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ECONOMIC REPORT

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SOLID AUGUST JOB GAIN OF 1.4 MILLION, UNEMPLOYMENT RATE DOWN TO 8.4%; JOB GROWTH SET TO SLOW

SUMMARY

- The U.S. added 1.4 million jobs in August, boosted by hiring for the Census. Since April the economy has added back nearly one-half of the jobs lost during the Viral Recession.
- The unemployment rate fell to 8.4 percent in August, from 10.2 percent in July and a peak of 14.7 percent in April. Unemployment is still far above its pre-pandemic level.
- Job growth will slow in the near term, and it will take years for employment to return to its pre-pandemic level.

The August employment report was solid, with the U.S. adding 1.371 million jobs during the month, according to a survey of employers. The gain was close to the consensus expectation for job growth of 1.4 million. The economy has added back almost one-half of the jobs lost in the spring due to the coronavirus pandemic. The unemployment rate dropped sharply in August, falling to 8.4 percent, from 10.2 percent in July. While the past four months have been the strongest ever for the labor market, employment growth will slow through the rest of 2020 and throughout 2021 as the economy continues to recover from the Viral Recession.

After employment fell by more than 22 million, or 15 percent, between February and April as the coronavirus pandemic hit the United States, the economy has added back 10.6 million jobs since May, according to the employer survey. Still, employment in the U.S. is down by 11.5 million, or almost 8 percent, from its February peak. The private sector added 1.027 million jobs in August, while government added 344,000 jobs over the month. Much of the government boost came from hiring for the federal Census. There were small downward revisions to job growth in June and July. Job gains in each of the past four months have been the largest on record. But after adding 2.7 million jobs in May and 4.7 million jobs in June, job growth slowed in July (1.7 million) and then again in August (see Chart 1).

The unemployment rate (based on a survey of households, different from the employer survey) fell to 8.4 percent in August, from 10.2 percent in July and a peak of 14.7 percent in April. However, before the pandemic hit, the unemployment rate was 3.5 percent in February, at a 50-year low. The number of people reporting themselves as employed in the household survey rose by an enormous 3.756 million in August, while the number of people in the labor force (either working or looking for work) rose by almost 1 million. The U-6 rate, which measures unemployed, underemployed, and discouraged workers, fell to 14.2 percent in August from 16.5 percent in July and almost 23 percent in April. However, it was below 9 percent earlier in the year.

The labor force participation rate, which is the share of adults (16 and older) either working or looking for work, was 61.7 percent in August, up from 61.4 percent in July and a cyclical low of 60.2 percent in April, but down from 62.7 percent in February. The improving job market is leading more people to look for work. Similarly, the employment-to-population ratio, which is the share of adults (16 and older) with a job, jumped to 56.5 percent in August from 55.1 percent in July, and is up from an all-time low of 51.3 percent in April. But it is still down significantly from 60.0 percent in February (see Chart 2).

Job gains in August were broad-based. Goods-producing industries added 43,000 jobs over the month, including gains of 29,000 in manufacturing and 16,000 in construction. Private services-providing industries added almost 1 million jobs, with increases of 249,000 in retailing, 197,000 in professional/business services, 174,000 in leisure/hospitality services, 147,000 in education/health services, and 78,000 in transportation and warehousing. However, employment levels in all major private industries are still down significantly from before the crisis.

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Government employment increased by 344,000 in August, including a gain of 251,000 for the federal government as hiring picked up for the pandemic-delayed decennial Census. State and local government employment rose by 93,000.

Average hourly earnings rose 0.4 percent in August from July. The pattern of job losses and gains in recent months has distorted wages. Job losses in March and April were concentrated in low-paying industries like restaurants and retail; as these workers lost their jobs, average hourly earnings jumped. Then average hourly earnings fell in May and June as these businesses reopened and started rehiring their workers. With job losses concentrated in lower-paying industries, average hourly earnings in August were up 4.7 percent from one year earlier.

The average workweek increased to 34.6 hours in August from 34.5 hours in July. Because many of the job losses in the downturn were among part-time workers, the average workweek is up from 34.4 hours in February.

With many more workers, an increase in the average wage, and a longer workweek, aggregate pay rose 1.5 percent in August from July. However, this gain will be offset somewhat by the loss of household income from the expiration of bonus unemployment insurance payments at the end of July.

The August jobs report was very good, with job gains of 1.4 million over the month. The U.S. economy has added back a little less than one-half of the jobs it lost between February and April, and the unemployment rate has fallen at an unprecedented pace, although it is still more than double its pre-Viral Recession level. The federal government provided a boost to job growth in August with hiring for the Census, and job growth will be weaker over the next couple of months as those temporary employees wrap up their work. With revenues down substantially from the pandemic, state and local governments are set to make big job cuts in the near term as they are forced to meet their balanced budget requirements; federal aid could help offset this, but is stalled in Congress for now.

Chart 1: Record Job Gains in Recent Months, With Boost From Census, But Slowing Since June

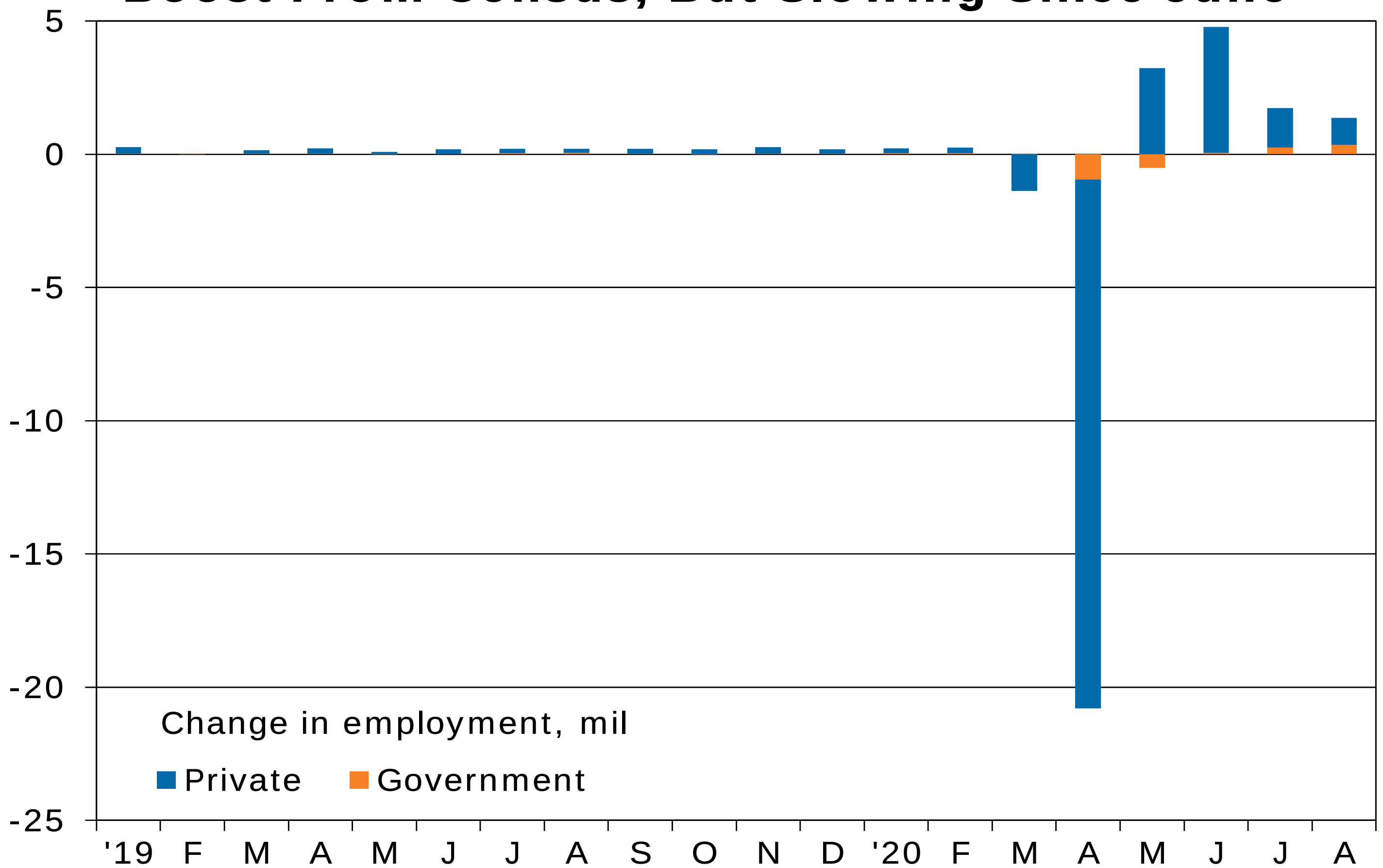

Chart source: Bureau of Labor Statistics

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A solid economic recovery in the United States is underway, but the path forward will be rockier. Hiring has been extremely strong as businesses that were temporarily closed have reopened. But job growth will slow over the rest of 2020 and throughout 2021 as permanent business closures increase and some industries are forced to drastically restructure in response to the pandemic. PNC does not expect employment to return to its pre-recession peak until 2022. The unemployment rate will continue to fall, but more slowly; August's enormous job gain of almost 4 million in the household survey will be not repeated.

Risks to the labor market recovery are to the downside, including a potential inability of Congress to provide more fiscal stimulus, the continued spread of the coronavirus, possible widespread business failures and layoffs, and uncertainty surrounding the presidential election.

Although the jobs report was solid and matched the consensus, equity prices were down on the day, led lower by tech stocks. But expectations for continued economic recovery pushed up long-term interest rates, with the yield on the 10-year Treasury note up 8 basis points to 0.72 percent. The price of a barrel of West Texas Intermediate crude oil fell more than 4 percent to below $40, while the U.S. dollar was flat against a basket of currencies.

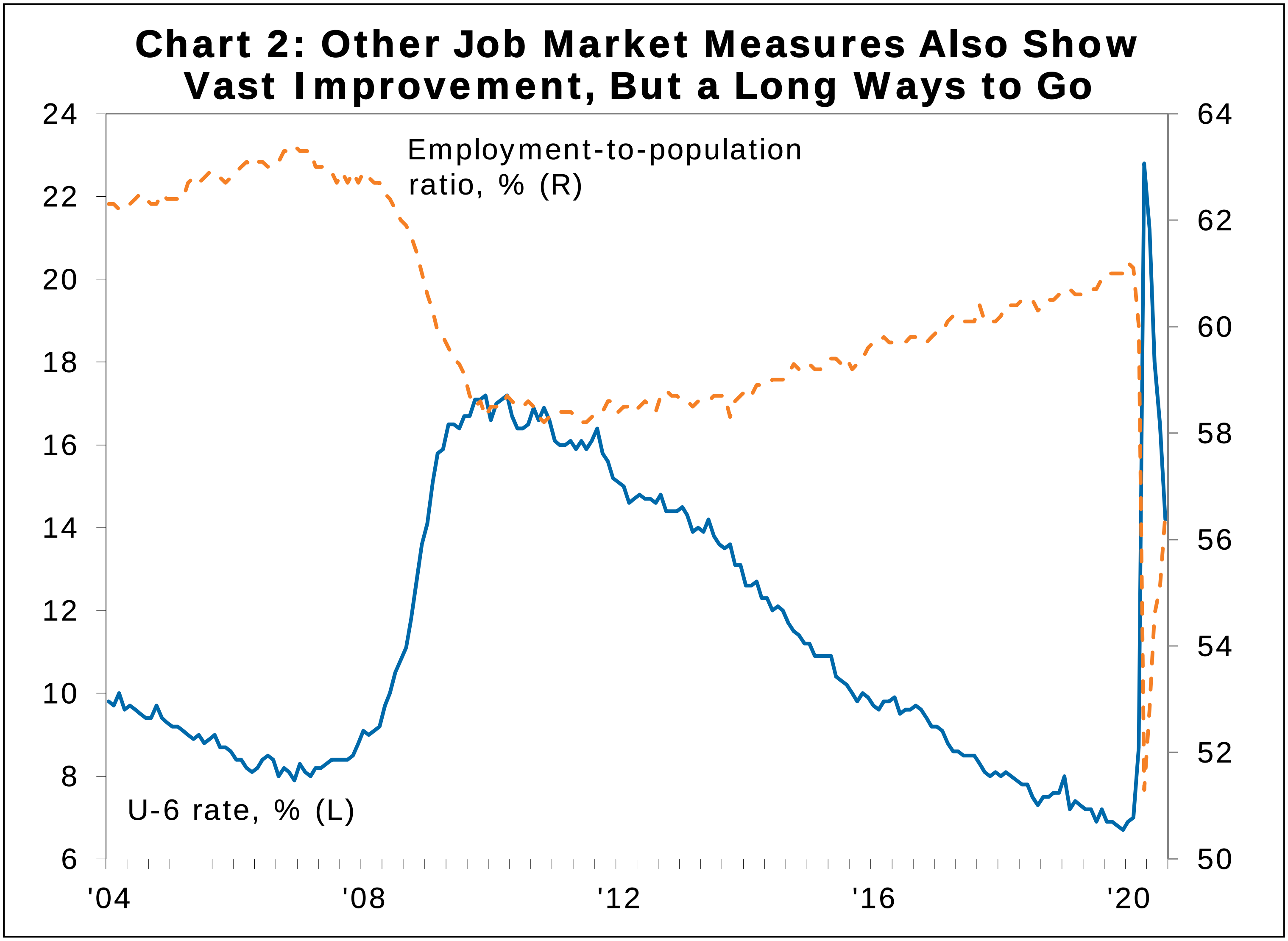

Chart source: Bureau of Labor Statistics

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