RECOVERY DEFINITELY UNDERWAY AS US ADDS RECORD 5 MILLION JOBS IN JUNE, BUT STILL A LONG WAYS TO GO

The United States added a record 4.8 million jobs in June, confirmation that the economy has started to recover from the Viral Recession. This was the most jobs added in a single month in the history of the series, going back to 1939. The previous record was in May, when the economy added 2.70 million jobs according to the survey of employers (revised up from 2.51 million). The June job gain was much better than the consensus expectation of 2.5 million.

While the economy has added an astounding 7.5 million jobs over the past two months, it lost almost 22.2 million jobs in March and April combined (April’s job losses were revised lower to 20.8 million, by far the worst month on record). Thus the economy has recovered more than one-third of the job lost over those two months. But employment is still down by 14.7 million, or 9.7 percent, from its February peak (see Chart 1). The June job gain was much better than the consensus expectation of 2.5 million.

The unemployment rate dropped to 11.1 percent in June, from 13.3 percent in May and 14.7 percent in April, which was by far the highest rate since the Great Depression. The rapid decline in the unemployment rate over the past two months has been unprecedented, but the rate is still far above its 3.5 percent level in early 2020. It is also above the post-World War II high of 10.8 percent in 1982, and the 10.0 percent peak during the Great Recession a decade ago.

According to the Bureau of Labor Statistics many workers reported themselves in June as employed but not at work, when they should have been classified as unemployed on temporary layoff; thus the 11.1 percent rate likely understated the “true” unemployment rate by about a percentage point. But the same problem was there in April and May, and to a greater extent, and so the decline in the reported unemployment rate over the past few months is truly indicative of an improvement in the job market.

Employment in a survey of households (different from the survey of employers) rose by an even larger 4.9 million in June, while the labor force rose by 1.7 million. The labor force participation rate (share of those 16 or older either working or looking for work) rose to 61.5 percent in June from 60.8 percent in May and 60.1 percent in April. But it is still down dramatically from 63.4 percent earlier in the year.

The share of those 16 and older who are employed rose to 54.6 percent in June, from 52.8 percent in May and 51.3 percent in April. But that is still down from more than 61 percent at the beginning of the year, and these have been the three lowest months for the employment-to-population ratio since the series began in 1948.

The U-6 rate, which includes underemployed workers as well as those too discouraged to look for a job, fell to 18.0 percent in June, down from 22.8 percent in April and 21.2 percent in May. The U-6 rate was 7.0 percent in February.
Job gains were broad-based across industries in June. The private sector added 4.767 million jobs over the month as businesses continued to reopen, easily setting a record. Goods-producing industries added 504,000 jobs, including 158,000 in construction and 356,000 in manufacturing. Private services-providing industries added 4.26 million jobs. The biggest June gains were in the two industries hit hardest by the initial closures: leisure/hospitality services employment (primarily restaurants and hotels) rose by 2.09 million, while retail trade employment rose by 740,000. There were job gains of almost 600,000 in education/health services, and of more than 300,000 in other services and professional/business services. After big government job losses of 533,000 in May the public sector eked out an increase of 33,000 in June. Almost all of the government job losses in May came from state and local governments, with the June gains from local government.

The coronavirus-related layoffs, and then job gains, have skewed wage data recently (see Chart 2). Job losses, and subsequent job gains, have been concentrated in low-wage industries such as restaurants and retail, causing average hourly earnings to jump 4.7 percent in April as those workers were laid off (the biggest increase on record), and then fall 1.0 percent in May and 1.2 percent in June as they were rehired (the two biggest declines on record). On a year-ago basis average hourly earnings were up 5.0 percent in June.

Similarly, the average workweek has bounced around over the past few months. The average workweek fell from 34.4 hours in February to 34.1 hours in March, then climbed to 34.2 hours in April and 34.7 hours in May, before falling to 34.5 hours in June.

With a huge increase in employment, a decline in average hourly earnings, and a shorter average workweek, aggregate pay rose 2.5 percent in June from May, but was down 4.3 percent from a year earlier.

Unit auto sales rose 4.6 percent in June from May, to 12.7 million at a seasonally-adjusted annualized date, according to AutoData. While June sales were up 42 percent from 9.0 million in April, they were down 29 percent from 18.0 million in February. This is consistent with other measures of economic activity, including the June jobs report, which

Chart 1: Is Labor Market Glass Half-Empty or Half-Full?
show higher levels compared to the apparent nadir in April, but much lower levels compared to early 2020, before the coronavirus hit the US and states started to restrict economic activity.

There is definitely a glass half-empty/glass half-full feel to the June jobs report. The labor market is indeed coming back, with two extremely strong months of job growth in May and June. But given the depth of the contraction in March and April, the economy still faces a long road back.

What matters most is the pace of near-term job growth. If monthly job growth continues to run in the millions and the unemployment rate falls rapidly, the labor market will quickly heal from the Viral Recession. But if job growth slows it will be a long, drawn-out recovery. A number of factors will determine the pace of recovery in the labor market. Most important is the path of the virus, and here the recent uptick in cases in many parts of the country is discouraging. If states reimpose restrictions on economic activity to combat the pandemic, or rising case counts make consumers reluctant to venture out even absent state restrictions, the labor market recovery would slow, perhaps dramatically. Also important is fiscal stimulus. Right now one-time stimulus payments and extra unemployment insurance benefits are supporting consumer spending. But the bonus unemployment insurance payments are set to expire at the end of July. Given the enormous loss of labor market income the Viral Recession has caused, if transfer payments drop off consumers could cut back on their spending, slowing the recovery.

Chart 2: Industry Mix of Job Losses and Gains Is Distorting Wage and Hour Data

Chart source: Bureau of Labor Statistics

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