Economic Update

August 22, 2024

Initial Claims Rose by 4K in the Week Ending August 17 but are Down by 18K in the First Three Weeks of August Suggesting That the Rise in July was Overstated

- **Initial claims for unemployment insurance rose by 4,000 in the week ending August 17 but the four-week moving average edged down by 1,000.**
- **Continuing claims for unemployment insurance rose by 4,000 in the week ending August 10 and the four-week moving average rose by 5,000.**
- **The labor market remains solid, but hiring is slowing as noted by Fed Chair Powell and as shown by the relatively smaller payroll job rise in July.**
- **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 rose by 4,000 to 232,000 in the week ending August 17, even as there was a 2K decline of initial claimants in Texas as the aftermath of Hurricane Beryl returned to normal and a 3K decline in Michigan as auto plant shutdowns in July were back up and running in August. The four-week moving average of initial claims, which smooths out some of the seasonal and weather-related volatility, fell by 1,000 to 236,000. Both were below the prior year's levels. The week ending August 17 is when the Labor Department took its survey for the August jobs report. We expect that report (released on September 6) will show a somewhat better labor market in both jobs added and hours worked and a stable to slightly lower unemployment rate than in July.

Initial claims have moved 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. **The net reduction in initial claims of 18,000 in the first three weeks of August strongly suggests that the rise in initial claims in July was overstated!**

Continuing claims for unemployment insurance rose by 4,000 to 1.863 million in the week ending August 10 from a downward revised 1.859 million (was 1.864 million) in the previous week. The four-week moving average of continuing claims rose by 5,000 to 1.866 million. This is the highest level for the four-week average since December 2021. The message from continuing claims is clear. They are up from their levels in 2023 and the first seven months of 2024. Although the labor market is historically strong, it is taking somewhat longer for unemployed workers to find jobs. This is consistent with the June and July Job Openings and Labor Turnover Survey, or JOLTS report, and the relatively smaller rise of 114,000 payroll jobs in July.

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The labor market is still historically strong, but not quite as strong as it was in 2023 and the opening quarter of 2024, even after accounting for the unusually large downward revision in payroll jobs in the year ending March 2024. Job growth has eased and the unemployment rate is somewhat 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 4.5%.

Fed Chairman Powell recently said that the labor market is back to a balance between slower demand and rising labor supply. In his Jackson Hole conference remarks tomorrow morning, we expect Chairman Powell will clearly signal that a Fed funds rate cut is coming at the FOMC's September 18 meeting in response to the FOMC gaining greater confidence in the clear slowdown in inflation and the slower pace of job growth during the past four months raising downside risks to the economy as noted in the FOMC's July 31 meeting statement and minutes. PNC expects the FOMC to cut the funds rate by 25 bps points at their September 18, November 6, and December 18, 2024 meetings followed by three more 25 bps rate cuts in the first half of 2025.

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