ECONOMIC REPORT

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ADP, CLAIMS POINT TO BIG APRIL JOB GAIN; ISM INDICES FELL SLIGHTLY IN APRIL, BUT STILL VERY STRONG

SUMMARY

- The private sector added 742,000 jobs in April, according to ADP.
- Initial claims for unemployment insurance at the end of April were below 500,000, for the first time since the start of the pandemic.
- The labor market recovery has picked up. PNC expects job growth of 900,000 in April, with the unemployment rate falling to 5.7%.
- The ISM manufacturing and services indices both fell somewhat in April, but remained firmly in expansionary territory.

Private-sector employment rose by 742,000 in April, according to a report based on records from payroll-processing firm ADP. This was the biggest increase in employment in the ADP survey since September 2020. The Bureau of Labor Statistics releases the government's official jobs report for April on Friday, May 7.

Services-providing industries added 636,000 jobs in April, according to ADP, including a gain of 237,000 in leisure/hospitality services, which was very hard-hit by the pandemic. Other industries with large increases included trade/transportation/utilities (+155,000), and professional/business services (+104,000). Goods-producing industries added 106,000 jobs over the month, including increases of 55,000 in manufacturing and 41,000 in construction.

Initial claims for unemployment insurance under regular state programs fell by a large 92,000 in the week ending May 1, to 498,000. This is the first time initial claims have been below 500,000 since March 2020, as the pandemic was just coming to the U.S., although they are still well above their pre-pandemic level of around 225,000 per week. The four-week moving average of claims fell to 560,000 in the week ending May 1, down by 61,000 from the previous week.

Initial claims for unemployment insurance are falling rapidly as the labor market recovery picks up. After peaking at more than 6 million in April 2020, claims fell steadily through the spring and summer of 2020, but then stabilized at between 700,000 and 900,000 between August 2020 and February 2021. But over the past couple of months initial claims have moved consistently lower as economic activity has picked up thanks to vaccines and federal government fiscal stimulus. Initial claims are still more than double what they were before the pandemic, however (see Chart 1).

There were a total of 16.157 million people receiving some form of unemployment insurance, including pandemic-related benefits, in the week ending April 17 (not seasonally adjusted). This was down by 57,000 from the previous week. Total beneficiaries peaked at more than 32 million in June 2020, then stabilized at around 18 to 20 million in early 2021. But the number of total beneficiaries is now falling.

Taken together, the April ADP report and data on unemployment insurance claims are signaling a new stage in the labor market recovery. Hiring has accelerated in the spring after a period of weaker job growth in late 2020 and early 2021 as the pandemic reintensified, consumers grew more cautious, and states reimposed restrictions on economic activity. With more and more Americans vaccinated, states relaxing their restrictions, and consumers gradually spending their stimulus payments, the economy has picked back up. Real GDP growth was strong in the first quarter (6.4% annualized), and will be even stronger in the second quarter (around 9%).

The U.S. added 916,000 jobs in March, and will see job gains of about 925,000 in April when the BLS releases the

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monthly employment report on May 7. Unemployment still remains elevated, however. PNC expects the unemployment rate to fall to 5.7% in April, from 6.0% in March and a peak of 14.8% in April 2020, but remain well above the 3.5% rate before the pandemic.

The ISM manufacturing index fell by 4 percentage points in April from March, to 60.7%. This was still well above the 50% reading that indicates expansion in manufacturing industries. This basically puts the index back to where it was in February, and above where it was in late 2020.

All five of the major components used to calculate the index fell in April from March, but four of the five were well above 50%. Inventories fell somewhat from above 50% to below, likely due to supply-chain disruptions. The production index dropped to 62.5% from 68.1%, despite a booming economy; supply-chain disruptions are likely a factor here as well. New orders fell somewhat, but remained very strong at around 64%. The employment index was down to 55.1% from 59.6%. Supplier deliveries were at 75.0% in April from 76.6% in March; wait times are very long because of strong demand and a lack of supply for many goods, but fell somewhat over the month.

All six of the major industries covered in the survey reported strong to moderate growth in April—fabricated metals; chemicals; food, beverages and tobacco; computer and electronics; transportation equipment; and petroleum and coal. All 18 of the manufacturing industries covered reported expansion in April. The comments from respondents reflect supply chain problems, particularly for computer chips. Higher input prices were also a recurring theme.

The ISM services index fell 1 percentage point in April to 62.7%; however, it too remained firmly above the 50% benchmark for expansion (see Chart 2). All four

Chart 1: Unemployment Insurance Claims Pointing to Faster Labor Market Recovery

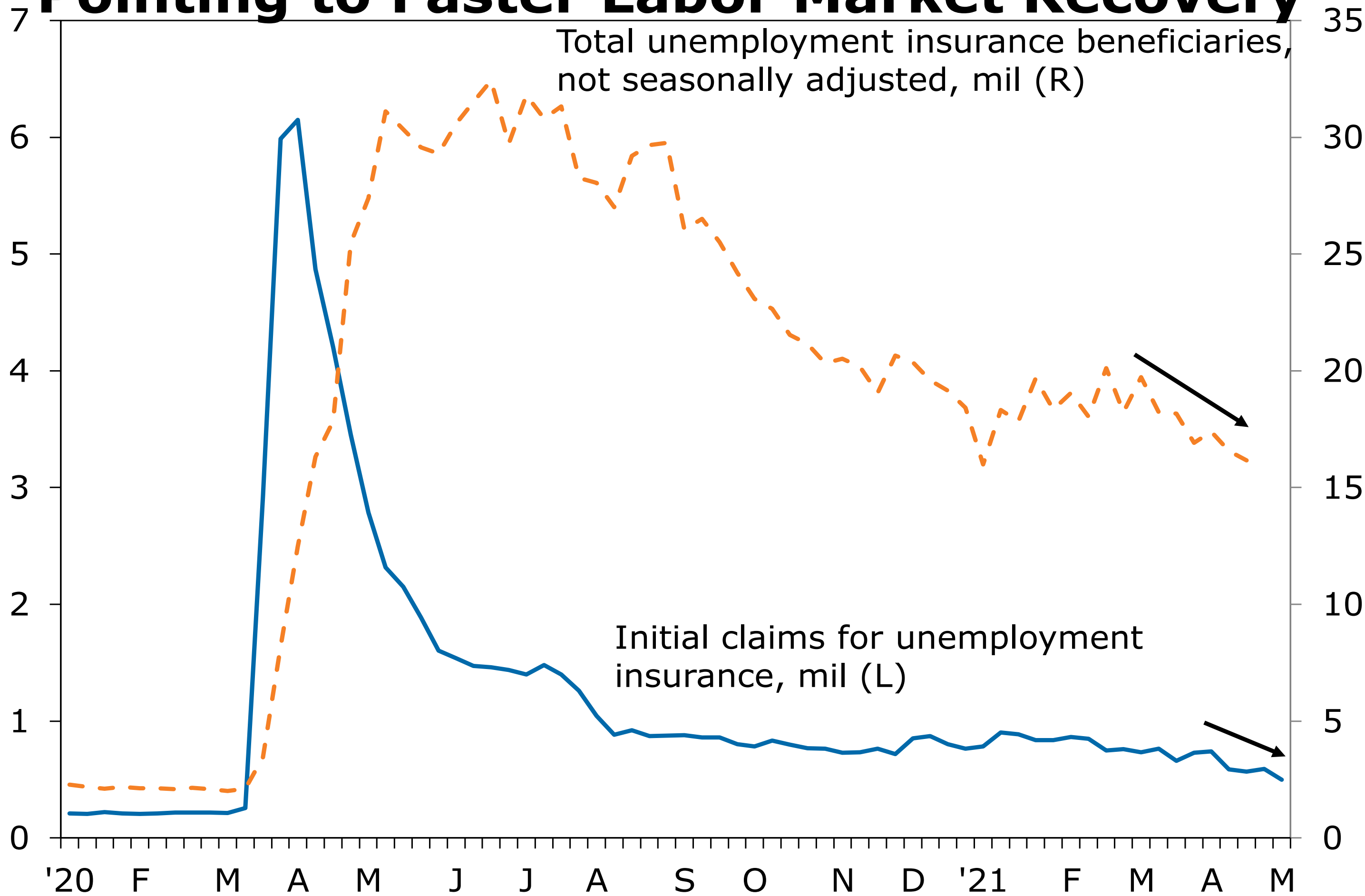

Chart source: Employment and Training Administration

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components used to calculate the overall index remained well above 50%, but there were big drops in the business activity and new orders subindices. However, the employment and supplier deliveries subindices increased in April. Other details were good, and 17 of the 18 service industries covered reported expansion in April.

Economic activity was very strong in April, according to the ISM manufacturing and services indices, although not quite as strong as in March. Similar purchasing managers indices from IHS Markit rose in April, however, so the April decline in the ISM indices could just be noise. It does appear that supply chain issues are an increasing drag, however. Still, the U.S. economy will continue to grow strongly throughout 2021 and into 2022. Increasing consumer demand because of stimulus checks, vaccines, and an improving labor market; a very strong housing market; a pickup in business investment; and a recovering global economy will all support the U.S. economy this year. Supply-chain disruptions will be a headwind in the near term, but should ease as consumer spending growth shifts to services, manufacturers increase capacity, the pandemic eases, and global trade flows pick back up. Inventory accumulation will be a big contributor to growth as supply chains normalize in the second half of this year. Price pressures are strong and may intensify in the near term, but are unlikely to result in significantly higher consumer inflation.

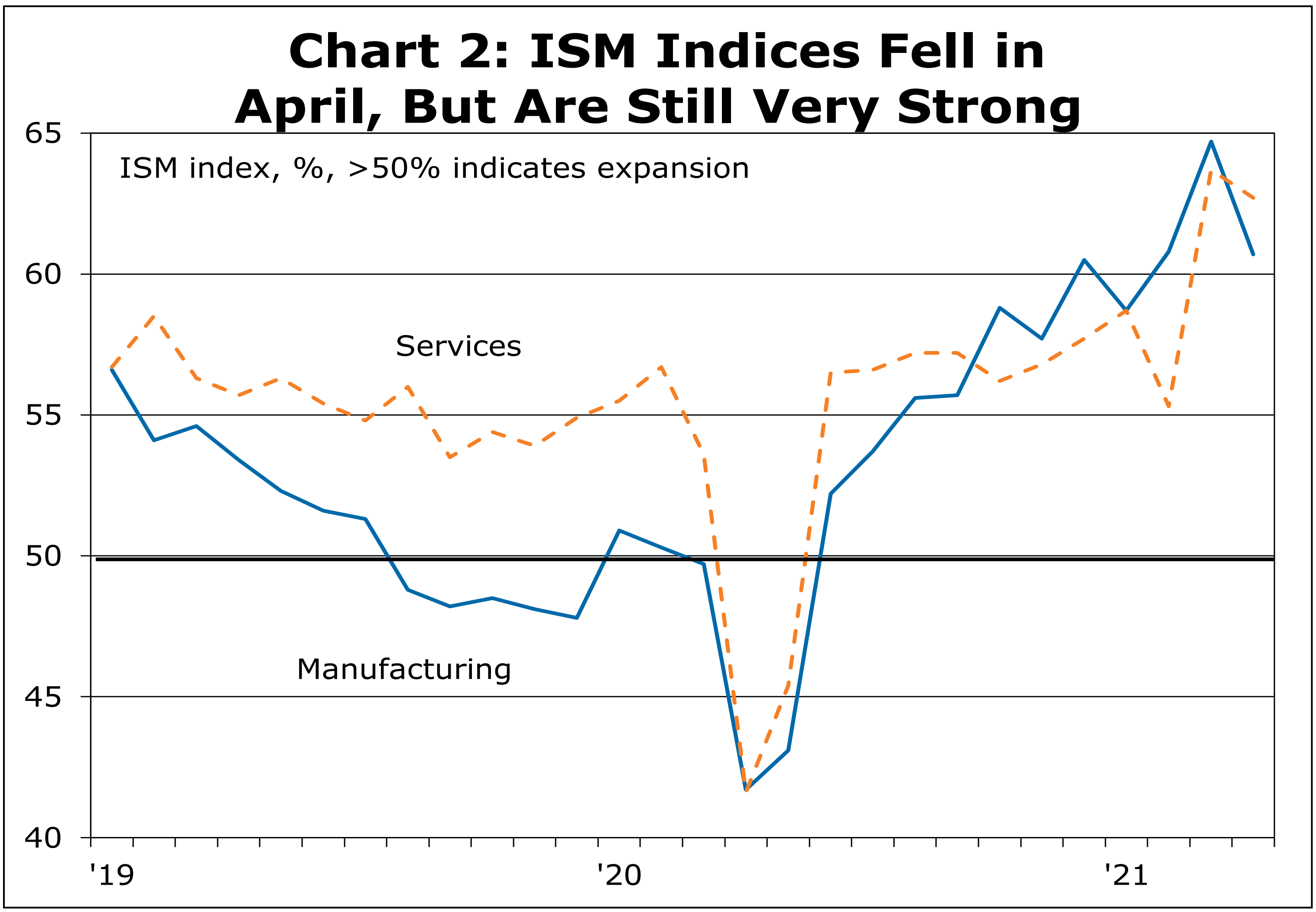

Chart source: Institute for Supply Management

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