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March 24, 2025

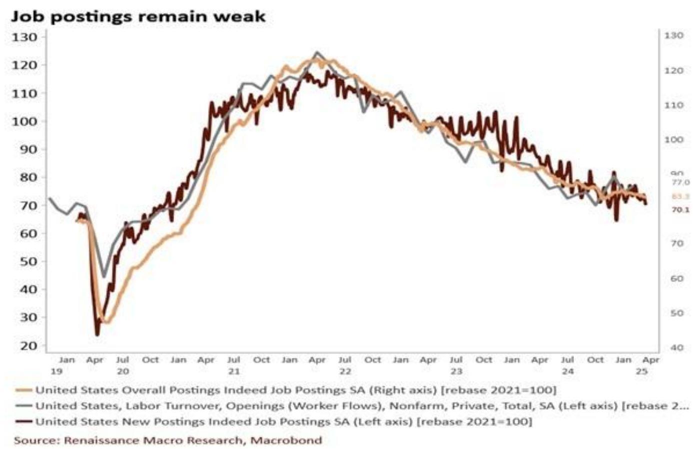
Monday Monetary Thoughts

Labor markets slowing

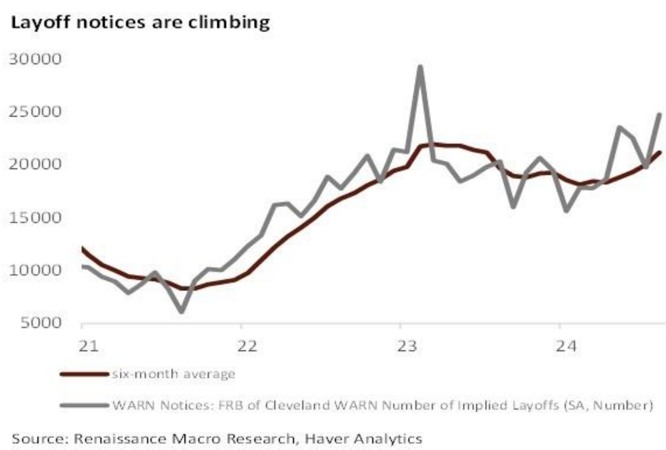
Neil Dutta

The US labor market continues to deteriorate with conditions worsening at the margin. Several indicators stand out to us. Let's review them.

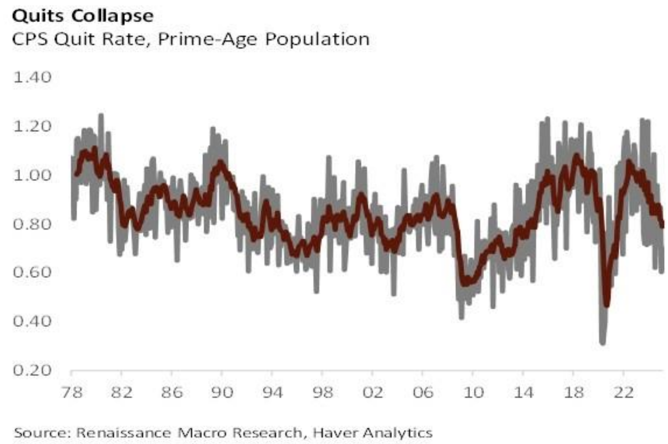
- **Weekly job postings continue to trend down.** According to data from Indeed, overall job postings stand at their lowest level since last fall with new job postings at their lowest level this year. This is a sign that excess labor demand is declining.

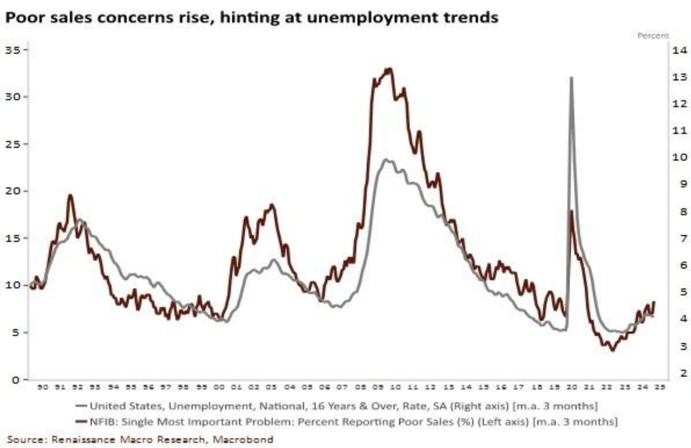


- **Layoffs are picking up.** Continuing unemployment claims continue to rise roughly five percent against last year. It is possible faulty seasonal adjustments are making the increase in claims look like a oneoff event as opposed to a more persistent increase. WARN notifications and layoff announcements have been rising lately.



- **Quits are cooling.** A measure of quits using the Current Population Survey (CPS) developed by [economists at the Minneapolis Fed] shows a notable decline in the quits rate. This is notable because the economists find that quits "add the most information forecasting the unemployment rate in the medium run, two quarters ahead."





- Small firms, where optimism has generally been strong following the election, are increasingly likely to list "poor sales" as their single-biggest problem. This is an issue because historically when firms complain about poor sales, the unemployment rate is going up.

In short, there are reasons to expect the unemployment rate to pick up in the coming quarters. The Fed sees the unemployment rate climbing by roughly one-tenth of a percentage point per quarter over the year. That's about what we saw in each of the last two years. I'm not sure that's the benchmark we ought to be using.

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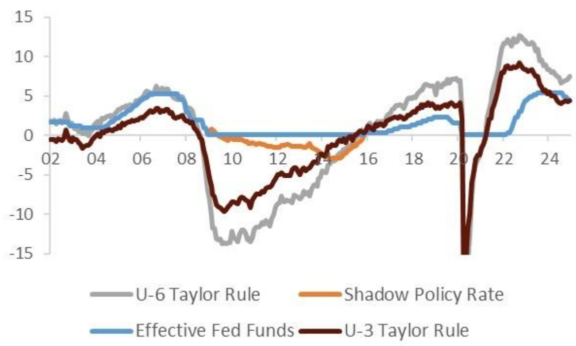
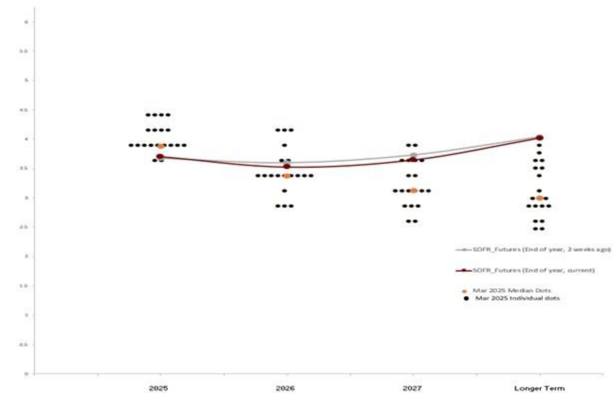
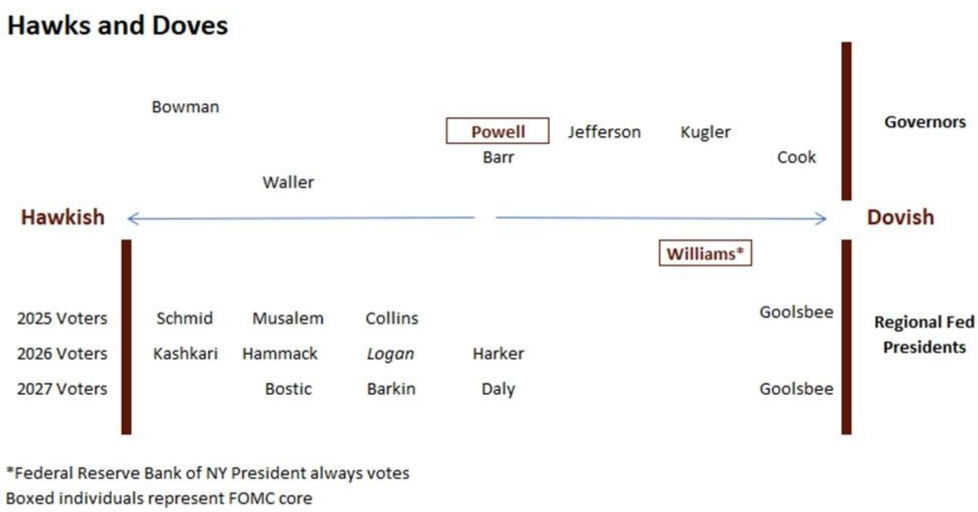
Monetary metrics

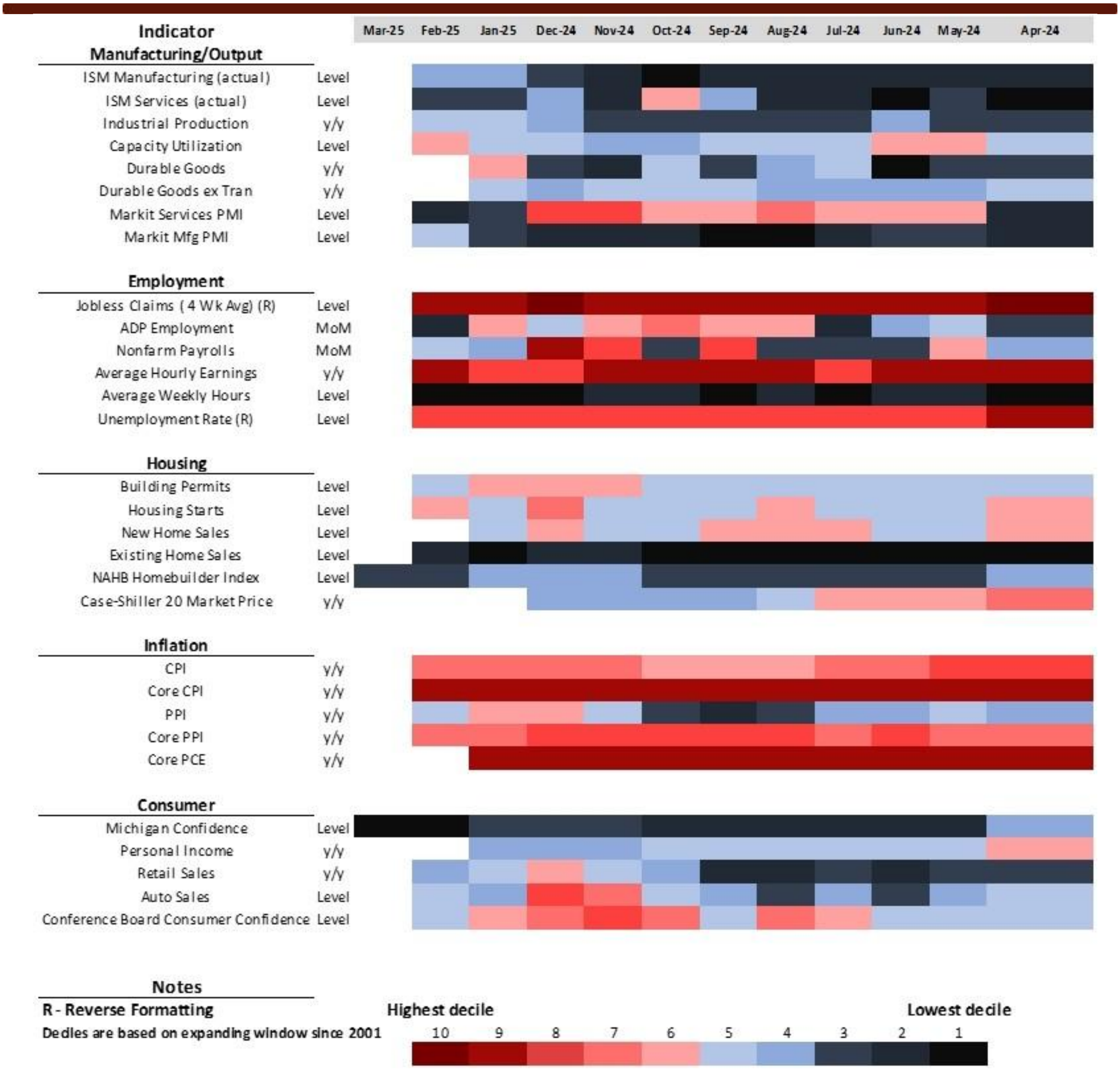




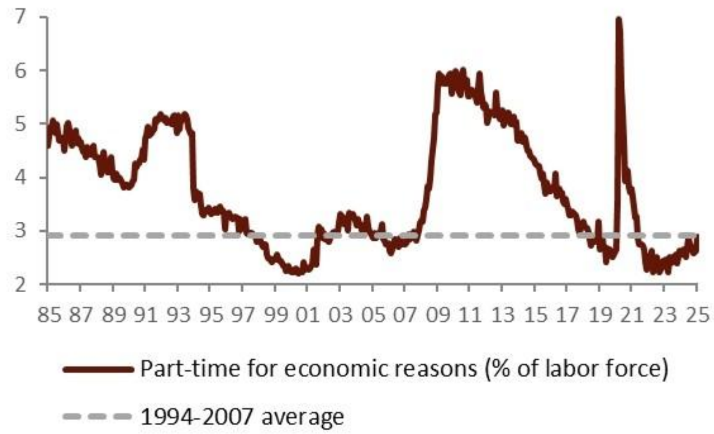


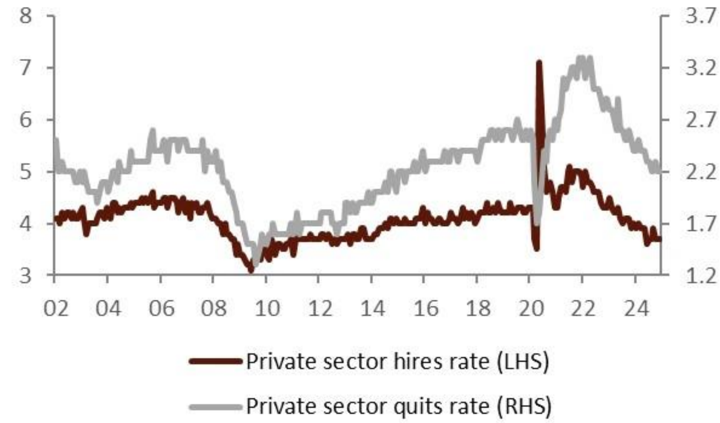
FOMC Forecasts	Median				Central Tendency			
	2025	2026	2027	Longer run	2025	2026	2027	Longer run
Change in real GDP	1.7	1.8	1.8	1.8	1.5–1.9	1.6–1.9	1.6–2.0	1.7–2.0
December projection	2.1	2	1.9	1.8	1.8–2.2	1.9–2.1	1.8–2.0	1.7–2.0
Unemployment rate	4.4	4.3	4.3	4.2	4.3–4.4	4.2–4.5	4.1–4.4	3.9–4.3
December projection	4.3	4.3	4.3	4.2	4.2–4.5	4.1–4.4	4.0–4.4	3.9–4.3
PCE inflation	2.7	2.2	2.0	2.0	2.6–2.9	2.1–2.3	2.0–2.1	2.0
December projection	2.5	2.1	2.0	2.0	2.3–2.6	2.0–2.2	2.0	2.0
Core PCE inflation	2.8	2.2	2.0		2.7–3.0	2.1–2.4	2.0–2.1	
December projection	2.5	2.2	2.0		2.5–2.7	2.0–2.3	2.0	
Projected policy path								
Fed funds rate	3.9	3.4	3.1	3.0	3.9–4.4	3.1–3.9	2.9–3.6	2.6–3.6
December projection	3.9	3.4	3.1	3.0	3.6–4.1	3.1–3.6	2.9–3.6	2.8–3.6

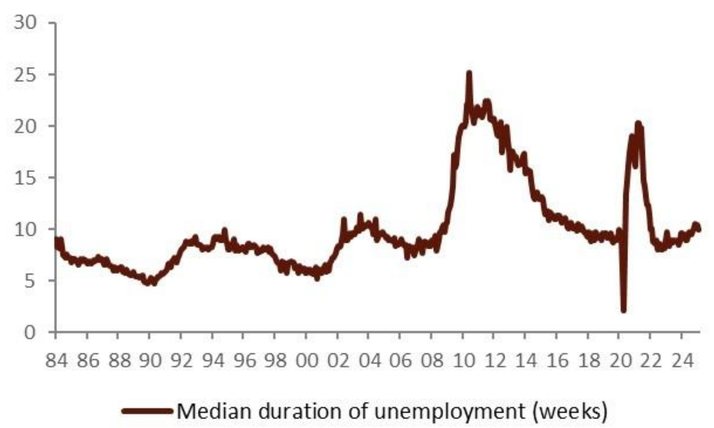
High frequency data heat-map

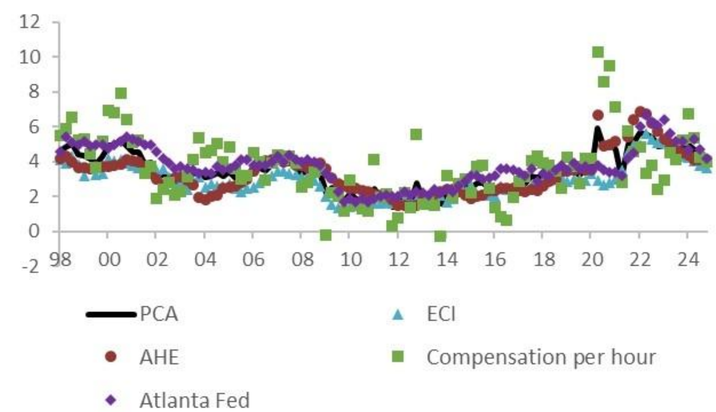


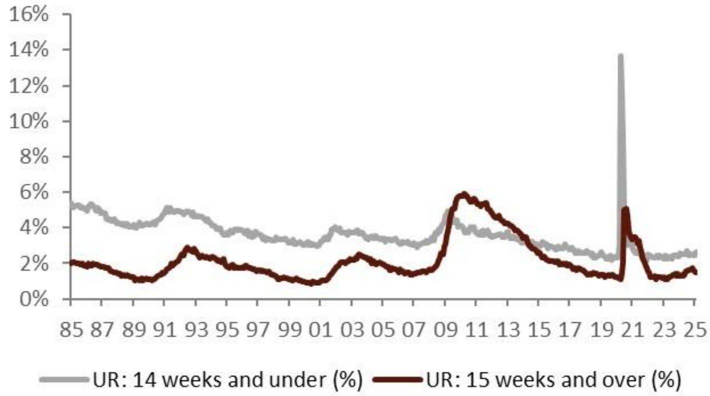
Labor market indicators

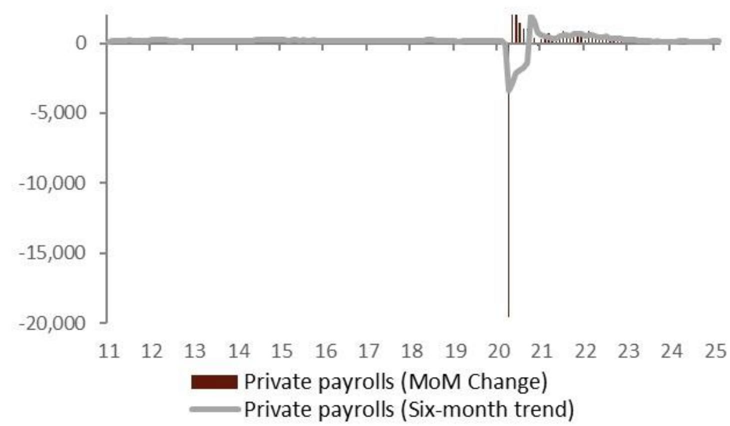




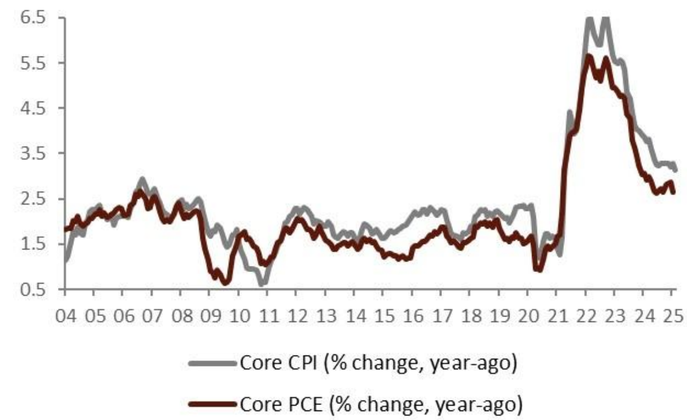


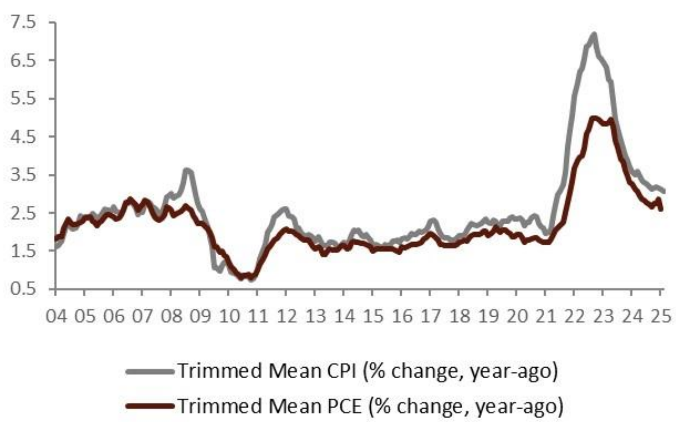


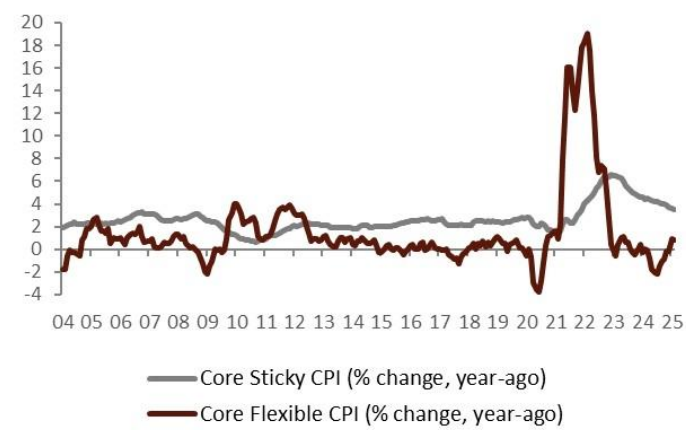


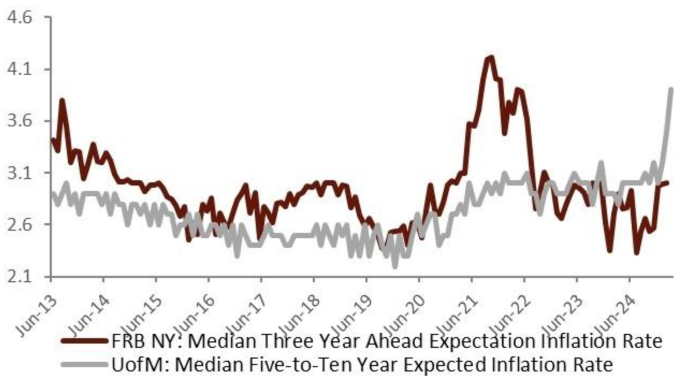


Inflation indicators








4.6
4.1
3.6
3.1
2.6
2.1
Jun-13
Jun-14
Jun-15
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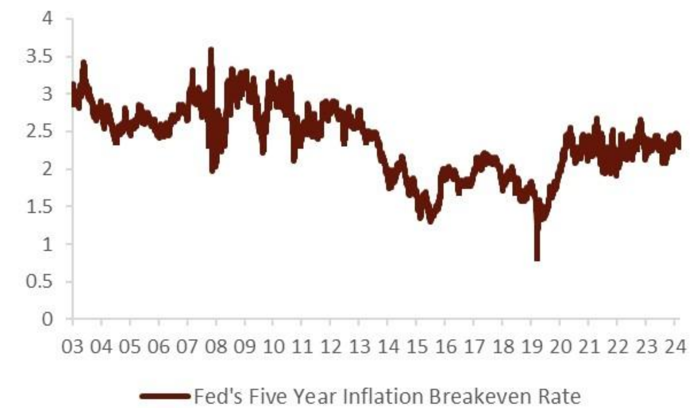
FRB NY: Median Three Year Ahead Expectation Inflation Rate
UofM: Median Five-to-Ten Year Expected Inflation Rate


4
3.5
3
2.5
2
1.5
1
0.5
0
03 04 05 06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24
Fed's Five Year Inflation Breakeven Rate