Jobless claims hit highest level since August

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·**Reporter**

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Weekly jobless claims rose more than expected last week in the latest sign of a cooling labor market.

New data from the Department of Labor showed 243,000 initial jobless claims were filed in the week ending July 13, up from 222,000 the week prior and above the 229,000 economists had expected. This tied with a weekly jobless claims reading from June for the highest level of weekly filings since August 2023.

Meanwhile, the number of continuing applications for unemployment benefits hit its highest level since November 2021, with nearly 1.87 million claims filed in the week ending July 6, up from 1.85 million the week prior.

Jefferies US economist Thomas Simons reasoned that part of the uptick in weekly claims could have been caused by Hurricane Beryl displacing workers. Still, Simons noted that the trend in recent weeks for jobless claims has reflected more cracks emerging in the labor market.

"The data of the past few weeks have been signaling incremental labor market weakness, albeit from a position of extreme strength," Simons wrote in a research note on Thursday. "It is still too early to tell if this is another step in the process of the labor market coming into better balance, or if it is the early stages of building momentum to the downside."

The signs of weakness Simons called out have backed the case for the Federal Reserve to begin cutting interest rates soon, per multiple economists. On Monday, Goldman Sachs chief economist Jan Hatzius wrote in a research note that with inflation slowing, the Fed should consider a move on interest rates as early as July, given the recent loosening in the labor market.

In June, the unemployment rate rose for the third consecutive month to 4.1%, up from 4% in May.

"The bottom line is clear," Hatzius wrote. "While layoffs remain subdued, the unemployment rate is gradually trending higher because hiring is not strong enough to absorb all new native- and foreign-born labor force entrants. The updrift in the unemployment rate has been welcomed by Fed officials so far, but we agree with Chair Powell's assessment that the labor market is now fully back in balance.

"We may be approaching an inflection point at which further softening in labor demand results in a bigger and much less welcome increase in unemployment."

Read more: [How does the labor market affect inflation?]

As of Thursday morning markets were pricing in a roughly 98% chance the Fed will cut interest rates by the end of its September meeting. Meanwhile, investors were putting the chances it cuts during its next meeting on July 30-31 at just shy of 5%, per the CME FedWatch Tool.

A "now hiring" sign is displayed outside Taylor Party and Equipment Rentals in Somerville, Massachusetts, U.S., September 1, 2022. REUTERS/Brian Snyder (REUTERS / Reuters)

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