Weekly Market Commentary

August 10, 2020

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With the release of the highly anticipated jobs report on Friday, the argument over whether the economic glass is half full or half empty has become the hot topic of the day. As expected, job gains did slow in July from the vigorous increases seen in May and June. The 1.8 million increase in nonfarm payrolls compared to advances of 4.8 million and 2.7 million in those two months, respectively. But the slowdown was not as harsh as some of the more pessimistic forecasts, which pointed to a possible net loss of jobs during the month. In fact, it was a tad better than the consensus forecast of about 1.5 million.

For the half-full crowd, the headline figures portray an economy that is on a steadily healing path from the devastating coronavirus recession. Following two months of gains totaling 7.5 million, roughly 40 percent of the job losses since February have been recovered. The unemployment rate slipped to 10.2 percent in July from 11.1 in June, and moved further below the postwar record of 14.7 percent hit in April. The pace of layoffs is also ebbing, as initial claims for unemployment insurance fell 250,000 to under 1.2 million in the latest week, the lowest weekly tally in nearly five months and down substantially from the peak 6.9 million weekly applicants that filed for the first time in late March.

The improving jobs data is consistent with other broad measures that depict a rebound in activity in recent months, as most parts of the economy reopened and consumers, armed with stimulus checks and enhanced unemployment benefits, resumed purchases. What's more, the recent gains have been widely spread throughout the goods-producing and services sectors. The Institute for Supply Management reported that its indexes of manufacturing and non-manufacturing activity registered sizeable gains in June and July, with both moving comfortably above the 50 mark that puts them in expansion territory. These readings are also consistent with the notion that the economy is poised to deliver a respectable double-digit annualized growth rate in the third quarter, rebounding from the historic 32.5 percent plunge in GDP during the April-June period.

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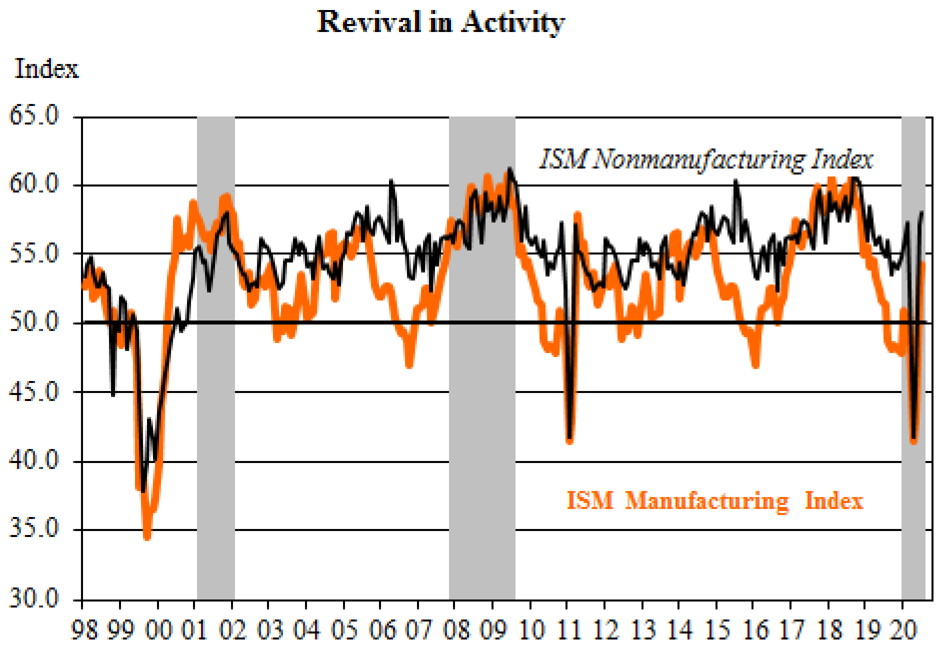
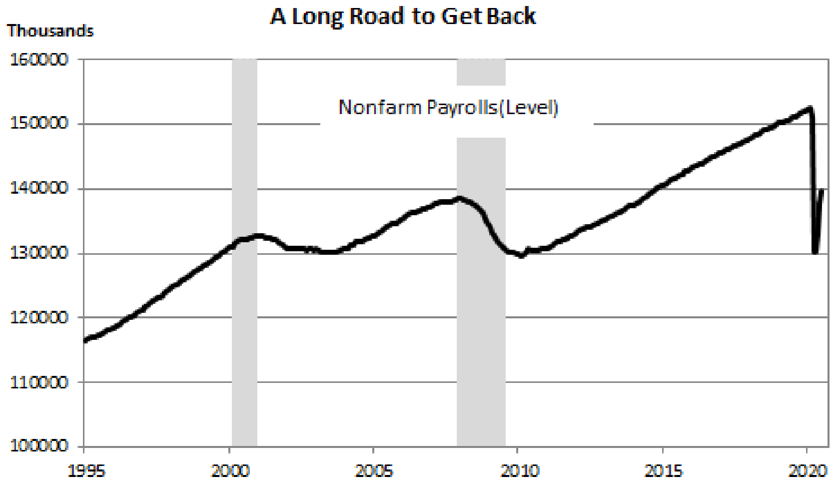


But while the case for a half-full glass has support in recent data, the spigot is not opening wider. Much of the stronger economic flow has come from the reopening of businesses in states where the pandemic was thought to be ebbing or where the economic damage wrought by lockdown restrictions was thought to outweigh the health risks from the pandemic. Those perceptions are now shifting as cases of the virus are rising again, prompting states to reimpose restrictions and forcing businesses to either shut down again or reduce operations. The jobs data, which is a snapshot of the economy in the second week of July, may not fully capture the fallout from these actions.

As it is, the jobs report for July provides ample ammunition for those that see the economic glass as only half-empty and poised to start leaking in coming months. Keep in mind that despite the three monthly gains in employment, there are still nearly 13 million fewer workers collecting paychecks than there were in February, before the pandemic struck. For another, the 1.8 million increase in nonfarm payrolls last month is biased upward by a seasonal quirk in government employment. Government jobs increased by a formidable 301,000 in July, far above the normal increase for that month, which averaged 17 million over the previous three years. Most of the gain was in education, where teachers and support staff typically leave for the summer months. But because the pandemic forced schools to close earlier than usual, education workers were removed from payrolls before the seasonal layoffs could take place. Hence, the absence of a normal payroll rundown in July morphed into a big seasonally adjusted increase during that month.



In the private sector, the 1.5 million increase in payrolls is also somewhat less than meets the eye. Most of the increase came from companies rehiring workers that had been laid off during the abrupt shutdowns. This is strongly suggested by the 1.3 million drop in temporary layoffs in July. That said, there are still 9.2 million on temporary furlough, and the longer they stay on the sidelines, the more likely the layoffs will turn into permanent job losses. As it is, recent surveys reveal that a substantially larger fraction of these temporarily laid-off workers do not expect to get their jobs back than was the case a month ago.

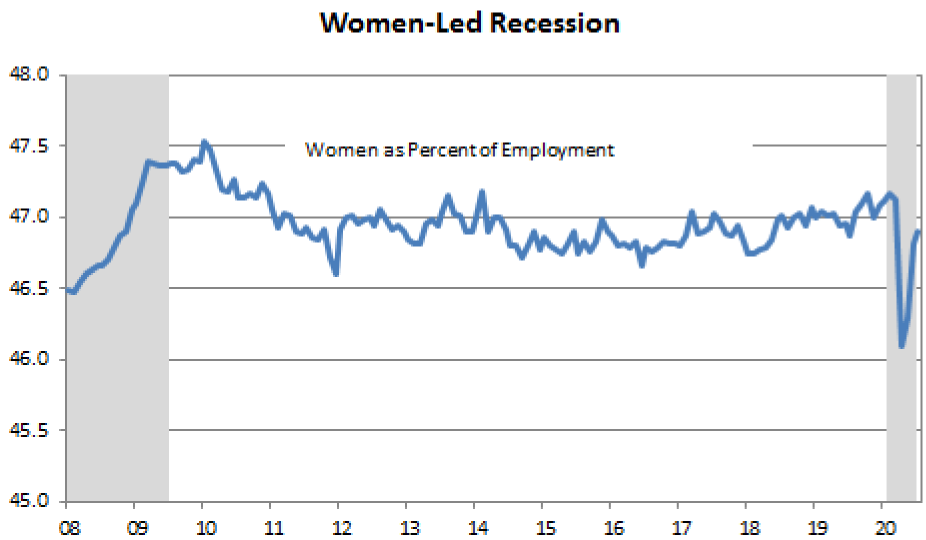
Other details of the report are less than promising. For example, nearly one-half of the increase in jobs – 804,000 – was in part-time positions, suggesting that companies were only going halfway in staffing rather than committing to full time jobs. While manufacturers did add jobs for the third consecutive month, the July increase of 26,000 was much weaker than the 357,000 and 249,000 increases in June and May. What's more, the modest increase was heavily skewed by one industry – automakers and parts – where payrolls increased by 29,000. The share of manufacturers reporting increases in employment shrank from 77 percent in June to 43.4 percent in July. The goods-producing industries face some formidable headwinds from fragile conditions overseas, the growth-dampening effects of the pandemic, supply disruptions and weak energy demand.

Just as the services-providing industries led the way down into a recession, they also paced the way forward since economy reopened in May. That's both good and bad news. The good news is that most jobs are generated by service-providers, as they accounted for 1.4 million of the job gains in July. The bad news is that many of these jobs are highly vulnerable to a setback should the re-closings of businesses due to a resurgence of the virus accelerate and spread throughout the economy in coming months. The biggest job gains in recent months are those that are most exposed to the vagaries of the health crisis. For example, more than 40 percent of the payroll increases in services last month – 592,000 – were in the leisure and hospitality sector. And most of those jobs were in bars and restaurants, which are typically the first to become victims of lockdown restrictions.

As much as anything, the fact that this was a service-led recession exacerbated the income inequality crisis in the nation, as most low-skilled and low-paid workers hold jobs in services-providing sectors. A Federal Reserve study found that workers earning less than $35,000 a year suffered an increase in unemployment from 5.6 percent in January to 26 percent in April, a much steeper percentage increase than all other income groups.

Not surprisingly, since women greatly outnumber men in services jobs, they have also suffered a disproportionate impact from the pandemic recession. Indeed, this is in marked contrast to the pattern seen in past recessions.

Ordinarily, the early stage of recessions destroys jobs typically held by men, as the male-dominated manufacturing and construction sectors are the first to be hit. That was not the case this time, as the demand for goods held up relatively well during the health crisis, as did the construction industry. Hence, women lost 1.5 million more jobs than men during the worst two months of the recession in March and April and the long upward climb in the share of employment gained by women came crashing down. To be sure, women also led the way back over the past three months, as services took the lead in propelling the economy higher. Even so, the share of women in the workforce is well below the pre-crisis level.



The resurgence of virus cases puts women in a more precarious position than men. They regained nearly half – 5.8 million – of the 13.4 jobs destroyed in March and April over the past three months. But most of those jobs are in leisure and hospitality and other service-providing industries that, as noted, are vulnerable to renewed closures due to rising cases of the virus. What's more, those jobs for teachers – also a heavily female-dominated profession—may not be waiting come the fall if schools in many parts of the nation do not reopen. That, in turn, would have cascading effects on related industries, such as day-care centers, which are also heavily staffed by women.

From the looking glass, there is nothing in the latest jobs report that lessens the urgency of Congress to muster up a new fiscal stimulus package as swiftly as possible. It would be a mistake if some legislators interpret the greater-than-expected payroll increase as a justification for a much slimmer or, worse, no fresh stimulus at all. Most high-frequency data indicate that the economy has lost momentum since the Labor Department took its survey of the job market in mid-July, even as the health crisis continues to spread and threatens to bring about more business closures. At best, the top-line growth in jobs and drop in the unemployment rate suggests that the labor market is slowly on the mend. At worst, the three-month snapback will turn out to be a fake, much like the growth resurgence in the current quarter that would quickly vanish under a double-dip recession.