Mid-July Initial and Continuing Claims Reach Highest Levels in Over a Year; Clear Evidence of a Slowing Labor Market

- Initial claims for unemployment insurance rose by 14,000 in the week ending July 27, partly reflecting a third straight large number of initial claimants in Texas caused by Hurricane Beryl and its aftermath.

- Continuing claims for unemployment insurance jumped by 33,000 in the week ending July 20 and the four week moving average rose by 5,000.

- The labor market remains strong, but hiring is slowing as noted by Fed Chair Powell yesterday.

- The labor market will soften further in the latter half of 2024, with smaller job gains and a slightly higher unemployment rate.

Initial claims for unemployment insurance rose by 14,000 to 249,000 in the week ending July 27, partly reflecting a third straight large number of initial claimants in Texas in the aftermath of hurricane Beryl. The four-week moving average of initial claims, which smooths out some of the seasonal and weather-related volatility, rose by 2,500 to 238,000, equaling the level in late June and the highest since late-August 2023.

Initial claims have moved higher in 2024 after starting the year at an historically low 200,000. Over the past couple of years initial claims have risen and fallen, and there was a similar increase in the first half of 2023, which was followed by an unwinding in the second half of last year. July is a particularly difficult month to seasonally adjust initial claims since widespread temporary layoffs in the vehicle industry for retooling have greatly varied in the last three Julys following the complete shutdown in 2020 for Covid.

Continuing claims for unemployment insurance surged by 33,000 to 1.877 million in the week ending July 20. The four-week moving average of continuing claims rose by 5,000 to 1.857 million. This is the highest level for the four-week average since December 2021. The message from continuing claims is clear. They are up from their levels in the second half of 2022, all of 2023 and the first five months of 2024. Although the labor market is historically strong, it is taking somewhat longer for unemployed workers to find jobs. This is consistent with the June Job Openings and Labor Turnover Survey, or JOLTS report. The hiring rate has been between 3.5% and 3.7% in 2024, down from around 4.5% in the second half of 2021. But layoffs remain extremely low on an historical basis.
The labor market has remained strong in the first half of this year even as initial claims have risen somewhat, with average monthly job gains of 222,000 in the first six months. It could be that initial claims are signaling a slowing in job growth that will show up later this year, or it could be that the seasonal adjustment process has not fully captured the dynamics of the post-pandemic labor market and the increase so far this year is a mirage.

The labor market is still historically strong, but not quite as strong as it was in 2022 and 2023. Chair Powell again said yesterday at his post-FOMC press conference that the labor market is back to a balance between slower demand and rising labor supply. Job growth has eased and the unemployment rate is slightly higher than it was in early 2023, when it hit 3.4% for a couple of months. PNC expects a further easing in the labor market through the rest of this year as high interest rates continue to weigh on the economy. PNC is forecasting job growth to slow to around 150,000 per month in the latter half of this year and closer to 100,000 in the first half of 2025, and the unemployment rate will increase somewhat over the next year to about 4.3%.

PNC expects tomorrow morning’s July employment report to show a rise of 185,000 payroll jobs, very close to the 177,000 average of the three previous months. The unemployment rate should edge down to 4.0%. Average hourly earnings should rise by 0.3% bringing the year/year rise down to 3.8%, slightly below the 4.1% rise in the Employment Cost index in the year ending in June 2024. This report will be further evidence of the better balance between demand and supply in the labor market as noted by Chair Powell yesterday.

In response to the FOMC gaining greater confidence in the clear slowdown in inflation last quarter and the slower pace of job growth raising downside risks to the economy as the FOMC meeting statement noted yesterday, PNC expects the FOMC to cut the funds rate by 25 bps points at both their September 18 and December 18, 2024 meetings followed by three more 25 bps rate cuts in the first half of 2025.

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