PANTHEON MACROECONOMICS

Datanote: US Weekly Jobless Claims/ Productivity

In one line: Weak October payrolls were only partly due to strikes and storms.

- Initial jobless claims ticked up to 221K, from 218K, essentially in line with the consensus, 222K.
- Continuing claims rose to 1,892K, from 1,853K, above the consensus, 1,873K.
- Productivity grew at an annualized

rate of 2.2% in Q3, slightly below the consensus, 2.5%.

- Unit labor costs rose at an annualized rate of 1.9%, above the consensus, 1.0%.

This week's claims numbers indicate a further return to normal after the disruption caused by the Boeing strike and recent hurricanes, as our first chart shows. Mostly reliable leading indicators of claims, such as the WARN layoff announcements series, point to initial claims remaining subdued in the near term. Residual seasonality in the series suggests that, if anything, initial claims likely will drift a bit lower towards the end of this year. That said, we have one eye on whether Hurricane Rafael, which passed through Cuba yesterday, causes much damage along the Gulf Coast in the coming days.

One key implication of this report is that we can be a bit more confident that only part of the weakness in nonfarm payrolls in October—which saw private-sector employment fall by

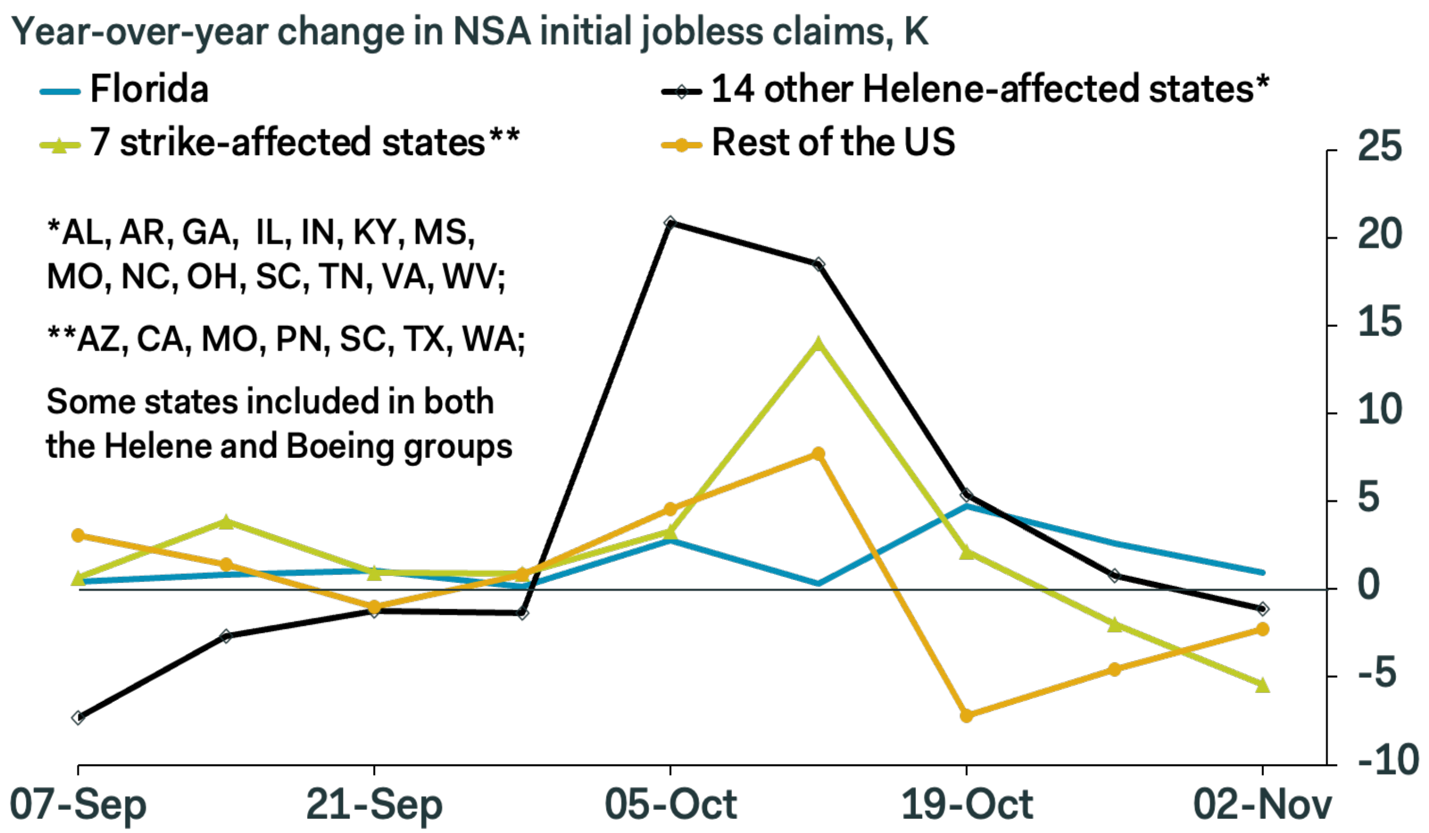
12K—was due to the lingering effects of hurricanes or the Boeing strike. Initial claims surged initially in states where either Boeing or the aviation industry has a big presence but dropped back quickly and have remained low, suggesting that knock-on layoffs elsewhere in the sector were relatively small. Meanwhile, the far smaller rise in claims in Florida following Hurricane Milton than after Hurricanes Ian or Irma, even allowing for a long lag for retroactive claims to be made—see our final chart—points to a relatively limited hit to October payrolls too.

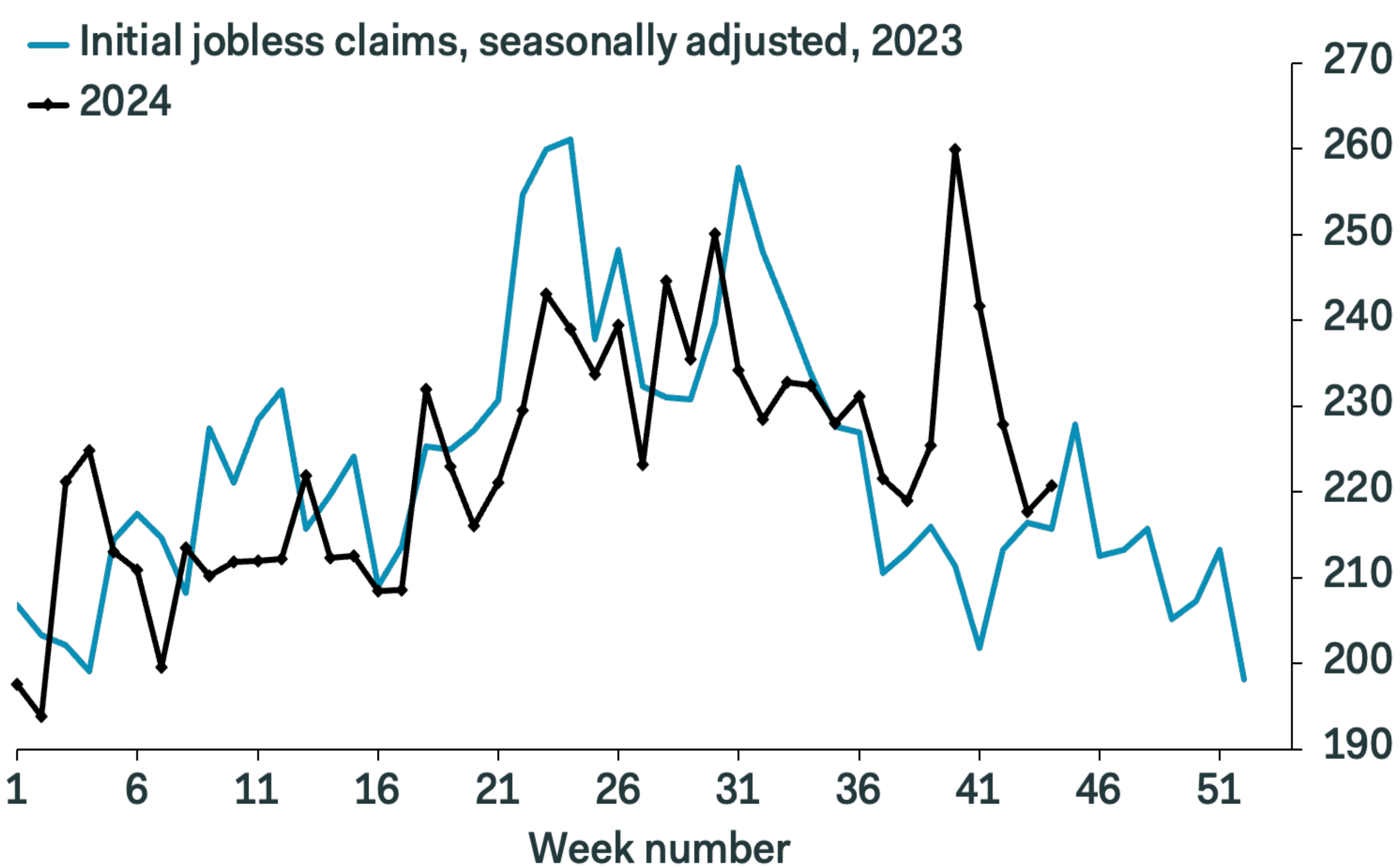
We estimate that the Boeing strike probably knocked around 50K from payrolls last month and hurricanes around 30K, although we have more clarity following next week's state-level employment data. That would imply an underlying increase in private payrolls comfortably below 100K, bolstering the case for continued Fed easing.

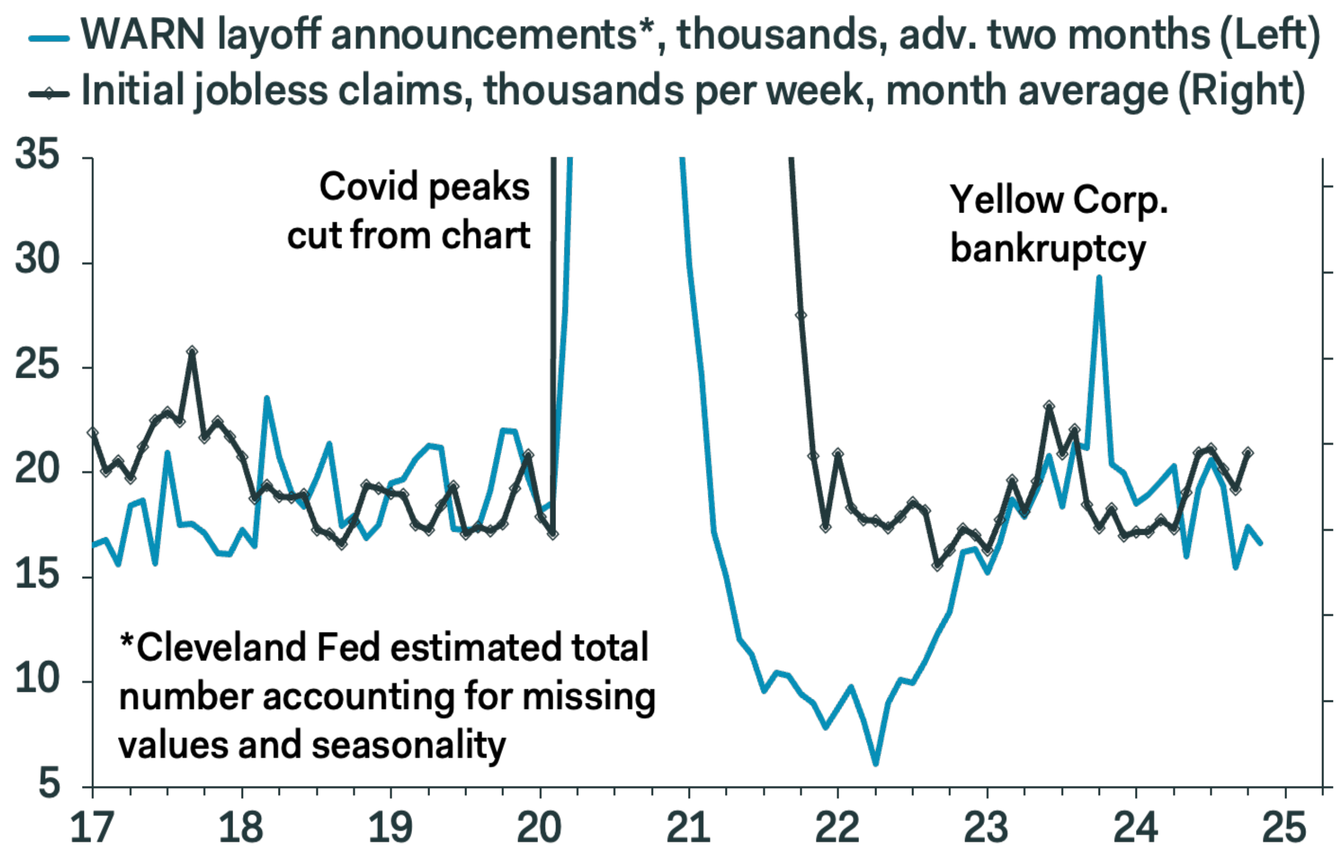
The US remains a global outlier in achieving solid growth in productivity so far this decade. Productivity in Q3 was a mere 0.4% below the level implied by extrapolating the 2017-to-19 trend, of 1.9% growth per year. The year-over-year growth rate has topped 2% for five straight quarters, bolstering the case for thinking the underlying trend has improved lately. It remains impossible to tell, however, if this recent improvement reflects a one-time level-shift in productivity enabled by fiscal expansion and AI adoption, or whether the ongoing growth rate has improved.

Looking ahead, we continue to think that productivity growth will slow next year as the ongoing tightening of monetary conditions for the corporate sector weighs on business investment. Indeed, the renewed increase in bond yields since the election will perpetuate a refinancing headwind for corporate bond issuers. And while Mr. Trump might slash regulations in a bid to lift investment and productivity, huge uncertainty over his economic policy agenda more broadly, including tariffs, means that many businesses will pause capex until the outlook is clearer. Accordingly, we continue to think that the recent momentum in productivity growth will not be sustained next year.

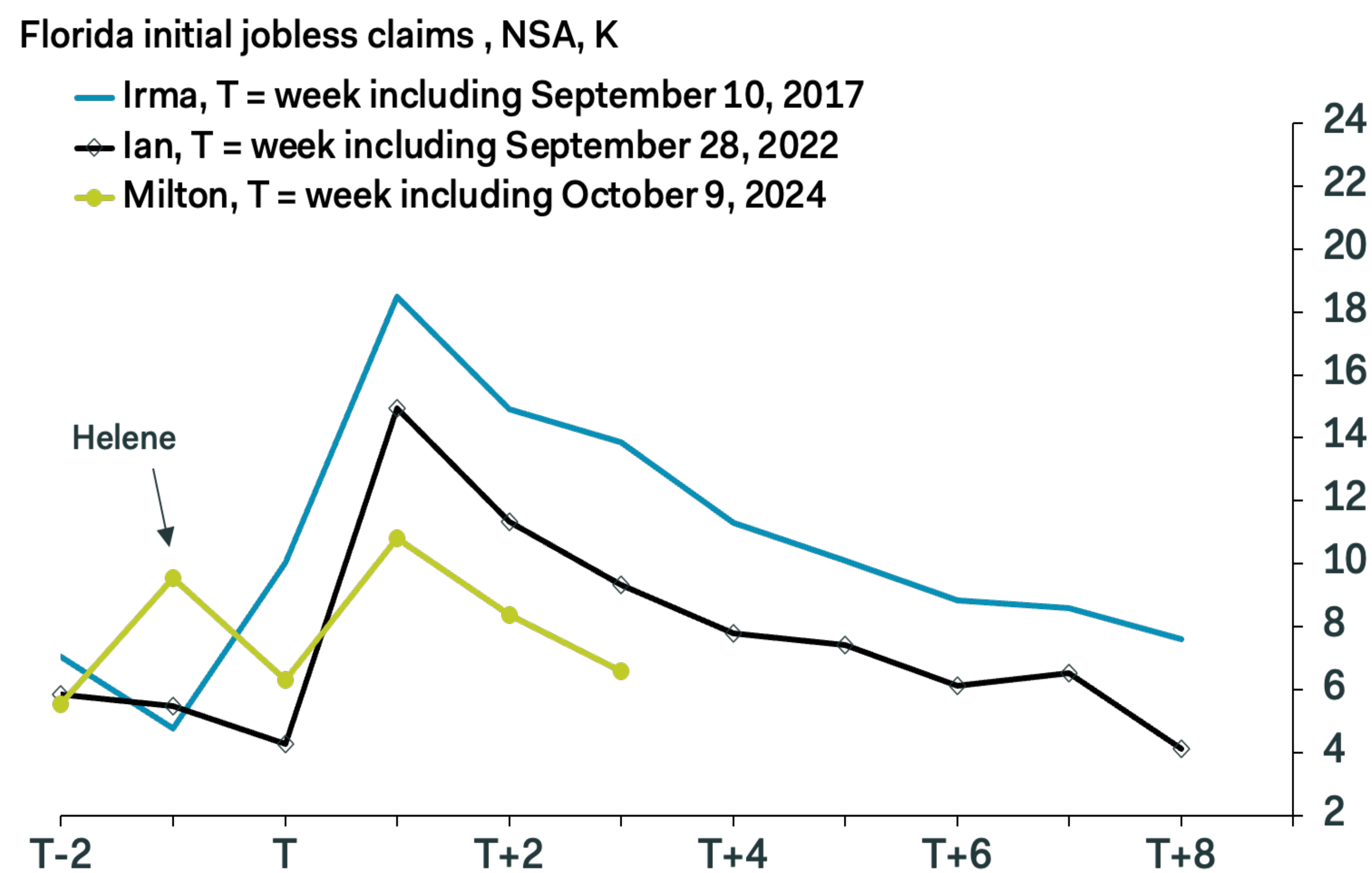
Upward revisions in the annual NIPA release to the wages and salaries component of households' incomes has more than offset the upward revision to productivity, so the BLS has revised up its estimate of year-over-year growth unit labor costs in Q2 to 3.2%, from 0.3% previously. On the face of it, the slowing in ULC growth appears to have stalled, and a slowdown in productivity growth next year might threaten to push it up. Nonetheless, we expect tight monetary conditions to weigh on employment too, further perpetuating the slowing trend in wage growth, and several leading indicators of wages are pointing in that direction already. Accordingly, we continue to expect core services ex-housing PCE inflation to fall next year, motivating the Fed to keep easing policy next year, albeit more slowly than if tariffs were not looming.


Year-over-year change in NSA initial jobless claims, K
Florida
14 other Helene-affected states*
7 strike-affected states**
Rest of the US
*AL, AR, GA, IL, IN, KY, MS, MO, NC, OH, SC, TN, VA, WV;
**AZ, CA, MO, PN, SC, TX, WA;
Some states included in both the Helene and Boeing groups
25
20
15
10
5
0
-5
-10
07-Sep
21-Sep
05-Oct
19-Oct
02-Nov

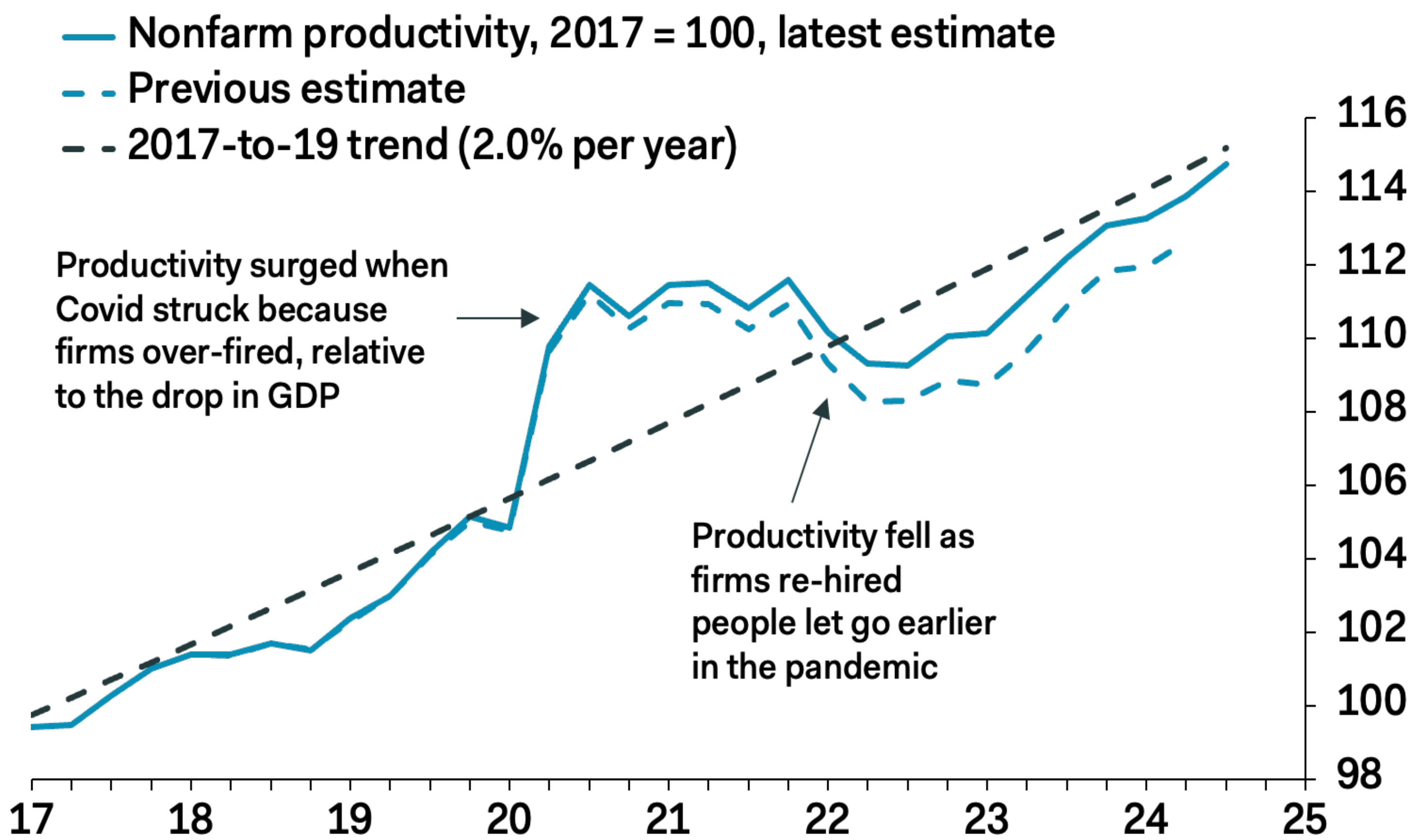

Initial jobless claims, seasonally adjusted, 2023
2024
270
260
250
240
230
220
210
200
190
1
6
11
16
21
26
31
36
41
46
51
Week number



WARN layoff announcements*, thousands, adv. two months (Left)
Initial jobless claims, thousands per week, month average (Right)
Covid peaks cut from chart
Yellow Corp. bankruptcy
*Cleveland Fed estimated total number accounting for missing values and seasonality
35
30
25
20
15
10
5
330
300
270
240
210
180
150
120
17
18
19
20
21
22
23
24
25



Florida initial jobless claims , NSA, K
Irma, T = week including September 10, 2017
Ian, T = week including September 28, 2022
Milton, T = week including October 9, 2024
Helene
24
22
20
18
16
14
12
10
8
6
4
2
T-2
T
T+2
T+4
T+6
T+8



Nonfarm productivity, 2017 = 100, latest estimate
Previous estimate
2017-to-19 trend (2.0% per year)
Productivity surged when Covid struck because firms over-fired, relative to the drop in GDP
Productivity fell as firms re-hired people let go earlier in the pandemic
116
114
112
110
108
106
104
102
100
98
17
18
19
20
21
22
23
24
25

Unit labor costs, y/y%, latest estimate
Previous estimate
7
6
5
4
3
2
1
0
17
18
19
20
21
22
23
24