October 2, 2020

ECONOMIC REPORT

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WEAKER-THAN-EXPECTED SEPTEMBER JOB GROWTH; UNEMPLOYMENT RATE DOWN, BUT FOR WRONG REASON

SUMMARY

- The U.S. economy added 661,000 jobs in September, below expectations. Job growth has slowed for three straight months.
- The unemployment rate fell to 7.9 percent in September, in large part because of a contraction in the labor force. The unemployment rate continues to fall, but the pace of decline is slowing.
- The labor market continues to recover from the Viral Recession, but the pace of improvement is slowing, and PNC expects it to slow further through the rest of this year and next.
- Risks to the labor market outlook remain to the downside.
- The financial market response was dominated by the news that President Trump has contracted the coronavirus.

In the last employment report before the November election, the U.S. economy added 661,000 jobs in September, according to a survey of employers. This was below the consensus expectation for a gain of 850,000. Job growth remains solid as the economy continues to recover from the Viral Recession, but the pace of job gains has steadily slowed since June (see Chart 1). Job growth in August was revised higher by about 100,000 to 1.489 million, while July job growth was revised slightly lower to 1.761 million. After losing 22.2 million jobs in March and April, the U.S. has added back 11.4 million, or just over one-half of those lost.

The unemployment rate fell to 7.9 percent in September, from 8.4 percent in August and a peak of 14.7 percent in April. But the rate of decline in the unemployment rate has also been slowing, and it remains far above the 3.5 percent rate at the beginning of this year. Also, the drop in the unemployment rate in September came for the wrong reason, largely from an exodus of discouraged workers from the job market. Almost 700,000 people dropped out of the labor force in September. The labor force participation rate, the share of adults either working or looking for work, fell to 61.4 percent in September from 61.7 percent in August, a worrisome sign. In particular, the labor force participation rate for women fell sharply from 56.1 percent in August to 55.6 percent in September, likely due to childcare difficulties; the corresponding rate for men fell from 67.7 percent to 67.6 percent. A permanent reduction in women's labor force participation as a result of the pandemic would be a significant drag on long-run economic growth.

In a survey of individuals, different from the survey of employers, employment rose by 275,000 in September. Another discouraging data point from this survey is that those reporting that they are permanently unemployed (i.e., they are not expecting to be rehired at their previous job) has risen steadily, from 1.28 million in February to 3.76 million in September (see Chart 2). Conversely, the number of people reporting they are temporarily unemployed has fallen from 18.06 million in April to 4.64 million in September. This indicates that more people are experiencing permanent unemployment, which will be more difficult to overcome.

The U-6 rate, which also includes the underemployed and discouraged workers, fell to 12.8 percent in September, from 14.2 percent in August and 22.8 percent in April.

The private sector added 877,000 jobs in September, with all major private industries adding jobs over the month. Goods-producing industries added 93,000 jobs in September, with increases of 66,000 in manufacturing and 26,000 in construction. Private services-providing industries added 784,000 jobs, including increases of 318,000 in leisure/hospitality

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services and 142,000 in retail trade, two of the industries hit hardest by shutdowns earlier this year. But after big gains over the past few months, job growth in two major industries, education/health services and business/professional services, each slipped below 100,000 in September.

While private-sector employment growth was solid in September, government employment fell by 221,000 over the month. The drop came primarily from education in both state and local governments as schools, colleges, and universities needed fewer staff with much instruction moving online; private and public education employment combined fell by 349,000 in September. Federal government employment is set to fall through the end of the year as the delayed Census winds down and temporary Census workers are laid off. Big government job cuts could be a significant drag on the labor market in late 2020 and all of 2021 if reduced sales and income tax revenues lead to state and local government budget cuts.

Average hourly earnings rose a modest 0.1 percent in September from August. The average wage soared in March and April as initial job losses were concentrated in low-paying industries like retail, restaurants, and hotels, and then fell in May and June as those workers were rehired. Since then the average wage has increased slightly, but it remains above its pre-pandemic level as job losses are still concentrated in lower-wage industries.

The average workweek rose from 36.6 hours to 36.7 hours. With more jobs, slightly higher wages, and a slightly longer workweek, aggregate earnings rose 1.1 percent over the month. But with a reduction in unemployment insurance payments, after-tax household income likely declined for the fourth time in five months in September. Falling household incomes could become a constraint on consumer spending growth going forward.

The labor market is recovering from the Viral Recession, but the pace of improvement is weakening. Temporary business closures earlier in the year were reversed and many businesses rehired their workers, leading to very strong jobs gains in the late spring and early summer. But this low-hanging fruit has been picked, and the job market recovery will slow further going forward. Some businesses remain closed, and others have again shut down; the longer they remain closed, the more difficult it will be for

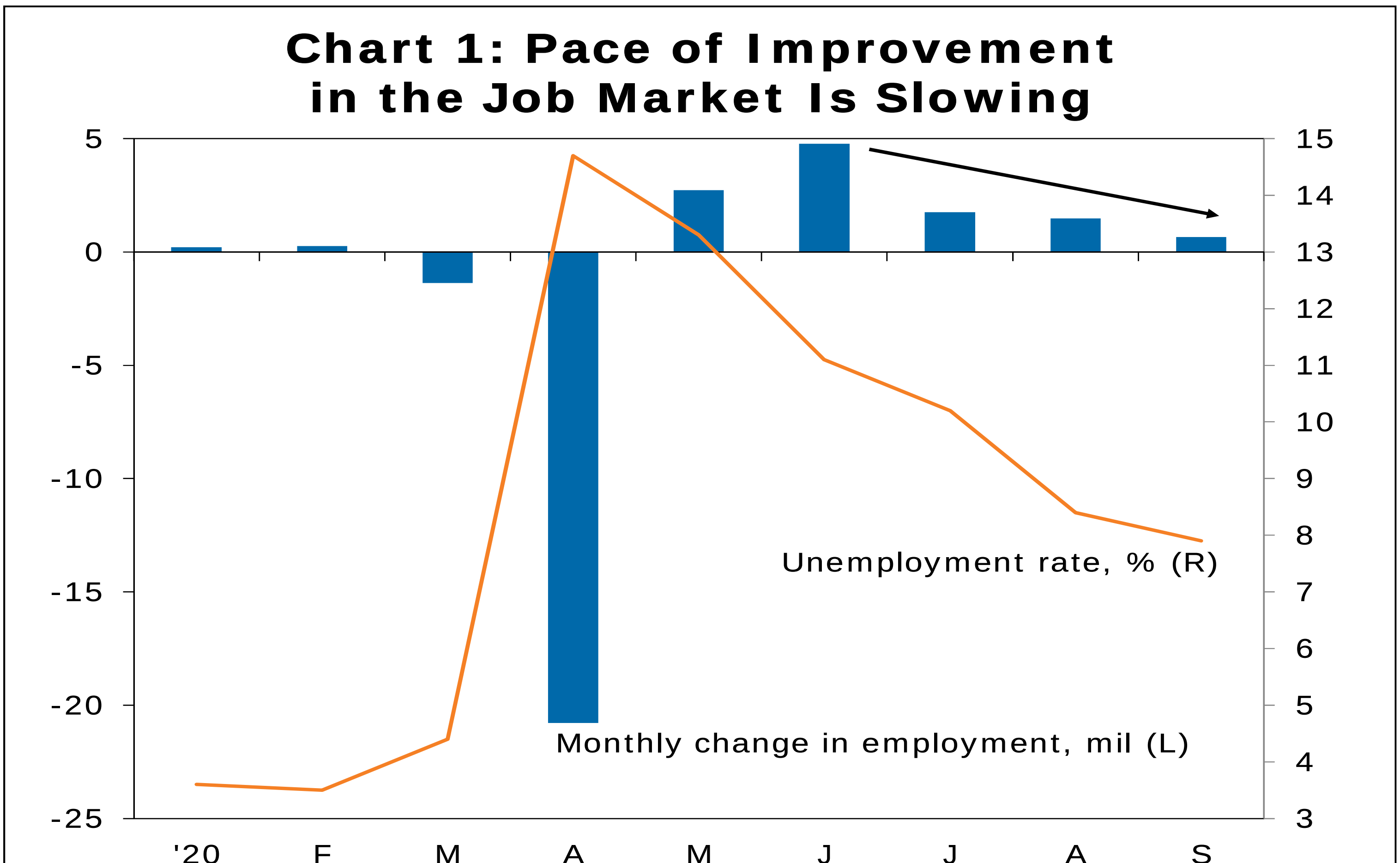

Chart source: Bureau of Labor Statistics

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them to reopen. Other businesses are just hanging on; one-third of businesses polled in PNC's recent semiannual survey of small and mid-size businesses say that they would close in a year or less if current conditions continue. And other firms are laying off workers because of weak demand. Disney announced earlier this week that it is cutting 28,000 jobs, and airlines are starting to announce massive layoffs as a ban on job cuts as a condition of federal aid expired at the end of September.

PNC expects still-solid job growth in the near term, but the pace of gains will slow further through the rest of this year and in 2021. The unemployment rate will continue to fall, but at a slower pace, ending this year at around 7 percent. Even if job growth continues at the September pace, it would still take another 17 months for employment to return to its February level.

Risks to the job market recovery are to the downside. The news that President Trump has the coronavirus has added further uncertainty to an already chaotic political environment. A surge in coronavirus cases in late 2020 could lead to further business closures. An inability to pass additional fiscal stimulus—including aid to households, small and mid-size businesses, and state and local governments—is another downside risk.

The S&P 500 closed the day down 1.0 percent, although the news about President Trump was a bigger driver of the decline than the jobs report. Short-term interest rates were flat on the day, while long-term rates were a touch higher. The price of a barrel of West Texas Intermediate crude oil was down around 4 percent, to about $37.00. The U.S. dollar was slightly stronger against a basket of currencies.

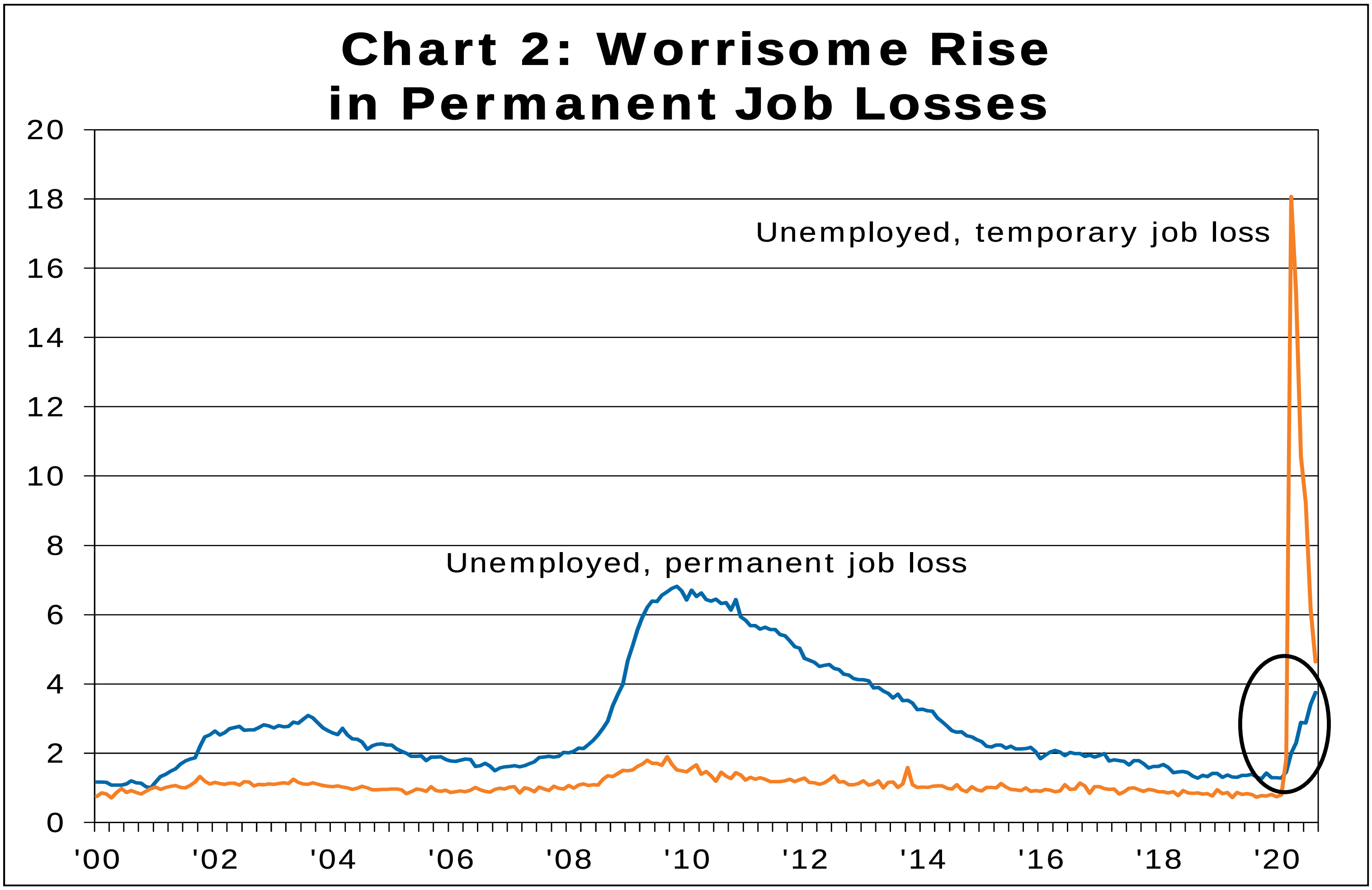

Chart source: Bureau of Labor Statistics

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