Economic Update

July 25, 2024

Initial UI Claims Fell by 10K in the Week Ending July 20

- **Initial claims for unemployment insurance fell by 10,000 in the week ending July 20, despite a second straight rise in initial claims in Texas caused by Hurricane Beryl and its aftermath.**
- **Continuing claims for unemployment insurance fell by 9,000 in the week ending July 13 but the four-week moving average rose by 5,000.**
- **The labor market remains strong, but hiring is slowing.**
- **The labor market will soften further in the latter half of 2024, with smaller job gains and a slightly higher unemployment rate.**

Initial claims for unemployment insurance fell by 10,000 to 235,000 in the week ending July 20, partly reversing the previous week's rise that mostly reflected a big rise in initial claims in Texas when Hurricane Beryl hit. Initial claims in Texas rose by 6,400 in the week ending July 20 but this was more than offset by widespread declines in other states. The four-week moving average of initial claims, which smooths out some of the seasonal and weather-related volatility, was unchanged at 235,000.

Initial claims have moved modestly higher in 2024 after starting the year at an historically low 200,000. Over the past couple of years initial claims have risen and fallen, and there was a similar increase in the first half of 2023, which was followed by an unwinding in the second half of last year. July is a particularly difficult month to seasonally adjust initial claims since widespread temporary layoffs in the vehicle industry for retooling have greatly varied in the last three Julys following the complete shutdown in 2020 for Covid.

Continuing claims for unemployment insurance fell by 9,000 to 1.851 million in the week ending July 13, despite a rise in Texas during Hurricane Beryl. The four-week moving average of continuing claims rose by 5,000 to 1.854 million. This is the highest level for the four-week average since December 2021.

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The labor market has remained strong in the first half of this year even as initial claims have risen somewhat, with average monthly job gains of 222,000 in the first six months. It could be that initial claims are signaling a slowing in job growth that will show up later this year, or it could be that the seasonal adjustment process has not fully captured the dynamics of the post-pandemic labor market and the increase so far this year is a mirage.

The message from continuing claims is clear. They are up from their levels in the second half of 2022 and all of 2023. Although the labor market is historically strong, it is taking somewhat longer for unemployed workers to find jobs. This is consistent with the May Job Openings and Labor Turnover Survey, or JOLTS report. The hiring rate has been between 3.5% and 3.7% in 2024, down from around 4.5% in the second half of 2021. But layoffs remain extremely low on an historical basis.

The labor market is still historically strong, but not quite as strong as it was in 2022 and 2023. Chair Powell recently said that the labor market is nearly back to a balance between slower demand and rising labor supply. Job growth has eased and the unemployment rate is slightly higher than it was in early 2023, when it hit 3.4% for a couple of months. PNC expects a further easing in the labor market through the rest of this year as high interest rates continue to weigh on the economy. PNC is forecasting job growth to slow to around 150,000 per month in the latter half of this year and closer to 100,000 in the first half of 2025, and the unemployment rate will increase somewhat over the next year to about 4.3%. In response to the FOMC gaining greater confidence in the clear slowdown in inflation last quarter and the slower pace of job growth, PNC expects the FOMC to cut the funds rate by 25 bps points at both their September 18 and December 18, 2024 meeting followed by three more 25 bps rate cuts in the first half of 2025.

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