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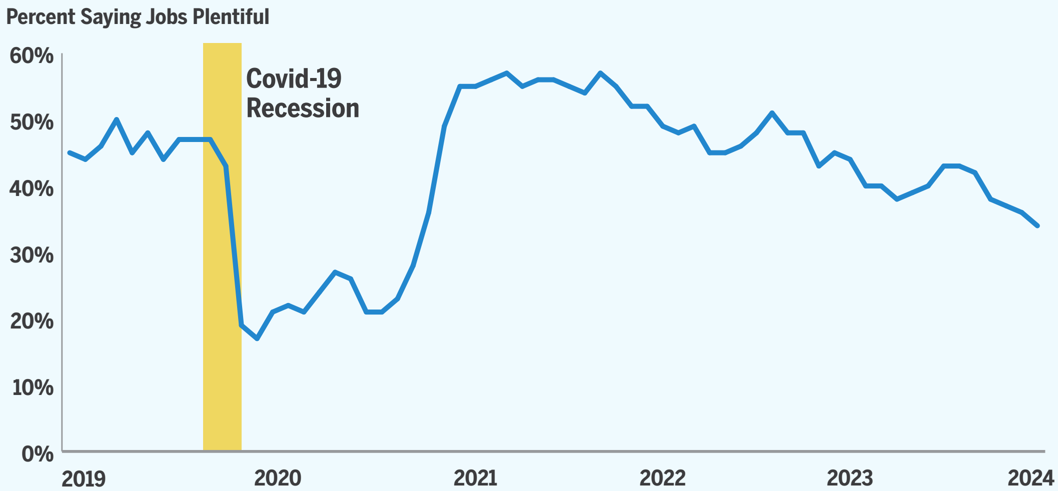
Alger On the Money

Labor Day Cooldown?

In his August 2024 Jackson Hole speech, Federal Reserve (Fed) Chairman Jerome Powell stated, "we do not seek or welcome further cooling in labor market conditions." As we reflect on the state of the employment market following Labor Day, will the Fed succeed in stabilizing the labor market, or will it soften further?

The Labor Market Is Cooling



Source: The Conference Board. Data as of June 30, 2024.

- Various economic indicators suggest that the labor market is cooling. The chart above shows that the percentage of respondents who believe jobs are plentiful is at its lowest level since the pandemic and significantly below pre-pandemic levels. Moreover, wage growth has moderated, while both jobless claims and the unemployment rate have risen in recent months. In fact, the unemployment rate has increased enough to trigger the Sahm rule, which states that a recession is likely to occur when the three-month moving average of the unemployment rate increases by at least 50 basis points from its twelve-month low.
- Fortunately, easing monetary policy over the coming months could support demand for labor, potentially halting the rise in the unemployment rate and stabilizing wage growth.
- While it is difficult to know if weak employment trends will persist or be mitigated by upcoming Fed rate cuts, it appears that consumer spending will be relatively soft over the coming months due to ongoing labor market uncertainty. This underscores the importance of investing in companies that are less dependent on discretionary spending (e.g., healthcare stocks) or those that are gaining market share within the economy (e.g., digitally-oriented restaurants growing their unit bases).

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