Goldman Sachs | Economics Research

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US Daily: April Recession Watch Tracker: Labor Market Rebalancing Continues and Shelter Inflation Slows (Abecasis)

Our Recession Watch Tracker monitors key indicators of whether the US economy is headed for a soft or hard landing. All data are available for download here.

- **Recession odds:** Our 12-month recession odds remain at 35%, well below the 65% median probability in the Bloomberg forecaster survey.
- **Growth**: Activity growth remains positive but below potential, keeping the rebalancing of supply and demand on track. Our Current Activity Indicator stands at +0.3% in March and +0.7% on a 3-month annualized basis, and our business survey trackers averaged a slightly-expansionary 50.3 in March. We are tracking Q1 domestic final sales growth at +3.4% (qoq ar).
- **Labor market**: Our jobs-workers gap declined to 4.1mn in March based on JOLTS job openings and declined to 3.1mn based on alternative web-based measures of job openings. Both measures remain above the 2mn level we estimate is necessary to rebalance the labor market. Initial jobless claims remain low, at 228k, and our real-time estimate of the layoff rate based on March and April WARN notices also remains low, at 1.2%.
- **Wage growth:** Average hourly earnings growth picked up to 3.3% on a 1-month annualized basis in March (vs. 2.6% in February) but slowed to 3.2% on a 3-month annualized basis (vs. 3.6% in February). Composition-adjusted average hourly earnings increased 4.1% on a 1-month annualized basis and 4.3% on a 3-month annualized basis. Our monthly wage survey composite declined by 0.2pp to 3.7% in March. Our Q1 wage tracker stands at 4.3% (qoq ar, vs. 4.7% in Q4) but remains above the 3.5% rate we estimate is consistent with 2% inflation.
- **Inflation:** Core CPI increased 0.38% in March, implying 1.0% core goods inflation and 6.7% core services inflation on a 3-month annualized basis. Rent and owners' equivalent rent (OER) decelerated meaningfully in the March CPI report (rent +0.49%, OER +0.48%, compared to +0.76% and +0.70% respectively in February). Web-based measures of new-tenant rent growth increased at a 1.3% annual rate, suggesting that the slower pace of shelter inflation is likely to continue as the gap between rents for new and continuing leases continues to narrow.
- **Yield curve:** The number of hikes priced by the bond market for 2023Q2 increased and the number of cuts priced for 2023H2 decreased relative to the immediate aftermath of the SVB collapse, but investors still expect the Fed to

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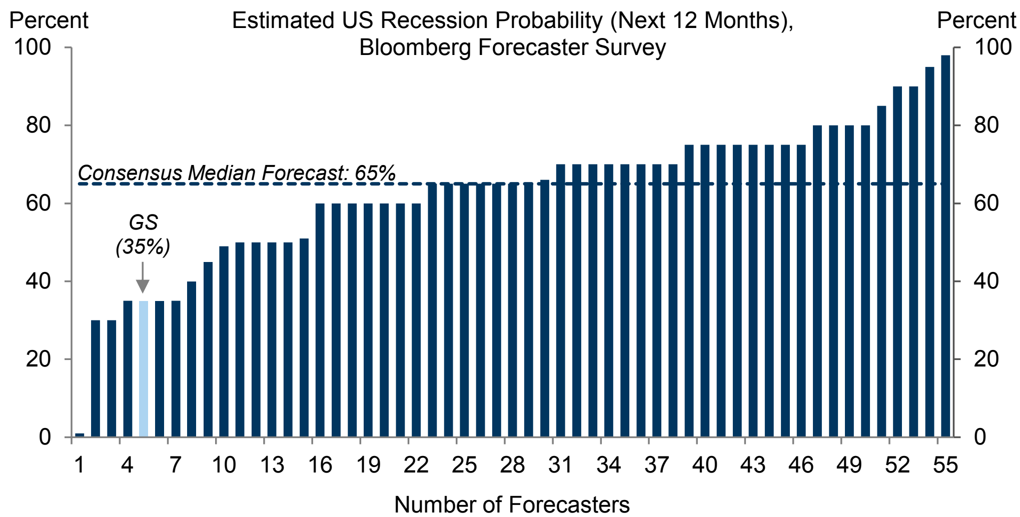
hike by less in 2023Q2 and cut by more in 2023H2 than before the recent banking turmoil. Currently, the bond market is pricing 19bp of hikes in 2023Q2 (vs. 5bp of cuts in mid-March), 65bp of cuts in 2023H2 (vs. 104bp of cuts), 87bp of cuts in 2024H1 (vs. 11bp of cuts), and 55bp of cuts in 2024H2 (vs. 27bp of cuts).

April Recession Watch Tracker: Labor Market Rebalancing Continues and Shelter Inflation Slows

Recession Odds

Our 12-month recession odds remain at 35%, well below the 65% median probability in the Bloomberg forecaster survey.

Exhibit 1: Our Recession Odds Remain Well Below Consensus

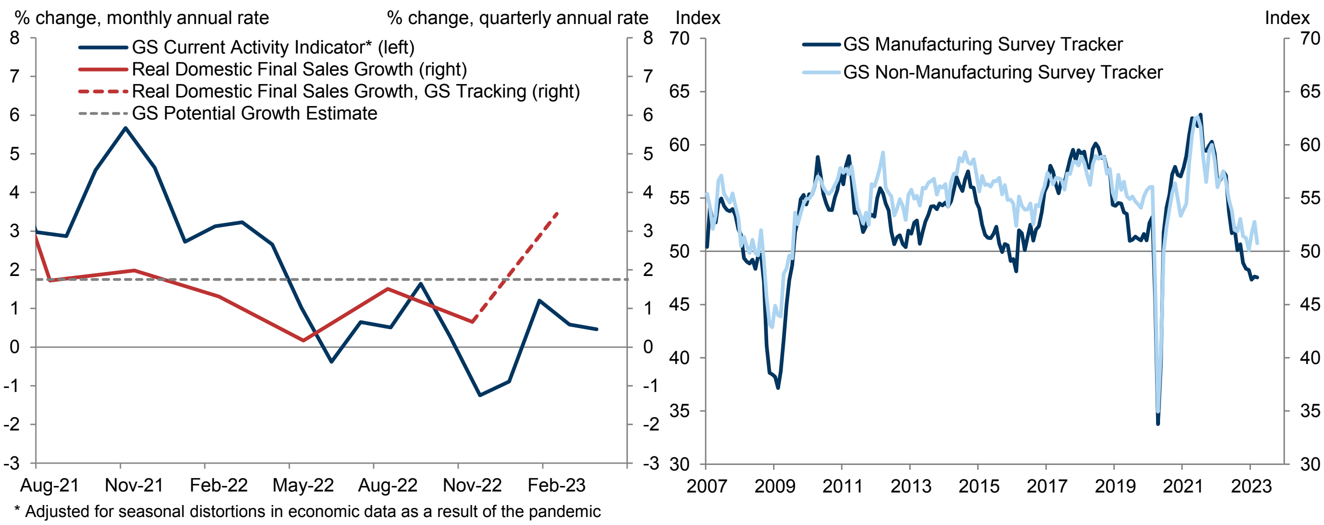


Source: Bloomberg, Goldman Sachs Global Investment Research

Growth

Activity growth remains positive but below potential, keeping the rebalancing of supply and demand on track. Our Current Activity Indicator adjusted for pandemic-related seasonal distortions in economic data stands at +0.3% in March and +0.7% on a 3-month average basis, and our business survey trackers averaged a slightly-expansionary 50.3 in March. We are tracking Q1 domestic final sales growth at +3.4% (qoq ar).

Exhibit 2: Our Current Activity Indicator and Business Survey Suggest Growth Remains Positive but Below Potential, as Desired

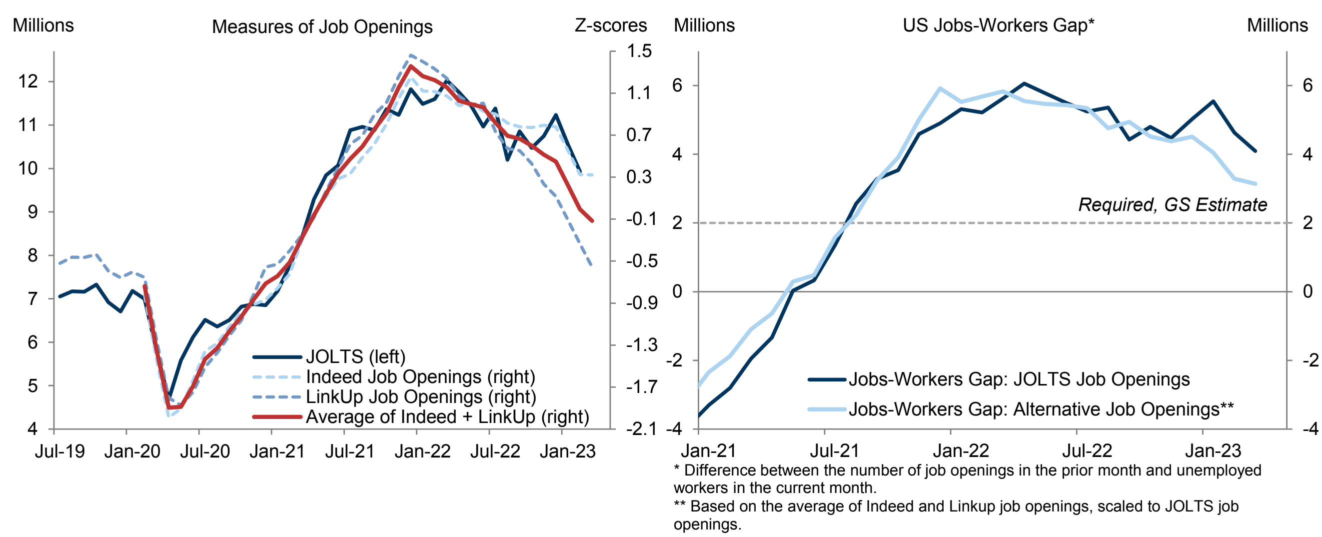


Source: Department of Commerce, Goldman Sachs Global Investment Research

Labor Market

Labor-market rebalancing is also underway, driven by a decline in job openings. Our jobs-workers gap declined to 4.1mn in March based on JOLTS job openings and to 3.1mn based on alternative web-based measures of job openings. Both measures remain above the 2mn level we estimate is necessary to rebalance the labor market.

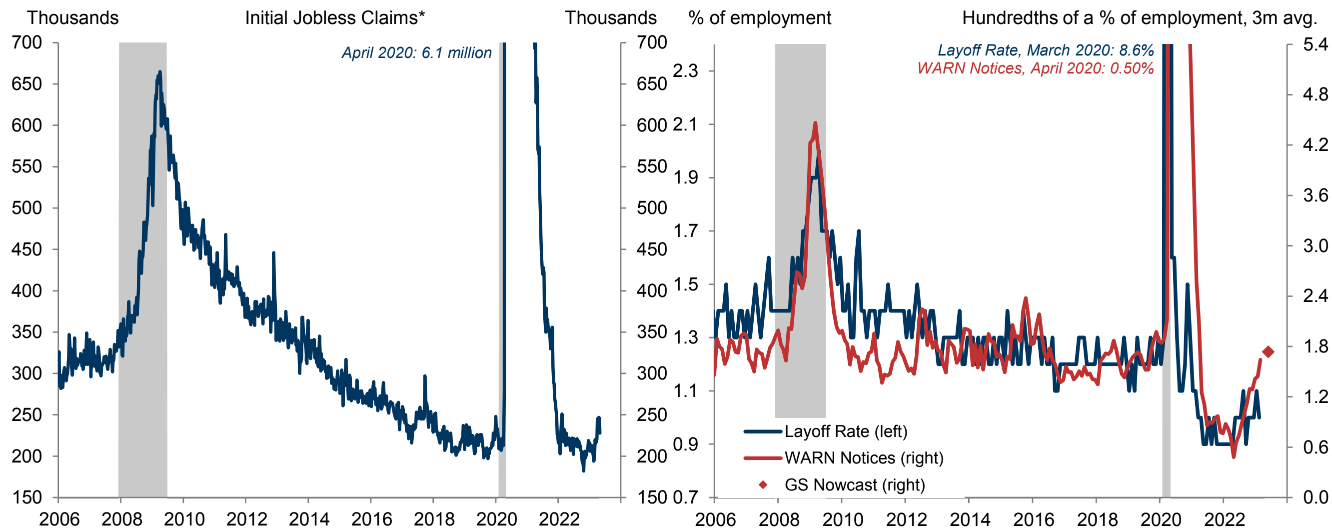
Exhibit 3: Our Jobs-Workers Gap Stands at 4.1mn in March Based on JOLTS and 3.1mn Based on Alternative Web-Based Measures of Job Openings

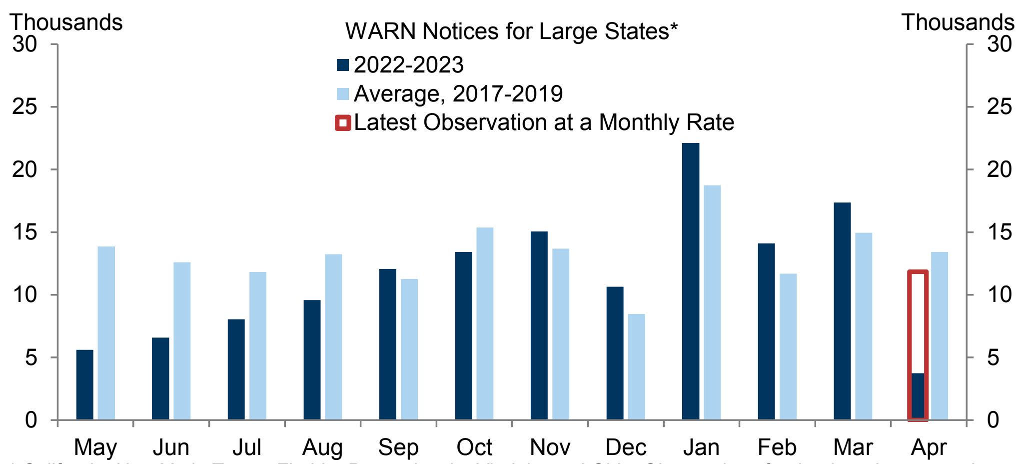


Source: Department of Labor, Indeed, LinkUp, Goldman Sachs Global Investment Research

At the same time, initial jobless claims remain low (228k) and our real-time estimate of the layoff rate based on March and April WARN notices suggests the layoff rate also remains low, at around 1.2%.

Exhibit 4: Initial Claims (228k) and Our Real-Time Estimate of the Layoff Rate (1.2%) Remain Low



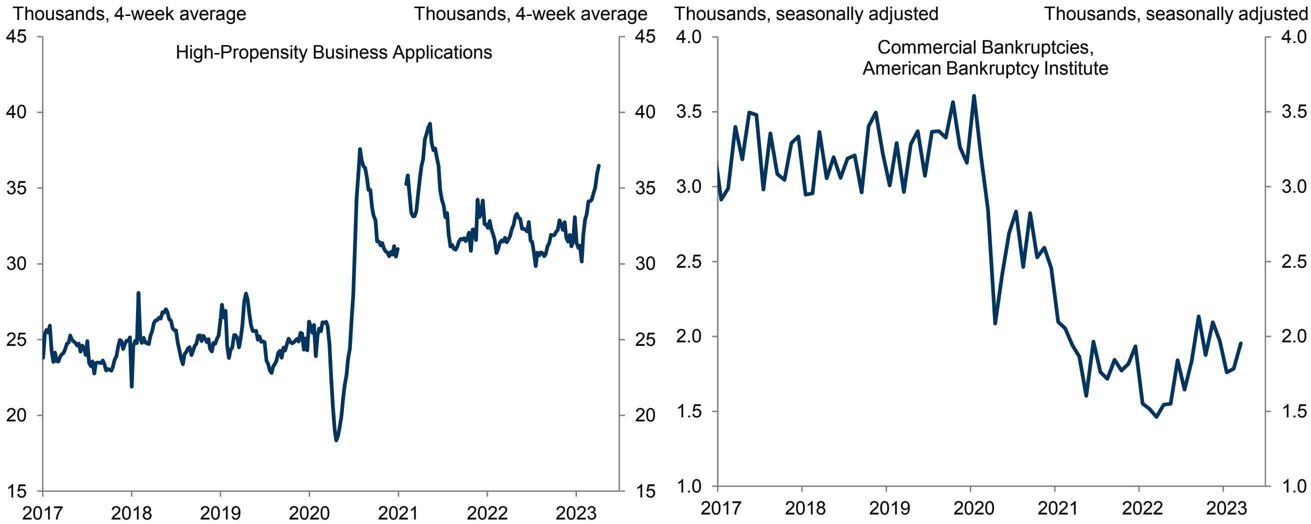


* California, New York, Texas, Florida, Pennsylvania, Virginia, and Ohio. Observations for the three latest months are adjusted for the average delay between when notices are dated and when they are reported on state government websites.

Source: Department of Labor, Federal Reserve, Goldman Sachs Global Investment Research

Business applications remain high (36k, vs. 25k average in 2019) and commercial bankruptcies remain low (2k, vs. 3.3k on average in 2019). Strong net business formation suggests that the current healthy pace of job growth is unlikely to be revised away when the BLS incorporates new source data on business births and deaths into the payrolls statistics.

Exhibit 5: Business Applications from Candidates Who Are Likely to Hire Remain Above Their Pre-Pandemic Levels; Commercial Bankruptcies Remain Well Below Their Pre-Pandemic Levels

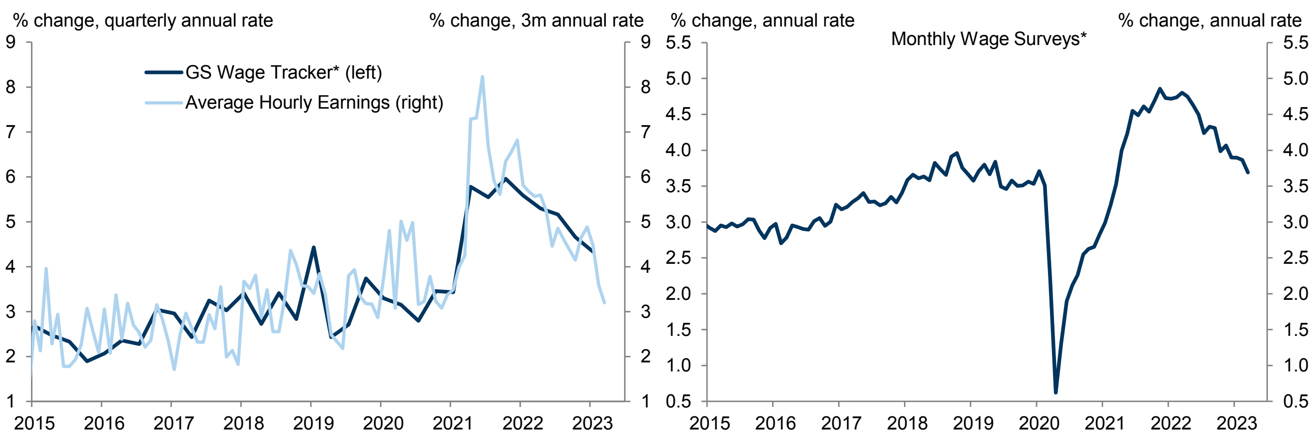


Source: Census Bureau, American Bankruptcy Institute, Goldman Sachs Global Investment Research

Wage Growth

Wage growth indicators slowed on net this month. Average hourly earnings growth picked up to 3.3% on a 1-month annualized basis in March (vs. 2.6% in February) but slowed to 3.2% on a 3-month annualized basis (vs. 3.6% in February). Composition-adjusted average hourly earnings increased 4.1% on a 1-month annualized basis and 4.3% on a 3-month annualized basis. Our monthly wage survey composite, which aggregates business surveys on actual or expected wage changes, declined by 0.2pp to 3.7% in March. Our Q1 wage tracker stands at 4.3% (qoq ar, vs. 4.7% in Q4) but remains above the 3.5% rate we estimate is consistent with 2% inflation.

Exhibit 6: Average Hourly Earnings Growth Stands at 3.3% Annualized and Our Q1 Wage Tracker Stands at 4.3%; Our Wage Survey Indicator Declined to 3.7% Annualized in March



* Our sequential wage tracker is the first principal component of average hourly earnings for private industry workers, the Employment Cost Index, and hourly compensation in the nonfarm business sector.
Note: Both series are adjusted for changes in the composition of the labor force between 2020Q1 and 2022Q3.

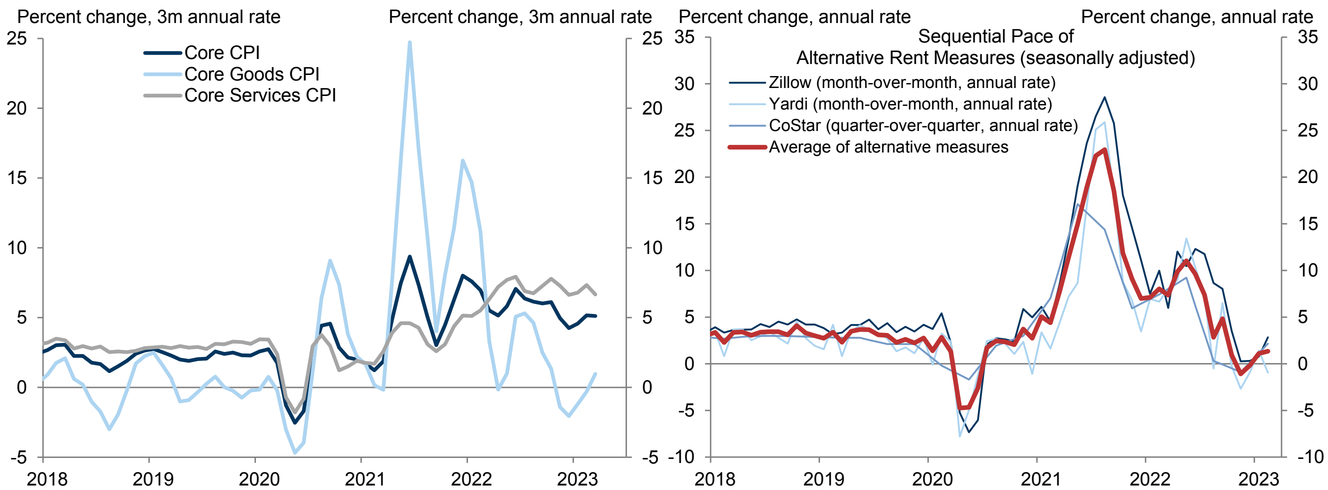
* Average of NFIB, Dallas Fed manufacturing, Dallas Fed services, Richmond Fed Manufacturing, Richmond Fed services, NY Fed services, and Kansas City Fed services, scaled to 6-month annualized average hourly earnings.

Source: Department of Labor, Indeed, Federal Reserve, NFIB, Goldman Sachs Global Investment Research

Inflation

Core CPI increased 0.38% in March, implying 1.0% core goods inflation and 6.7% core services inflation on a 3-month annualized basis. Rent and owners' equivalent rent (OER) decelerated meaningfully in the March CPI report (rent +0.49%, OER +0.48%, compared to +0.76% and +0.70% respectively in February). Web-based measures of new-tenant rent growth increased at a 1.3% annual rate, suggesting that the slowdown in the pace of shelter inflation is likely to continue as the gap between rents for new and continuing leases continues to narrow.

Exhibit 7: Core CPI Increased 0.38% Month-over-Month in March; Alternative Web-Based Measures of New Tenant Rents Increased 1.3% Annualized

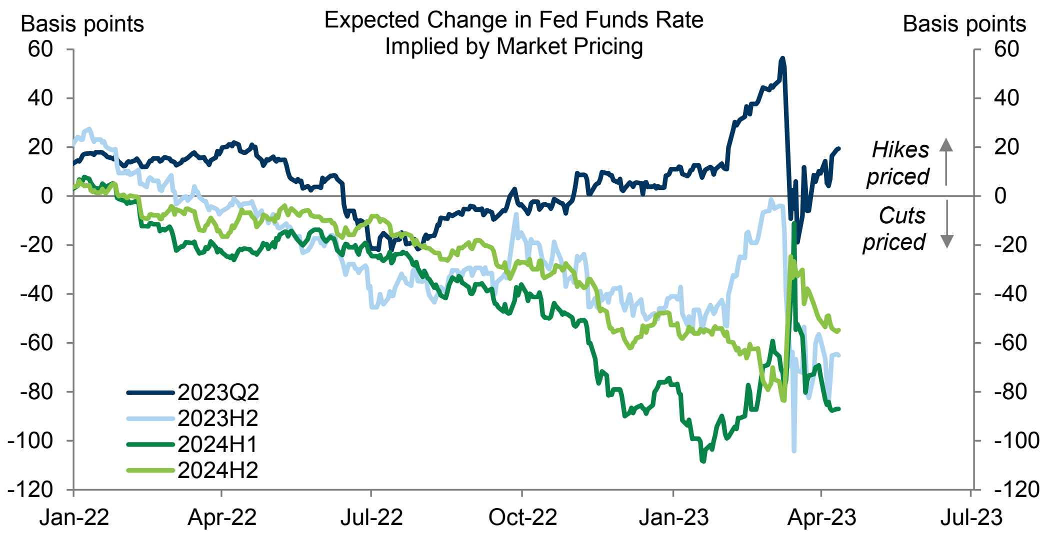


Source: Department of Labor, Zillow, Yardi, CoStar, Goldman Sachs Global Investment Research

Yield Curve

When financial market participants see a higher probability of recession, they are more likely to expect the FOMC to cut the federal funds rate to stimulate the economy. The number of hikes priced by the bond market for 2023Q2 increased and the number of cuts priced for 2023H2 decreased relative to the immediate aftermath of the SVB collapse, but investors still expect the Fed to hike by less in 2023Q2 and cut by more in 2023H2 than before the recent banking turmoil. Currently, the bond market is pricing 19bp of hikes in 2023Q2 (vs. 5bp of cuts in mid-March, in the immediate aftermath of the SVB collapse), 65bp of cuts in 2023H2 (vs. 104bp of cuts), 87bp of cuts in 2024H1 (vs. 11bp of cuts), and 55bp of cuts in 2024H2 (vs. 27bp of cuts).

Exhibit 8: Market Expectations for the Funds Rate Suggest Investors Expect the Fed to Cut Interest Rates by Less in the Second Half of the Year Than in the Immediate Aftermath of the SVB Collapse



Source: Goldman Sachs Global Investment Research

Manuel Abecasis

Disclosure Appendix

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