Economic Analysis

July's employment report reaffirms recovery ongoing

Nathaniel Karp / Boyd Nash-Stacey

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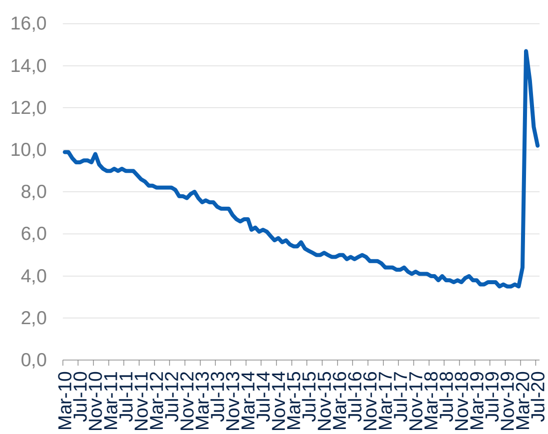
Today's labor market report once again showed that the economy is on the mend, albeit the pace of improvement seems to be slowing down. Nonfarm payrolls increased by 1.8M, after growing a revised 4.8M in June and 2.7M in May, implying a total gain of 9.3M jobs in the last three months and a total loss of 12.9M since February. Meanwhile, the unemployment rate declined to 10.2%, equivalent to a drop of 4.5pp since its peak of 14.7% in April. In addition, the employment-to-population ratio edged up by 50bp to 55.1%. Relative to February -before the pandemic-, the unemployment rate is 6.7pp higher while the employment to population ratio is 6pp lower.

Meanwhile, the labor force participation rate was little changed at 61.4% while the number of people not in the labor force posted the first increase (230K) in three months. As in previous months, a share of people employed but not at work should have been classified as unemployed on temporary layoff. Adjusting the official figures by the increase in the number of people that have left the labor force and those misclassified results in 23.1M people unemployed equivalent to a 14% unemployment rate. Similarly, the U-6 measure of underemployment that takes into account discouraged workers, all other marginally attached workers and those employed part-time for economic reasons stood at 16.5%.

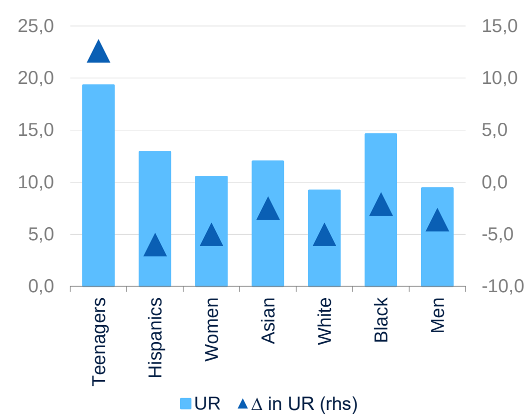
Minorities, women and younger workers continue to be disproportionately impacted by the pandemic. In fact, the adult male unemployment rate continued to trend well below adult women, underpinned by the burdens placed on caregivers during the pandemic and the service-oriented nature of the crisis. Similarly, teenage (19.3%), Hispanic (12.9%), Asian (12.0%) and Black (14.6%) unemployment rates remained elevated.

Figure 1. **UNEMPLOYMENT RATE** (%)



Source: BBVA Research, BLS & Haver Analytics

Figure 2. **UNEMPLOYMENT RATE & UR CHANGE SINCE APRIL** (%, PP)

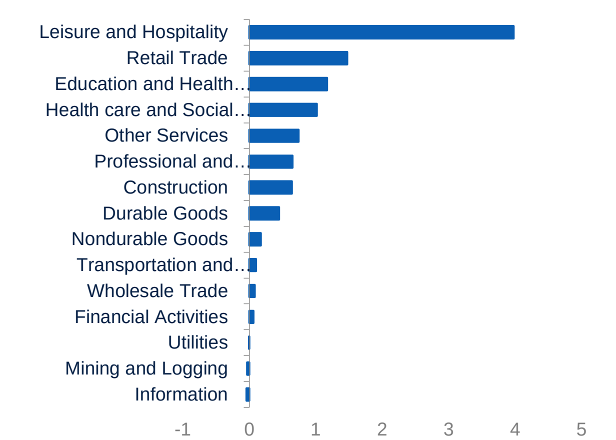


Source: BBVA Research, BLS & Haver Analytics

In terms of wages, average hourly earnings rose 0.2% MoM, but after taking out non-production supervisory roles, wages fell 0.4%MoM, highlighting the bifurcation between higher-skilled and lower-skilled workers and between industries more and less affected by Covid-19. In fact, in the retail and transportation trade sectors, wages for production and nonsupervisory decreased 3.4%MoM and 1.7%MoM, respectively whereas wages for all employees in those sectors rose 1.9% and 1.1%. That said, production and nonsupervisory wage growth in sectors that have been largely unscathed in the post-lockdown period and beneficiaries from the shift in consumer behavior such as durable goods manufacturing and information services has outpaced overall wage growth within the sector.

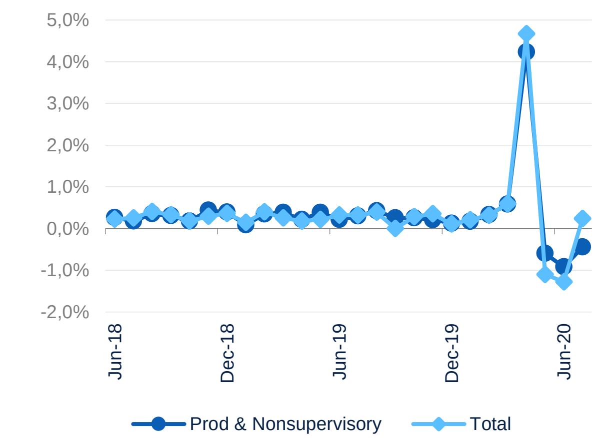
In terms of industry employment, there was near ubiquitous improvement. About one-third of the job gains occurred in food service and drinking places (502k) and there were large contributions from industries severely impacted by the pandemic such as amusements, gambling and recreation (100K), retail trade (258K), professional and business services (170K), healthcare (126K), and social assistance(38K). In addition, warehousing(38K), manufacturing(26K), financial activities (21K) and construction (20K) also showed solid contributions. However, employment in the mining sector contracted further, losing 7K jobs over the month. In total, the mining sector has lost 127K, or 18%, of jobs since a recent peak in January 2019.

Figure 3. **CUMULATIVE INDUSTRY JOB GAINS/LOSSES** (MILLION, APRIL-JULY)



Source: BBVA Research, BLS & Haver Analytics

Figure 4 **AVERAGE HOURLY EARNINGS** (MONTH-OVER-MONTH %)



Source: BBVA Research, BLS & Haver Analytics

Today's job report confirms that labor market conditions continued to recover in July, although the pace of improvement slowed down in tandem with rising Covid-19 case numbers since mid-June. However, considering that the recent slowdown in the number of new Covid-19 cases remains in place, the job's report in August could surprise on the upside, even if net job gains continue to moderate. This would imply a pickup in the pace of economic growth in the second half of 3Q20.

However, this environment creates more complexity for policymakers, as it supports arguments from both sides of the aisle. Some will use this to advocate for additional fiscal support given that labor market conditions are still far off from pre-pandemic levels while others will argue that less fiscal support is needed based on the monthly net gains across key industries as a clear sign that the economic recovery is gaining ground. Moreover, they could argue that providing overly generous benefits at this time could create disincentives to work that could ultimately slow the recovery, although empirical evidence provides little support to this argument. Taken together, today's report could imply a more modest fiscal package than what Democrats initially proposed but higher than the counteroffer from the GOP, particularly as both parties try to position themselves as the best option leading into the November election.

In terms of monetary policy, despite the ongoing improvement in labor market conditions, Fed officials will continue highlighting the need for providing additional support given that the unemployment rate remains almost two times higher than the historical average, inflation is more than 1pp below target, inflation expectations are 30bp lower than their 2010-2019 average, and downside risks to the outlook remain elevated. Thus, we continue to expect that the Fed will take additional steps as it transitions from "stabilization" to "accommodation".