

## “CHANCES ARE”

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By Brahm Satov

Chances are that we are not going to have a soft landing. Look, I understand, most want a soft landing, and that it would be nice to see one. However, we also need to realize that soft landings are rare, and the data continues to weaken. While soft landings may not be impossible to achieve, this one is becoming more and more unlikely. In other words, the probability of a soft landing is remote, and “chances are”, that the economy experiences a harder landing than most expect. Recently we had another rule, called the Sahm rule, pointing towards a recession. I’d like to thank Johnny Mathis, for the title, “Chances Are”.

The “Sahm rule,” was created by Claudia Rae Sahm, an economist and former director of macroeconomic policy at the Washington Center for Equitable Growth a Section Chief at the Board of Governors of the Federal Reserve System.

According to the Sahm rule, when the labor market weakens past a certain point, historically this has indicated that we are in a recession. This indicator has a very high accuracy rate. The Sahm Rule identifies signals related to the start of a recession and is triggered when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to its low during the previous 12 months. It makes sense that a recession has started when people are losing their jobs, the problem is, most of the time the public does not know it is happening unless they experience it personally.

Douglas Porter, Chief Economist and Managing Director, BMO Economics, wrote that, “Canada has blown through the Sahm Rule”, which accordingly would mean that Canada, is already in recession. (Source: BMO Economics, April 05, 2024 | 09:11, Canada- Total Eclipse of the Jobs).

Recession Dating	Sahm Rule Triggers	Months Into Recession
Apr. 1960 - Feb. 1961	Aug. 1960	4
Dec. 1969 - Nov. 1970	Feb. 1970	2
Nov. 1973 - March 1975	Mar. 1974*	4
Jan. 1980 - July 1980	Apr. 1980	3
July 1981 - Nov. 1982	Nov. 1981	4
July 1990 - March 1991	Nov. 1990	4
March 2001 - Nov. 2001	Jun. 2001	3
Dec. 2007 - June 2009	Apr. 2008	4
Feb. 2020 - April 2020	Apr. 2020	2

Source: Rosenberg Research

The Sahm Rule points to Canada already being in a recession, likely the reason the Bank of Canada ("BOC") continues to cut rates. Look the BOC is unlikely to cut rates if the economy is doing just fine. It is like an archer shooting their arrows when no interlopers are there. You want to save your arrows until they are needed. In other words, the BOC, would not be lowering rates, which they have now done twice in two consecutive meetings, if they thought the Canadian economy was doing fine.

According to David Rosenberg, Founder and President of Rosenberg Research. "The U.S. has seen 30 states that have now seen their unemployment rates up +0.5 pts or more from the cycle low, which historically has been a recession indicator. In July 1990, it was 25 states for the first month of that three-quarter recession. In March 2001, it was 16 states at the start of that three-quarter recession. And in December 2007, it was 35 states for the start of that six-quarter recession. We are at 30, draw your own conclusions. As for the Sahm Rule, which is a little more restrictive in its calculation, 12 states now meet that recession definition, and that compares to 7 in July 1990, 13 in March 2001, and 12 in December 2007 — where we are right here, right now. The level that presaged the Global Financial Crisis nearly two decades ago. And, yet, nobody sees a recession coming just as was the case back then." (Rosenberg Research-EMWD 7/23/2024). Furthermore, we could get employment data soon that signals a recession for the US in accordance with the Sahm rule, keep on the lookout. I would take heed to David Rosenberg's insight, after all he was one of the very few who correctly predicted the great Financial Crises.

Chances are that Canada is already in a recession and the US may be on the precipice. While I am expecting the opposite of what I expected in 2007. In 2007, I expected the economy in the U.S to be very weak, and Canada's to be less so, this time I am expecting the opposite. So for Canadians this could be a very difficult economy and I would suggest that when it comes to your investments, if you have not already, chances are that you should consider lowering your level of risk.

Thank you for taking the time to read this, please feel free to e-mail me any feedback or comments.

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