Economic Analysis

Signs of sustained labor market momentum in August

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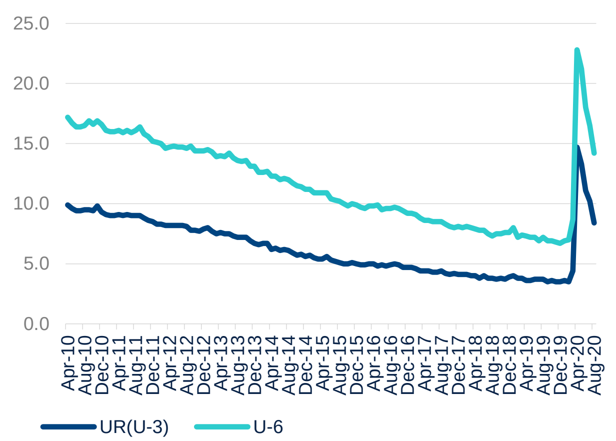
The labor market continued to improve in August with nonfarm payrolls growing by 1.4M and the unemployment rate dropping to 8.4%. In addition, the number of persons on temporary layoff declined by 3.1M while the labor force participation edged up 0.3pp to 61.7%. Meanwhile, weekly hours reversed the declines in the previous month with all major industries except education and healthcare reporting a gain. Likewise, weekly earnings posted a solid 0.4% monthly gain implying a 4.7% increase in the last 12 months.

In the last four months, nonfarm payrolls have increased by 10.6M after declining 22.M in March and April, resulting in a net drop of 11.5M since February. Out of the total net job losses since the start of the pandemic, 4.1M are in leisure and hospitality, 1.2M in health care and social assistance and 1M in administrative and support services. Meanwhile, retail trade, construction and other services have recovered between 60% and 72% of the job losses during March-April. That said, job destruction continued during the summer in both the mining, utilities and information sectors. Since the peak in 2019, the mining sector has shed nearly 20% of its workforce or 130K jobs.

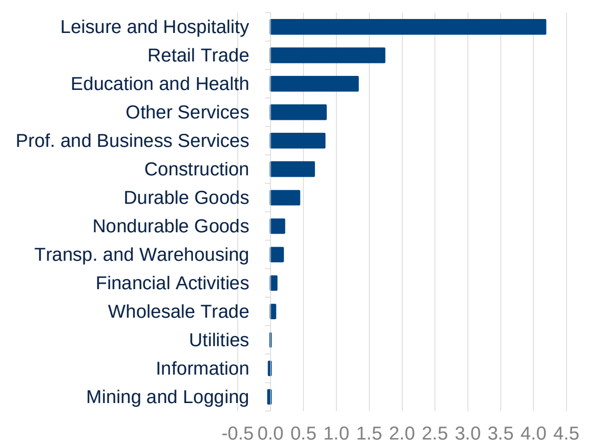
The U6 unemployment rate, which adds people marginally attached to the labor force and part-time workers for economic reasons, declined to 14.2% from 16.5% in July. The number of part-time workers for economic reasons declined by 871K in August and stands 3.3M above February's figures. However, part-time work explained roughly one-fourth of the increase from July while 45.5% of those unemployed remain on temporary layoff. These metrics suggest elevated slack in the labor market and a significant gap from "maximum employment".

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



Source: BBVA Research & BLS

Figure 2. **NONFARM PAYROLL GAINS SINCE APRIL** (M)



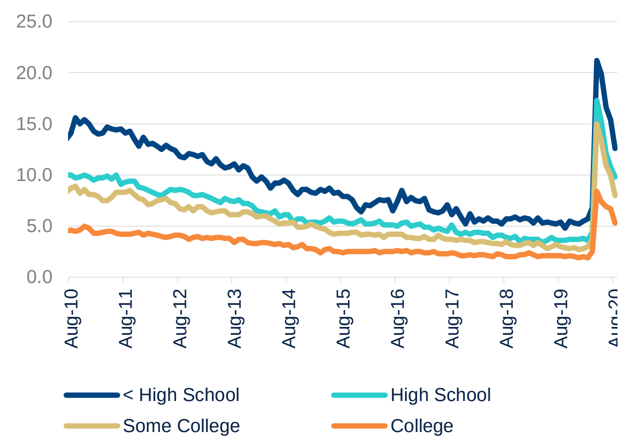
Source: BBVA Research & BLS

Although the number of people that were misclassified as "employed but not at work", rather than "unemployed on temporary layoff", was smaller than in previous months it remained significantly above previous years. Adjusting for this and the number of people that have dropped out of the labor force since February, the adjusted unemployment rate was 11.7%. The gap between the adjusted and official unemployment rates has remained steady at 1.4x in the past three months, suggesting that the pandemic continues to impact data collection.

In terms of the scope and inclusivity of labor market improvement in August, the unemployment rates for Hispanics, blacks, Asians and women continued to decline reaching 10.5%, 13.0%, 10.7% and 8.4%, respectively. That said, prime age participation for blacks and Hispanics has not recovered as quickly as their peers with participation rates 3.2pp and 2.9pp below their pre-pandemic levels, respectively. Similarly, unemployment rates remain elevated for those with less than high school diploma and as a result prime age participation among this group has fallen by 3.0pp to 55.3% since the pandemic hit.

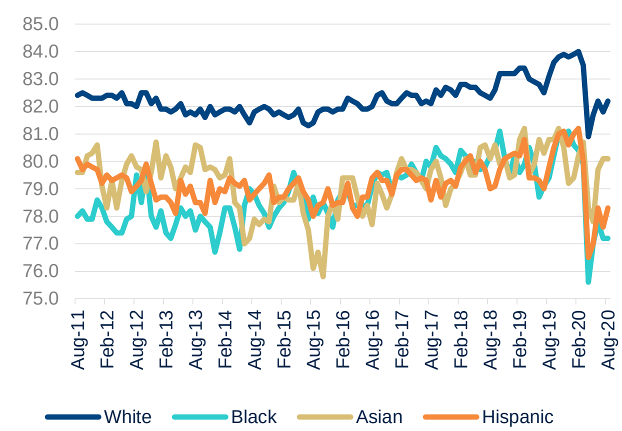
Results from a supplemental survey that was added to gauge the effects of the pandemic showed that 24.2M people were out of work due to pandemic-related business closures and 5.2M individuals reported as not in the labor force, were unable to look for work due to the pandemic. Remote work also remained elevated with 24.3% of employed persons reporting that they continued to work remotely, down slightly from 26.4% in July. Recent research found that "37 percent of jobs in the United States can be performed entirely at home, with significant variation across cities and industries", suggesting that a large share of the individuals that can work from home are still doing so.

Figure 3. **UNEMPLOYMENT RATE (%)**



Source: BBVA Research & BLS

Figure 4 **PRIME AGE PARTICIPATION (%)**



Source: BBVA Research & BLS

If the labor market momentum continues, the President's chances of winning the election could improve, narrowing the polling and betting odds ahead of the 2020 election. However, the stronger report could also limit the chances of Congress reaching a compromise on the fourth phase of fiscal stimulus, or encourage a "skinnier" deal, which could intensify economic headwinds in 2H20, particularly for private consumption.

Today's report imprints an upside bias to our short-term forecasts and suggests that labor market conditions could normalize sooner than expected. However, given the magnitude of the fallout due to the pandemic, a full recovery to "maximum employment" is still likely to take time, while wage-inflation pressures will remain contained. Based on the Federal Reserve's updated Statement on Longer-Run Goals and Monetary Policy Strategy, this implies that policy rates and the yield curve will remain low for a prolonged period.