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US jobs report shows a steady slowdown in the labor market

Wages in US have relatively held up

GDP data continues to remain strong

The labor market in the US continues to deteriorate with BLS revises the NFP data downward. Above all the rise in unemployment rate which stood at 4.2% in August, highest since Oct 2021, raised serious concern's as it remains above the 4% mark which is FED's year end projection. This increased in unemployment rate triggered the so called Sahm rule recession indicator at 0.57, is still above the historical threshold associated with a recession. At the current juncture the slowdown in US labor market is cause for concern. Yet it's important to note that the US economy is not falling off the cliff.

In this paper we analyze the underlying development in US economy and spill over to the rest of the world, especially to the Indian economy. While market participants are building a hypothesis of soft landing in US economy we need to remain on close watch on downside risk as slowdown in labor market indicates does not bode well for a consumption led economy like US.

- ♣ US dichotomy persists between labor market and other indicators
- ♣ Powell pivot at Jackson Hole Symposium
- ♣ A soft- landing scenario for US economy bodes well for Indian economy

Dichotomy between US labor market and other indicators

Labor markets losing steam; some slowdown catching up in housing market as well

As noted above, the slowdown in US labor market is cause for concern. US Nonfarm payrolls grew by 142K in August, a bit weaker than the consensus forecast of 165k gain but there were 86k of downward revisions in the past two months. June was initially reported at 206k, to be revised to 179k last month, and now is just 118k, while July was revised down to 89k from 114k. The recent downward revision by BLS (Bureau of labor and statistic) in NFP data by 818k over the year further indicates the labour market was weaker than initially thought of. This downward revisions to jobs data in the prior two months pushed the three-month moving average for nonfarm payroll growth down to 116K. This marks a notable deceleration from the average monthly job growth of 207K in the first half of the year and 251K in 2023.

As expected, the unemployment rate for month of August decreased to 4.2%. Under-employment continues to move up as well, with the U6 unemployment measure, which includes people who are working part-time but would like full-time work, rising to a new cycle high of 7.9%. Average hourly earnings grew more than expected in August, was up 0.4% over the month and 3.8% over the past year. The above job indicators are published with a delay of one or two months. While the jobless claims on the other hand provide better picture of job market with delay of just one week. The recent initial jobless data shows downward trends, for week ended 7th September the initial jobless claims came 230k while historic data tells us whenever there is a recession, the jobless claims have risen over 400K. Current data paints a favourable picture for the economy.

Building Permits and Existing Home sales showing signs of weakness in economy

- US building permits are at 1.396M in July, down from 1.454M in June and 1.5M year ago this is lowest level since 2020. An increase in the building permits is a leading indicator into the health of US housing sector and often the US economy at large current trend gives us different picture. The combination of high mortgage rates and rising prices have led to subdued momentum in housing market. Existing home sales have been declining since last four months. At 3.89M, the annual pace of resales is close from 3.89m recorded in 2010. We expect as FED starts its rate cut cycle from September which will put reduce the mortgage rates and may bring back the buyers.

US growth indicator are telling different story

GDP data upward revision for Q2'24 shows economic momentum holding up

- The US economy has shown resilience despite significant headwinds, such as high interest rates for last 2-3 years. Recent data suggest robust GDP growth, driven by high consumer spending.

US Retail sales indicates resilient consumer sector

ISM service PMI remains in expansion zone

Inflation is projected to adhere by the policy target

Powell signals rate cut at Jackson Hole Symposium

US 2Y/10Y yield curve turns positive

The Gross domestic product (second estimate) was upwardly revised at 3% in Q2'2024 vis-à-vis 2.8% advance estimate. The revision primarily reflects upward revision to consumer spending that was partly offset by downward revision to private inventory investment, and non-residential fix investment.

Retail Sales showing upward trend and reflects economic resilience

- Retail sales data indicates resilient consumer sector irrespective of various challenges faced in the economy and continues to show upward trend. The retail sales in July was up 1.1% on MoM basis while on YoY basis it rose by 2.6%. Substantial growth was seen in non-store retailers, which were up 6.7% while food services increased by 3.4% from July 2023. This consistent growth is crucial for sectors like manufacturing, which rely heavily on consumer spending.

ISM Services PMI back in expansion zone which is key for the services-led US economy

- Economic activity in the services sector expanded in August, a trend that has been interrupted only three times though twice in last four months since covid. The US ISM services index returned back to expansion mode in July and inched up further to 51.5 levels in August. New orders jumped to 53.0 from 52.4 while employment fell slightly at 50.2 from 51.9. The index for new orders were stronger at 53. As such this doesn't fit the impending recession narrative that has gripped markets over the past couple of weeks.
- The ISM manufacturing Index continues to remain in contraction territory for the past 23 month and has steadily declining for the past four months to 47.2 in August. The manufacturing sector has been struggling and may take some time before the sector experiences an improvement.

CPI and PCE data continue on the disinflation path

- The recent trend in PPI and CPI has been encouraging both supporting disinflation scenario. The consumer price index rose by 0.2% in August on a seasonally adjusted basis. On YoY basis the CPI cooled by 2.5% in August against EST. of 2.6% and 2.9% in July. While the CPI still may be above the FED's ideal 2% target, but the decline was lowest since February 2020. The FED's favorite inflation indicator PCE has risen 2.6% over the past year and at just 1.7% annualized pace over the past three months.

Powell pivot at Jackson Hole Symposium

US Fed Chair J Powell at Jackson Hole Symposium stated that *"the direction of travel is clear and the timing and pace of rate cut will depend on incoming data, the evolving outlook and the balance of risks"*. He stated that restrictive monetary policy has helped restore balance between aggregate supply and demand, easing inflationary pressures and ensuring that inflation expectations remained well anchored. Inflation is now much closer to FED's objective. After a pause since July 2023, progress toward 2% objective has resumed. His confidence has grown that inflation is on a sustainable path back to 2% the comfort level for central bank. While, rising unemployment has not been the result of elevated layoffs, as is typically the case in an economic downturn. While pace of rate cut depends on incoming data he sounded confident that the FED would achieve soft landing.

UST Yield curve spread has turned positive post NFP release

For over two years, the US Treasury yield curve spread (2Y vs 10Y) has been inverted. **Before 2019, a negative 10Y vs 2Y spread was broadly consistent with the onset of a recession within two years.** However, it was the subsequent positive resurfacing of the spread that was more closely linked with the timing of the onset of a recession. For example, in 2007, when the spread between the 10Y and 2Y Treasuries had been negative for nearly a year before decisively turning positive in June 2007. The start of Great Recession began only six months later in December 2007.

The 2Y & 10Y turned positive by 2bps last week where we saw one of the longest yield curve inversions in the history marking the bond traders consider the start of deep rate cutting cycle by FED as the curve has been steepening.

US fiscal policy continues to drive economic growth

U.S. fiscal policy continues to drive economic growth through targeted measures like infrastructure investments, tax reforms, and social support programs. The Tax Cuts and Jobs Act (2017) and temporary

Fiscal policy continues to drive economic growth

expansions of the Child Tax Credit boost business competitiveness and consumer spending. Stimulus packages, such as the American Rescue Plan (2021), provide immediate relief and support economic recovery. Additionally, investments in research, education, and workforce development foster long-term innovation and productivity. These policies collectively stimulate economic activity, support job creation, and drive sustained growth.

Past recession Triggers

If we look at the recession of previous years like in 1973 called as oil embargo recession which started after the Arab oil embargo which quadrupled crude oil prices. The double dip recession of 1981-82, Iran and Volcker recession during which the Iranian revolution caused oil prices to double, at that time inflation was up 11.1% while FED raised the key rates to 19%. The dot com bubble of 2001, 2008 subprime crises and 2020 Covid-19 recession. The current data trends do not state hard landing scenario also the economic indicators remain on close watch.

Taking impact forward: Soft landing bodes well for India

We will analyse the slow-down in US economy and its channels of impact on Indian economy. While some down side risks of economic slow-down persists, India's strong macro fundamentals are likely to help in absorbing the global shocks.

Global growth channel

As per World Economic Outlook update July 2024 by IMF, global growth is projected at 3.2% in 2024, 3.3% in 2025 unchanged from April estimates. Also, growth projection for US economy have been kept unchanged at 1.7% and 1.8% respectively for 2024 and 2025 unchanged from April outlook. US economy being the largest economy in the world contributes to ~ 16% of world GDP, therefore, with downside risks emanating from spill overs of US slow down, global growth has been projected to reported marginally lower growth in 2025. **As per Monetary policy Report of RBI (April 2024), a 100 bps fall in global growth can reduce India's growth and inflation by 30 bps and 15 bps respectively (base line projections for global growth have been taken at 3.1% and 3.2% respectively in 2024 and 2025).**

Trade channel

Goods trade: US has 9.9% share in global trade ascertains that any down turn in US economy can have a set-back for global trade through multiple channels. US is India's largest export destination with 10% share in total exports. US is India's second largest source of imports with 6% share. Trade is one of the important components of spill-overs of US slow-down, if it materializes.

Services trade: India's services exports have risen consistently over time. Since June 2021 (post COVID normalisation), services exports from India have continued in positive zone. Also, India's exports to the world (software) are mostly of structural in nature. Exports of software services to USA has continued to remain the highest in last one decade (avg. 55% share in total exports). Any impact of US slow down on India's services can be minimal given the structural nature of services exports.

Remittances: India stood as the top remittance receiver in the world in 2023. US is the largest source country for remittances and the primary destination for migrants and job seekers. Growing at 7.5 percent, remittance flows to India touched US\$120 billion in 2023, which was US\$ 83 billion in 2019. Remittances to India are forecasted to grow at 3.7 percent to \$124 billion in 2024, and at 4 percent to reach \$129 billion in 2025. Remittances continued a positive growth despite headwinds of COVID slow-down.

Migration: Migration is the other important factor of global interconnectedness. From decades, the top destination country of migrants remains the US. It is also crucial to note that, the largest origin country of migration remains India (18.7 million emigrants).

Regime change and policy uncertainty

US is heading towards a change in leadership. Upcoming elections would add volatility to the business environment and policy priorities to some extent. As was seen in the past, a republican leader Trump had more inward-looking policies and ultimately declared protectionism and trade wars. Trump has been advocating universal 10% tariff on imports and to raise tariffs on goods from China to 60%. While Kamala Harris has backed tariffs only on certain Chinese imports such as 100% tariff on electric car and 50% on

Impact on trade, remittances and migration yet to be seen

solar panels. Moreover, Trump has pledged to impose 100% tariff for the countries which are moving away from the US Dollar (countries attempting De-dollarization). While his policies are inflationary to the economy, but might be difficult for him to implement such high tariffs, which he stated during the election campaign. India is unlikely to be affected by this trade war as US and India share a deep economic and strategic interest. While US also sees India as its strategic partner to counter China. ***The economic and political uncertainty related to the US economy can also affect the Indian growth outlook via further delay in broad-based private capex recovery.***

Commodity Prices

Commodity prices are one of the important channels of transmission of US economic volatilities to rest of the world including India. India's imports from US include essential inputs such as crude oil, electrical equipment's and metals which have a forward linkage with India's manufacturing industry. With global growth likely to stay subdued on soft-landing in US, amid down side risks, even at the other key economies with major share in global GDP, China (%), Euro zone, UK struggling for growth, overall trend in commodity prices may remain capped, unless geopolitics add any adverse stroke. As per the RBI MPC April 2024, if crude oil prices fall by 10% relative to the baseline (Baseline at US\$ 85 per barrel during 2024-25) and assuming their full pass-through to the domestic product prices, inflation could ease by around 30 bps with a boost of 15 bps to India's real GDP growth.

Sentiment channel

Capital flows: After FED Chair Powell laid the ground work for Fed's action plans in the upcoming policy, Dollar has seen a sharp fall prompting surge in major global currencies. The downside of rupee (vis-à-vis Psychological barrier of 84.00) was mainly capped by continuous Dollar sales by FPIs in the domestic equity & debt market. If volatility in US markets comes to a marginal halt due to appropriate pricing of Fed policy actions, capital flows may see a consistent flow.

We do not expect the RBI to follow the US Fed

We believe that the RBI led MPC need not follow the FED as it hiked rates less 50% vis-à-vis the Fed at only 250bps. While India's growth story remains resilient compared to US economy with FED to follow gradualist approach we need not follow the same. However, a caution on sharp growth slowdown in US remains.

In India growth is given a heavy-lift from Government capital spending, balanced path of inflation and growth is well-poised at this juncture. Despite some weakening in demand (consumer spending), RBI is expected to align towards price stability and go for status quo, unlike US Fed which is heavily worried about the slowing growth sentiment in the economy.

Taking cues from IMF member, who quoted that "IMF believes it would be appropriate for the United States Federal Reserve to commence the monetary policy easing cycle next week. With a rationale that rising inflation risks "have diminished." Nonetheless, they cautioned that they haven't "disappeared completely," and for that reason, the Fed must "continue to calibrate the pace and scope of interest rate cuts."

The bottom line

A look across the board suggest that the US recession jitters may be overdone. As discussed, there is a divergence seen between the jobs and other economic growth indicators. While the current labor markets paint a worrisome picture, which has increased the recession fears. On the other hand, the key US growth indicators have been broadly resilient despite elevated policy rate and gives us soft landing signals.

Overall, we believe that the soft landing in US economy is likely to bode well for Indian economic growth outlook. As the impact of lower commodity prices may support overall macro prospect with relatively resilient domestic consumption also helping insulate the adverse impact of slip in global demand.

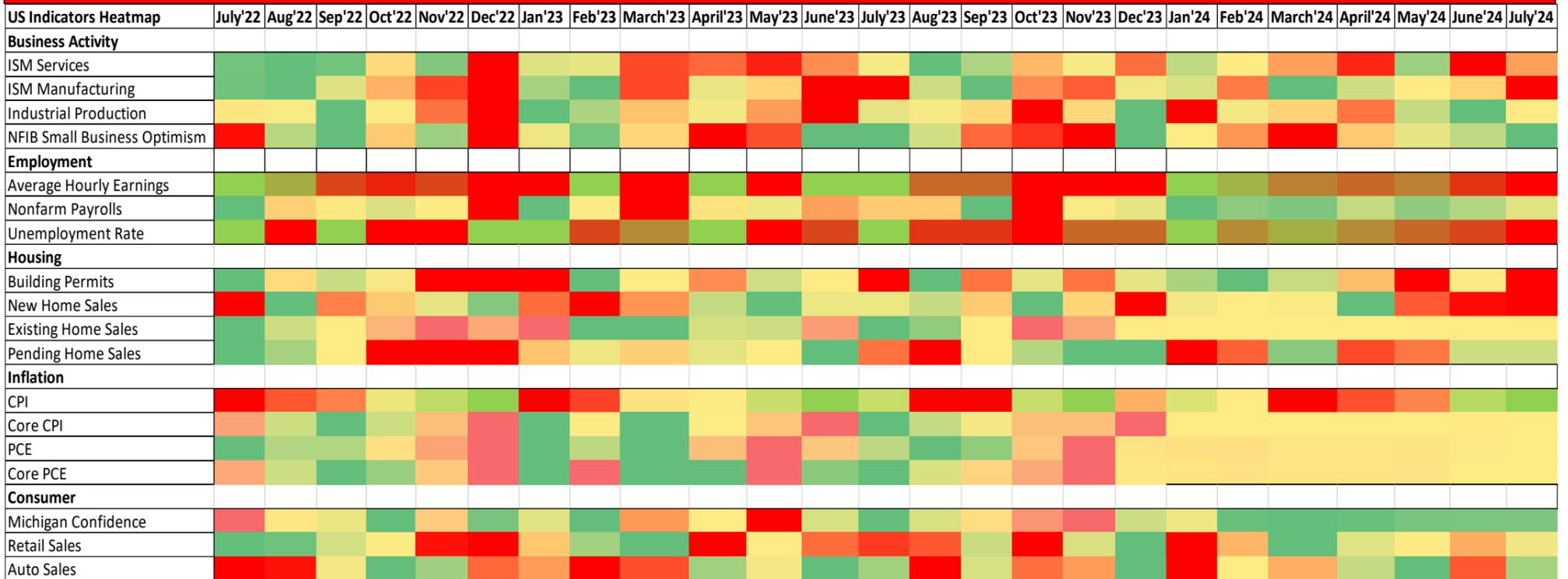
Commodity prices are relatively comfortable

Cause of concerns seen to resurface

Rate cut of Fed vs. status quo of RBI, priorities differ at this juncture

US Macro-Economic Indicators

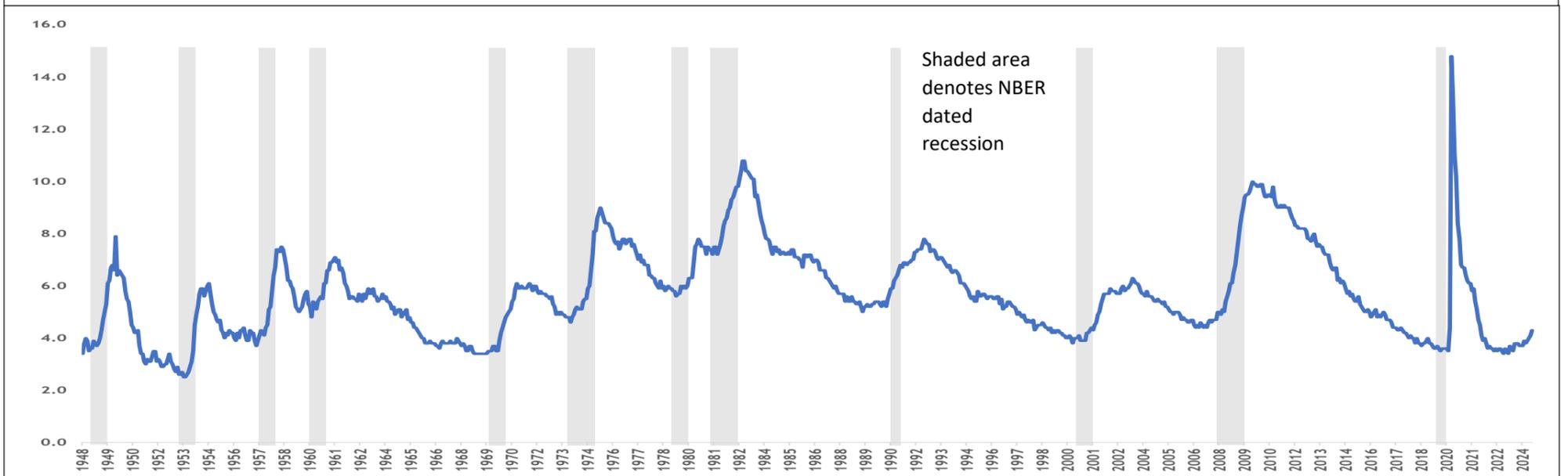
(fig 1)



Source: UBI Research, NEBR.org

Unemployment Rate and Recession since 1948

(Fig 2)



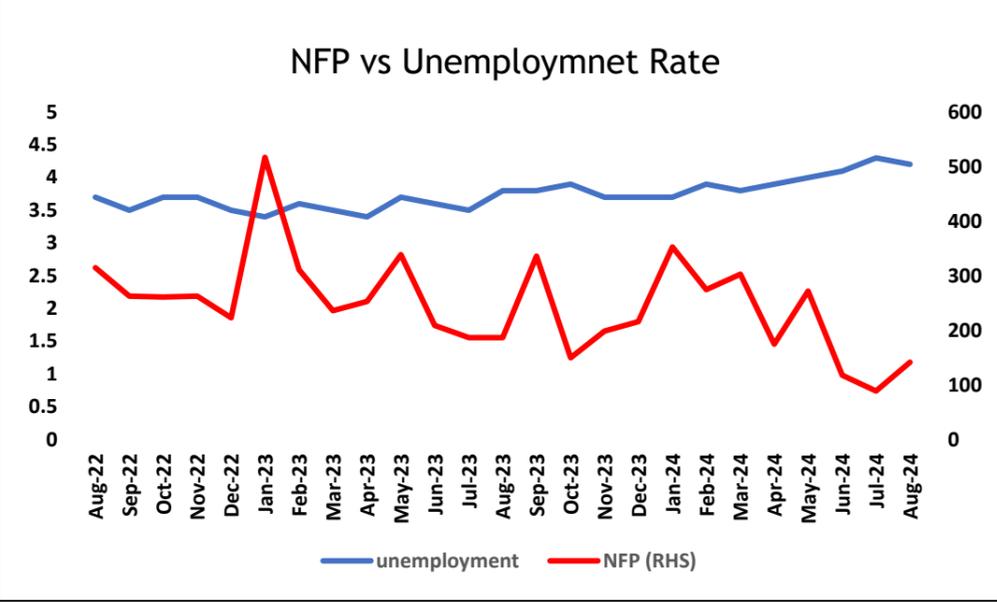
Source: UBI Research, fed st Louis

The spread on US (10Y/2Y) has turned positive

(Fig 3)

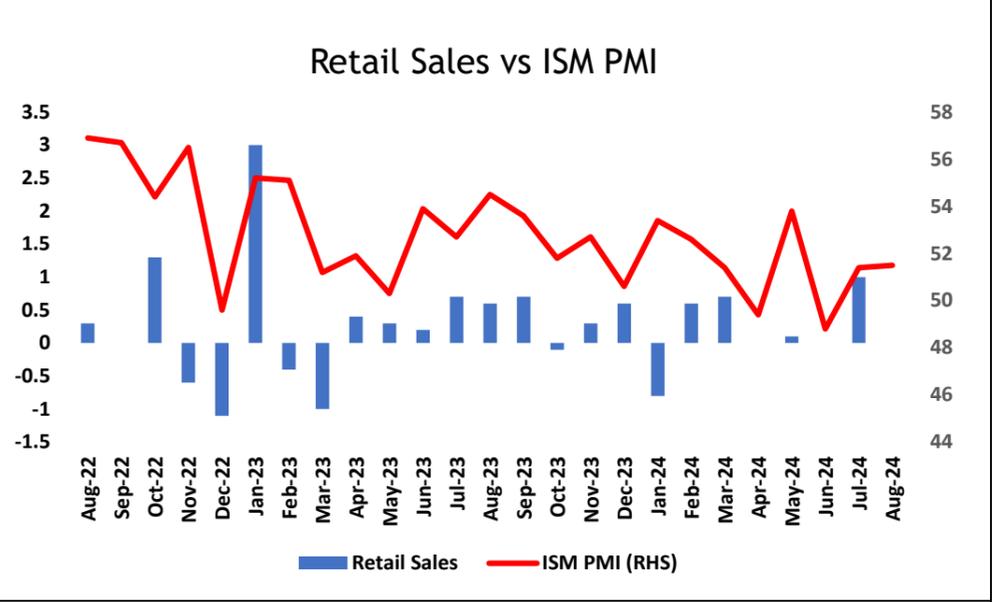


Labor market data induces recession fears (Fig 4)

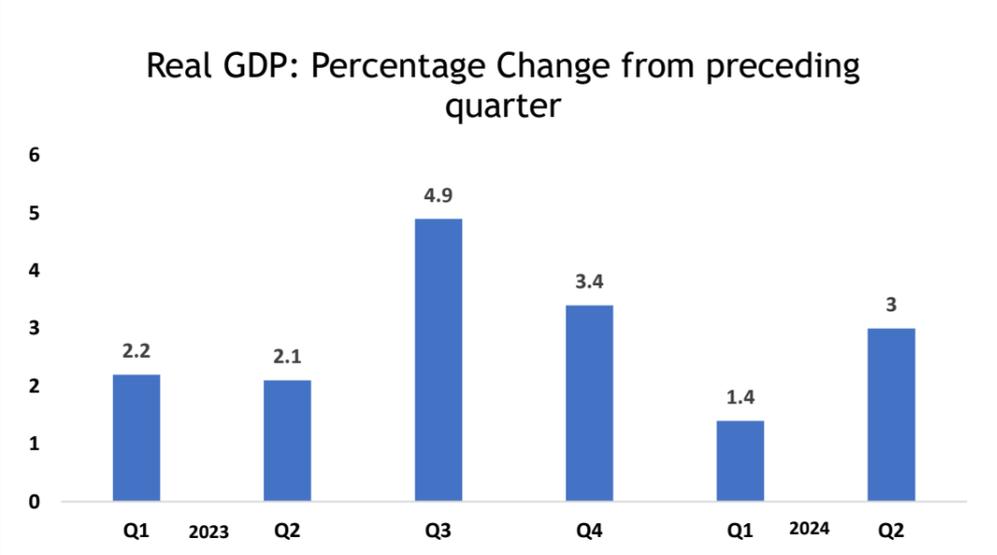


Source: Bloomberg & UBI Research, Reuter

Retail sales and PMI data show positive shoots in economy (Fig 5)

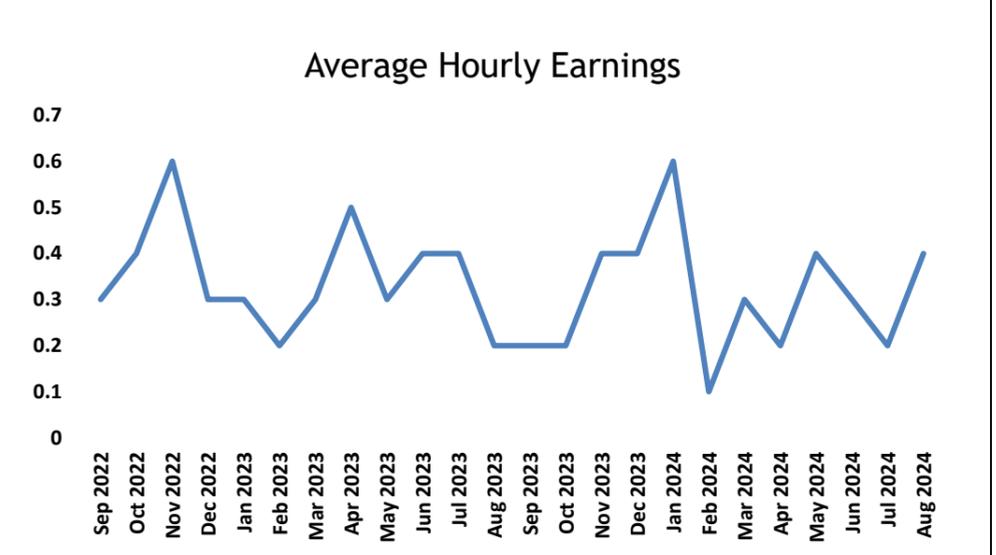


GDP data shows economic growth is expanding (Fig 6)

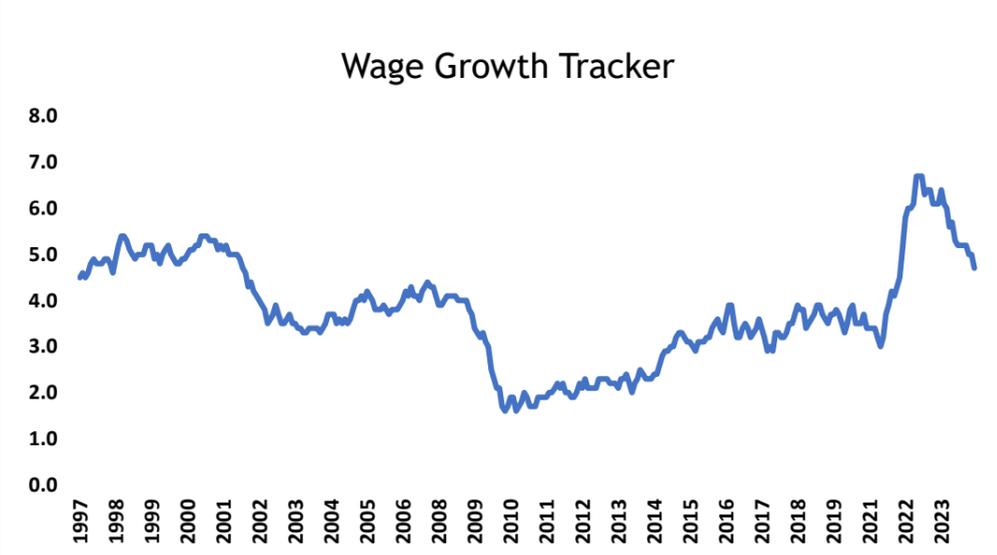


Source: Bloomberg & UBI Research, FED Cleveland, St Louis

Wages have relatively held up currently at 0.4% (Fig 7)

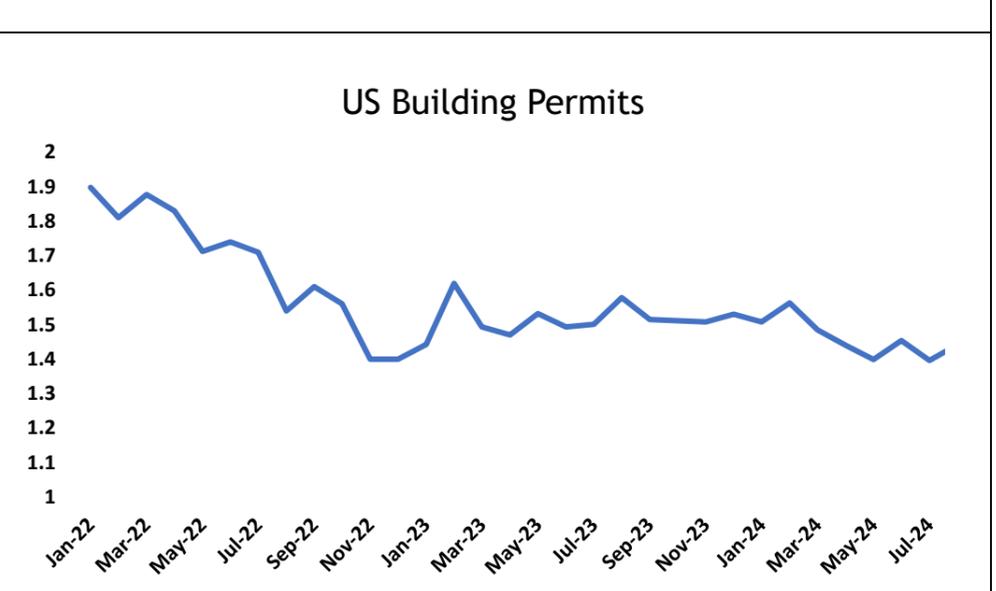


Wage growth shows cooling trends since 2022 (nominal wage growth of individual, 3-month moving avg. wage growth, hourly data) (Fig 8)

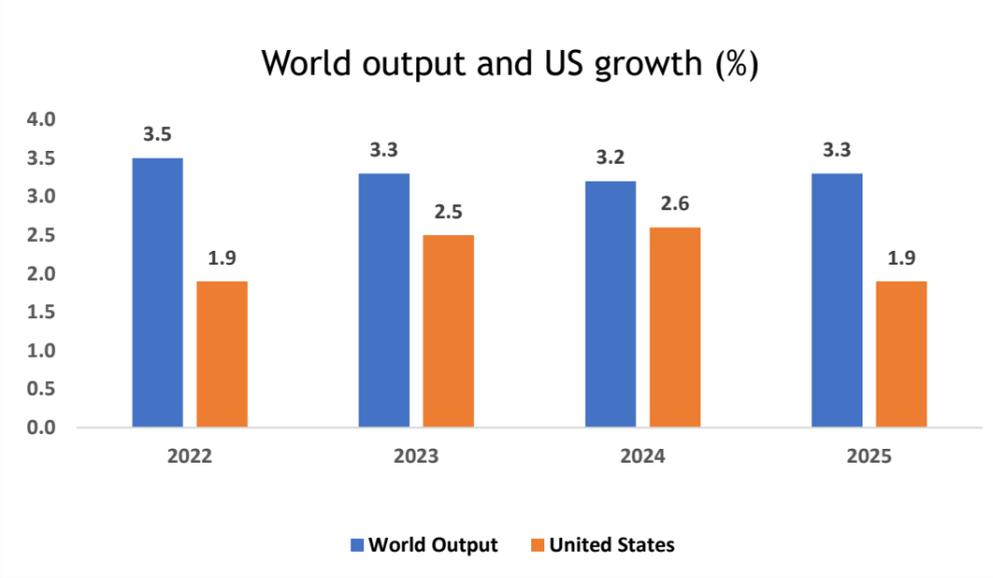


Source: Bloomberg & UBI Research

US Building Permits at four year low (Fig 9)

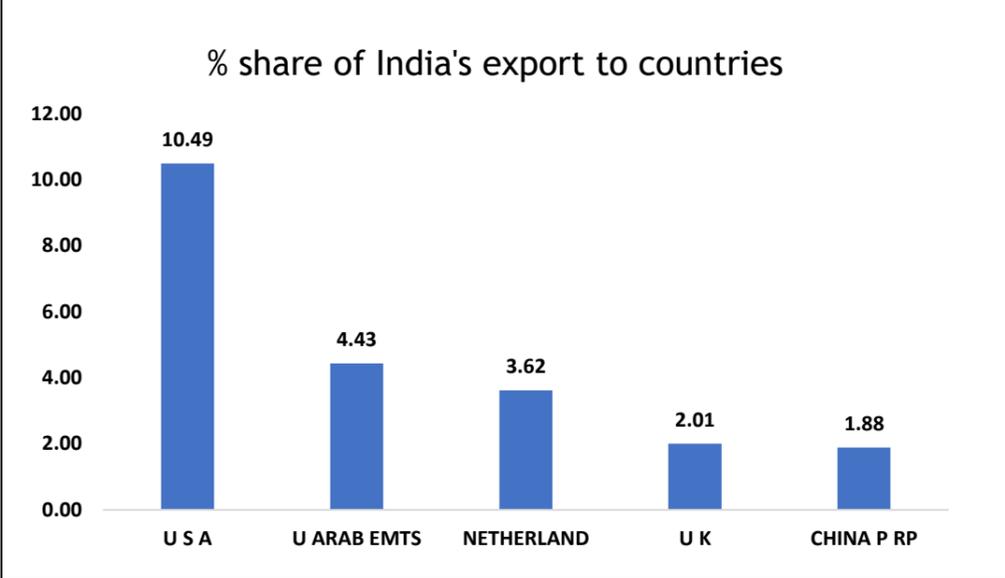


US having 15.6% share in global growth, drives the overall outlook (Fig 10)

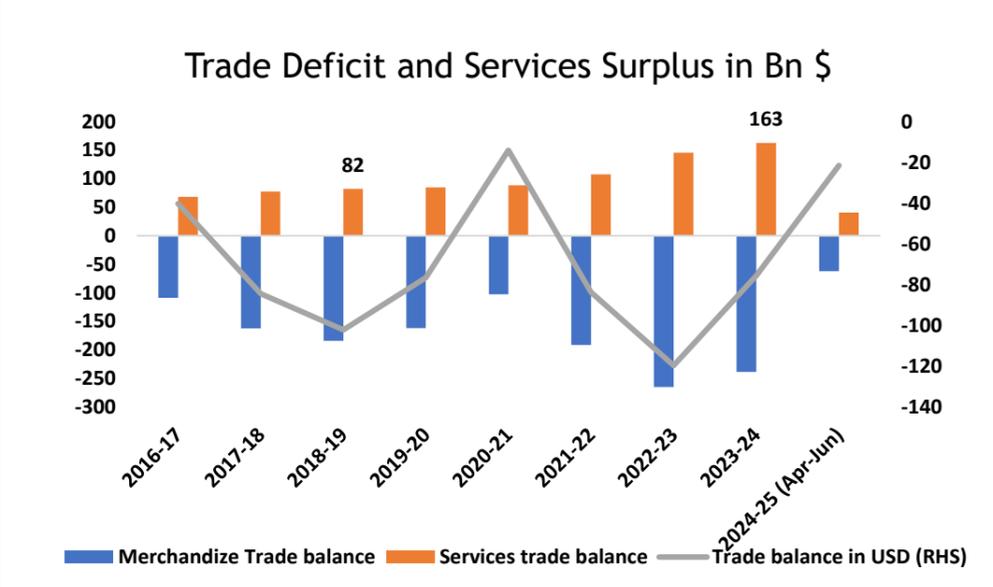


Source: Bloomberg & UBI Research

Share of India's exports to US is highest (Fig 11)

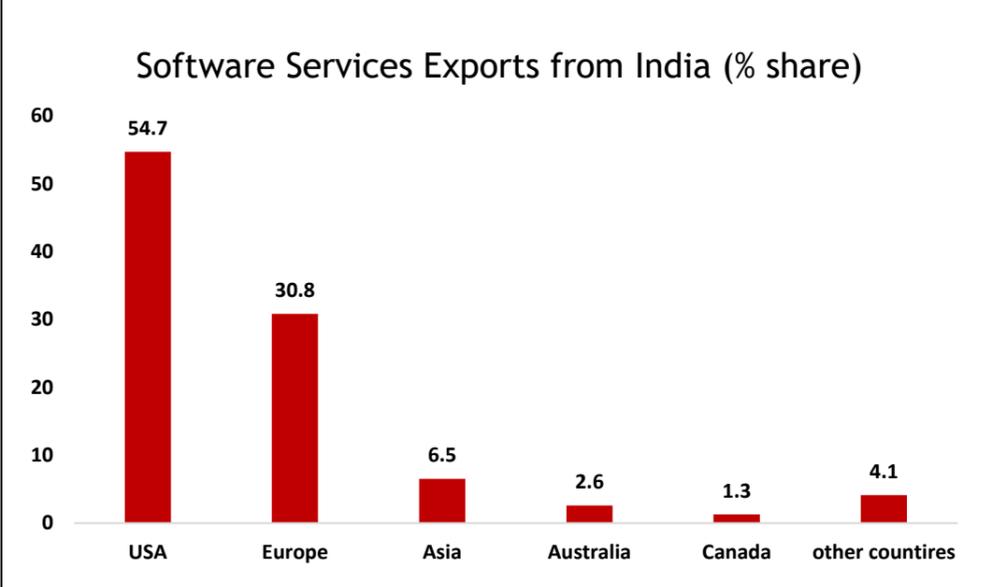


India's services exports to the world double in last 5 years (Fig 12)

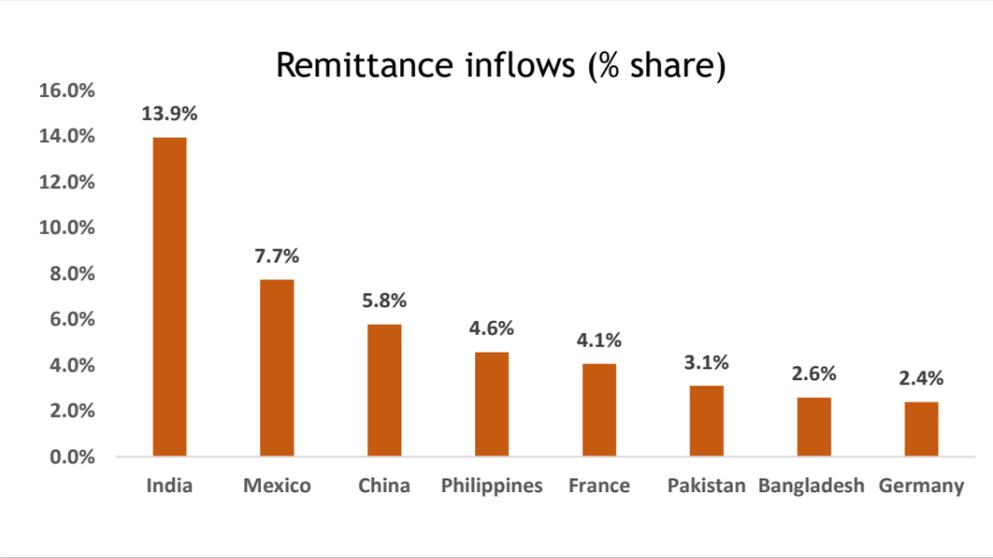


Source: Bloomberg & UBI Research

More than half of India's Software services exports are to US (Fig 13)

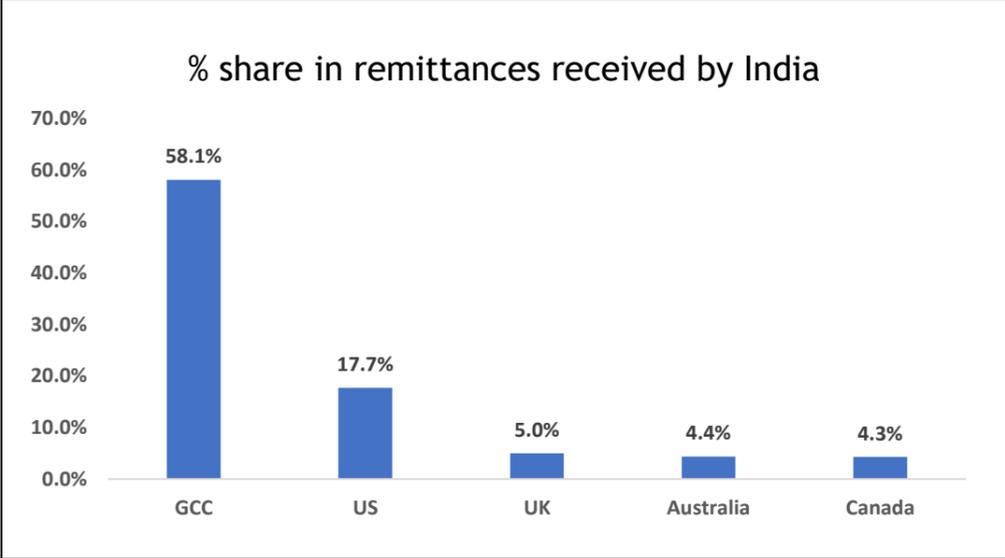


Remittances inflows to India, highest in the world (Fig 14)



Source: Bloomberg & UBI Research

Remittances inflows to India, highest in the world (Fig 15)



Million Barrel per day	World oil demand and supply balance										
	2023	1Q24	2Q24	3Q24	4Q24	2024	1Q25	2Q25	3Q25	4Q25	2025
(a) Total world demand	102.2	103.1	103.7	104.8	105.6	104.3	104.9	105.4	106.8	107.3	106.1
<i>of which US</i>	20.4	19.9	20.7	20.7	20.8	20.5	20.0	20.7	20.7	20.9	20.6
% share of US in global oil demand	19.9	19.3	19.9	19.7	19.7	19.7	19.0	19.6	19.4	19.5	19.4
Change from previous estimates	0.0	0.0	0.2	0.0	0.0	0.1	0.0	0.2	0.0	0.0	0.1
Supply	60.0	61.0	61.3	61.2	61.7	61.3	62.3	62.3	62.4	63.0	62.5
<i>of which US</i>	20.9	21.0	21.7	21.4	21.5	21.4	21.6	21.9	22.0	22.1	21.9
% share of US in global oil supply	34.8	34.5	35.4	35.0	34.8	34.9	34.8	35.2	35.2	35.1	35.1
Change from previous estimates	-0.1	0.0	-0.1	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1

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