Jobs Numbers Offer Some Optimism on a Soft Landing

It might be that the economy can avoid a recession. But will inflation continue to cooperate? And will the Fed wait to lower interest rates?

By Erik Sherman

The jobs numbers were good. At 199,000, not the much higher numbers from early in the year, but plenty of satisfying news from the view of a recession. However, if the question is how soon the Fed will knock down interest rates, CRE investors, owners, and developers might like to take some aspirin for the headache of a resulting logical conclusion.

First, the good news. The economy is doing better than many thought.

"The November employment report showed that across all key metrics – nonfarm payrolls, wages, the unemployment rate, the participation rate, and even the workweek – activity exceeded consensus expectations," said Nationwide Chief Economist Kathy Bostjancic in an emailed note.

When it comes to the potential of a recession, the lower unemployment rate is terrific. According to the Sahm rule, created by macroeconomist Claudia Sahm, when the three-month moving average of the official unemployment rate (called the U-3) rises by 50 basis points over the low value during the preceding 12 months, the country is in a recession.

The FRED site of the Federal Reserve Bank of St. Louis keeps a running tab of the Sahm rule. With the slight drop of the unemployment rate, the difference between the three-month moving average and the 12-month low value fell from 3 basis points, from 0.33 to 0.30. That would indicate the country still isn't in a recession.

But for CRE, at least, that isn't all good news because of some implications. One is that the chance of the Fed cutting interest rates as soon as the first quarter has become increasingly unlikely.

"This delivers a reality check to financial markets as the bond and equity markets have rallied strongly over the past month on increasing expectations that the Fed would start to cut interest rates in Q1," Bostjancic added.

In a way, that is good news. Many people have come to assume ultra-low interest rates as something to be desired. But when that happens, it's because there is unmitigated disaster in some part of the economy or another. If there was a sudden drop in the interest rate, it would be because the economy crashed, and the Fed found it necessary to pump out liquidity and try stimulating the economy. Sometimes, what appears to be a blessing might turn out to become a curse.