Capital Markets Strategy

Essential inCights for the C-Suite

Chart of the Day

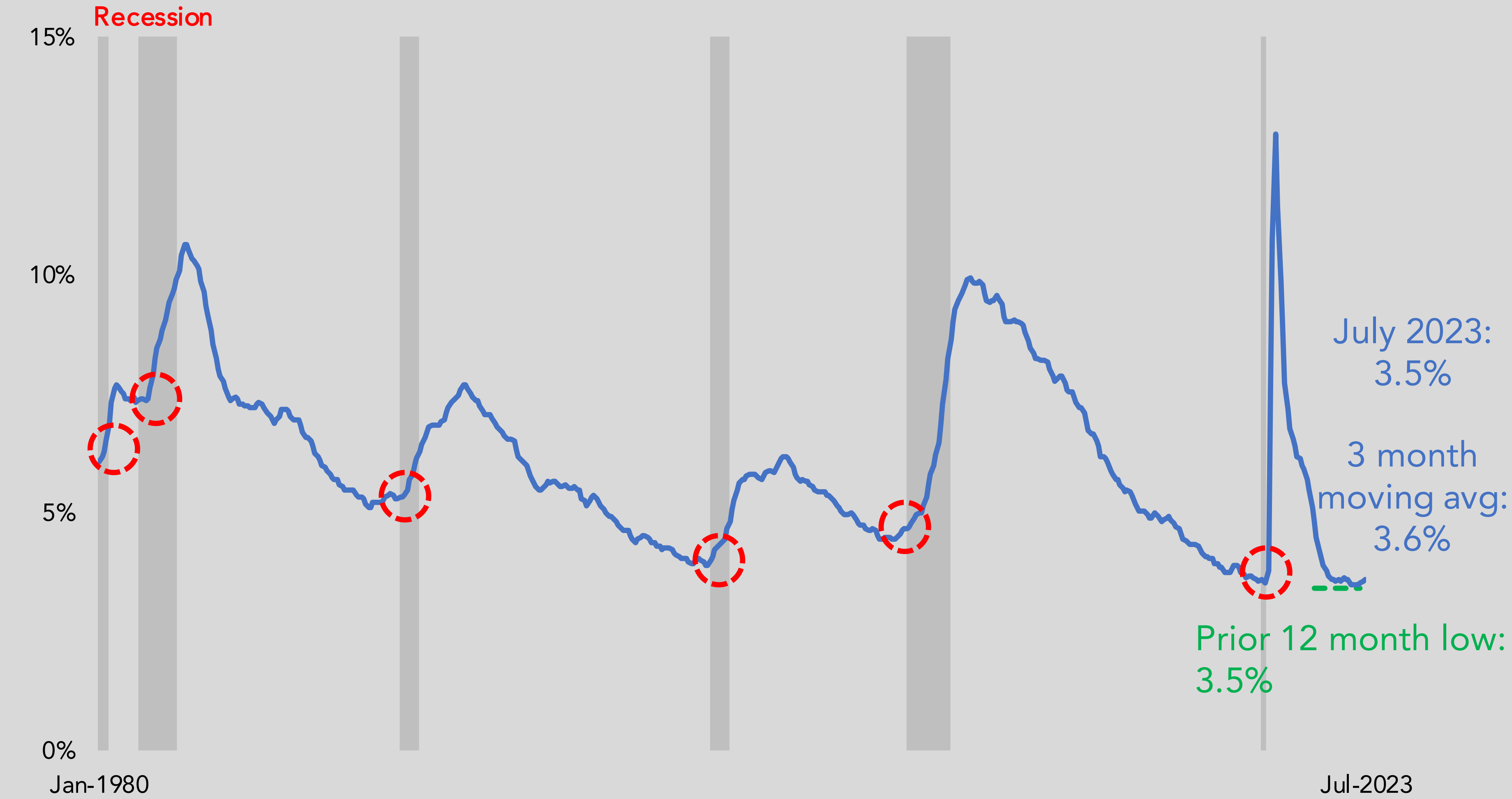
The Sahm Rule, published in October 2019 and named after former Federal Reserve and Council of Economic Advisors economist Claudia Sahm, indicates that US recessions historically "begin" when the 3-month moving average of the national unemployment rate rises by 0.5 percentage points or more relative to its low during the prior 12 months. By this historically reliable measure, this morning's July unemployment report is still well below the threshold for US recessions.

The US economy posted a solid jobs report in July, with the unemployment rate unexpectedly dropping to 3.5% (consensus 3.6%), one of its lowest readings in decades. Non-farm payrolls increased 187k on the month (consensus 200k), the labor force participation rate remained steady at 62.6%, and wage growth accelerated more than anticipated to 0.4% m/m (consensus 0.3%), or 4.4% y/y.

The unemployment rate has risen during each of the 12 US recessions since WW2. While the July job's report highlights continued strength in US labor markets, unemployment data has historically been a ***lagging*** indicator of US recession risk, rising suddenly and sharply as the contraction begins.

The Sahm Rule indicates that US recessions have historically "begun" 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.

US unemployment rate, 3 month moving average



Source: (1) Bloomberg. Data as of August 4, 2023. Prior 12 month low refers to 3 month moving average.

Global Corporate & Investment Banking
Capital Markets Strategy Team

Tom Joyce
Managing Director
Tom.Joyce@mufgsecurities.com
(212) 405-7472

Hailey Orr
Managing Director
Hailey.Orr@mufgsecurities.com
(212) 405-7429

Stephanie Kendal
Vice President
Stephanie.Kendal@mufgsecurities.com
(212) 405-7443

"Macro stability isn't everything, but without it, you have nothing."