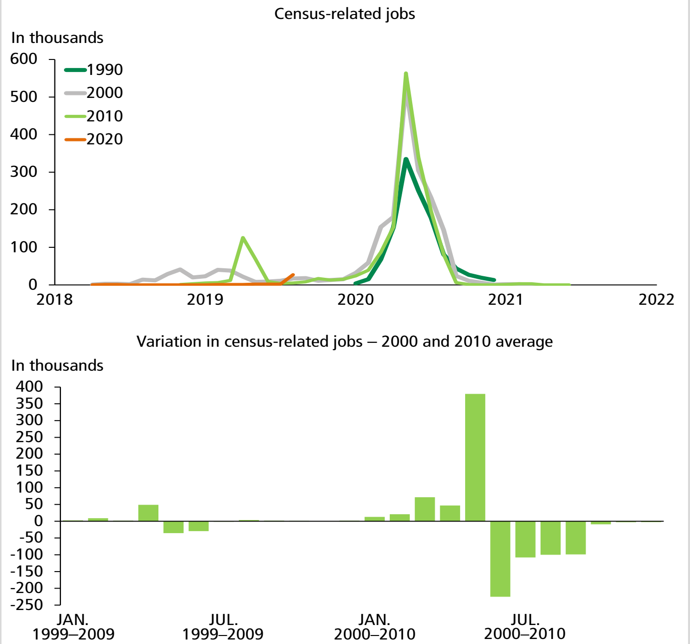
There are a number of indications, including in the job market, that the U.S. economy is running out of steam. The large part of the problem comes from the trade war started in 2018, which not only weakened the industrial sector, but also placed other sectors at risk. Associated uncertainties exacerbated financial market volatility, also affecting household confidence. Until now, households could rely on a solid and lively job market as a bedrock for their personal finances. However, we see that some employment-related indicators are not as strong as they used to be. We will have to watch this situation closely. Our own scenarios do not call for a deterioration in the short term. Nevertheless, a serious erosion in job market indicators would prompt Federal Reserve leaders to extend the rate cuts undertaken last summer. If that were to happen, the mid-cycle adjustment would turn into full-fledged monetary easing.

BEWARE OF FALSE SIGNALS CAUSED BY THE 2020 CENSUS!

The Constitution of the United States requires the federal government to conduct a census of the U.S. population every ten years. The official date of the next census is April 1, 2020, but preparations are already underway. Census-related work will bring about variations in job data in the coming quarters. A significant positive contribution from employment within the federal government can therefore be expected until May 2020. In the previous two censuses, job gains peaked at nearly 550,000 jobs on average in May (graph A). The positions created as a result of the census will be eliminated the following year.

Thus far, the 2020 edition has been slow to begin on the employment front. The first major hires were in August, whereas in 1999 or 2009, they had taken place much earlier than that. It remains to be seen how things will unfold, but it is clear that the 2020 census has to be taken into account in order to correctly analyze the actual strength of the job market.

GRAPH A
The 2020 census will affect the job market



Sources: Bureau of Labor Statistics, Datastream and Desjardins, Economic Studies

Francis Généreux, Senior Economist