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ECONOMIC REPORT

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SLIGHTLY SOFTER JOB GROWTH IN OCTOBER, BUT BIG DROP IN UNEMPLOYMENT RATE

SUMMARY

- The U.S. economy added 638,000 jobs in October, based on a survey of employers. Job growth is solid, but slowing.
- The unemployment rate fell a full percentage point in October, to 6.9 percent, but remains far above its pre-pandemic level.
- The labor force participation rate rose in October, a positive for the job market and the economy.
- Job growth will slow further through the rest of this year and in 2021, and it will take years for the labor market to fully heal. Risk to the labor market outlook are skewed to the downside.

The U.S. economy added 638,000 jobs in October, according to a survey of employers. This was slightly softer than the September increase in employment of 672,000 (revised higher from 661,000), and close to the consensus expectation of 600,000. Employment in the U.S. fell by 22.16 million combined in March and April as the pandemic took hold and states imposed restrictions on economic activity. Since May the economy has added back 12.07 million jobs, or about 54 percent of the jobs lost in the spring. However, after gains of almost 3 million jobs in May and almost 5 million jobs in June, job growth has slowed for the past four months. Employment has only returned to its late 2015 level. And at October's pace, it would take about 16 months for employment to return to its pre-pandemic level.

Private-sector employment increased by 906,000 in October, up slightly from gains of 892,000 in September. Government employment fell by 268,000 over the month, including a decline in federal government employment of 138,000, tied to the end of the decennial Census.

The unemployment rate fell a whole percentage point in October, to 6.9 percent, from 7.9 percent in September. Employment as measured in a survey of households jumped by 2.243 million; employment in the household survey is more volatile than in the employer survey. At the same time the labor force (the number of people either working or looking for work) increased by 724,000 in October, after a decline of almost 700,000 in September. Therefore, the improvement in the unemployment rate in October reflected a real improvement in the job market, and was not due to people dropping out of the workforce because of difficulty in finding a job or childcare concerns. The unemployment rate was 3.5 percent in February, and then soared to 14.7 percent in April as the pandemic hit, the highest unemployment rate since the Great Depression in the 1930s. But the unemployment rate has declined steadily since May, although it remains well above its pre-pandemic level.

The labor force participation rate, the share of adults working or looking for work, rose to 61.7 percent from 61.4 percent in September, returning to its August rate. But the October labor force participation rate was still far below the February rate of 63.4 percent. The labor force participation rate for women, after dropping from 56.1 percent in August to 55.6 percent in September, rose to 55.9 percent in October. There was concern that childcare difficulties in the wake of the pandemic have led women to drop out of the labor force, which could be a significant drag on economic growth; the October improvement is encouraging, although the female rate is still down from 57.8 percent in February.

The U-6 rate, a broader measure which also includes underemployed and discouraged workers, fell to 12.1 percent in October, from 12.8 percent in September and 22.8 percent in April.

Job growth was solid across industries in October. Goods-producing industries added 123,000 jobs over the month, up



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from 97,000 jobs in September. The October increase included a gain of 84,000 jobs in construction; homebuilding has soared thanks in large part to record-low mortgage rates. Manufacturing employment increased by 38,000 in October, and the average workweek in manufacturing rose by 0.3 hours. Private services-providing industries added 783,000 jobs over the month, slightly below the September increase (795,000). There were increases of better than 200,000 in leisure/hospitality services and business/professional services, including a very strong gain of 109,000 in temporary services, which is often a precursor to permanent hiring. Retail trade employment rose by more than 100,000 over the month. Leisure/hospitality services (primarily restaurants and hotels) experienced the largest proportionate job losses in March and April, with a decline of almost 50 percent, and has seen a very strong rebound since then. But leisure/hospitality employment is still more than 20 percent below its February level, compared to 5 percent for all other industries.

The average hourly wage rose 0.1 percent over the month to \$29.50, and was up 4.5 percent from one year earlier. The loss of jobs in lower-paying industries like leisure/

hospitality and retailing have skewed average hourly earnings. Average wage growth was around 3 percent in early 2020, and then jumped to 8 percent in April; it has since fallen steadily. The average workweek, across all private industries, was unchanged in October at 34.8 hours.

With a large increase in employment, a modest increase in wages, and no change in the average workweek, labor market income rose by 0.9 percent in October from September. With modest inflation over the month of 0.1 to 0.2 percent over the month, there was likely a solid increase in real (inflation-adjusted) household income, even with a reduction in unemployment insurance benefits. These income gains are supporting growth in consumer spending.

The October jobs report was solid. Job growth was good, although slightly softer than in September. The big drop in the unemployment rate probably overstates the improvement in the labor market over the month, but there is no question that the unemployment rate is falling as more laid-off workers return to employment.

Employment is increasing in both the employer and

Chart 1: Stronger Jobs Rebound in Household Survey

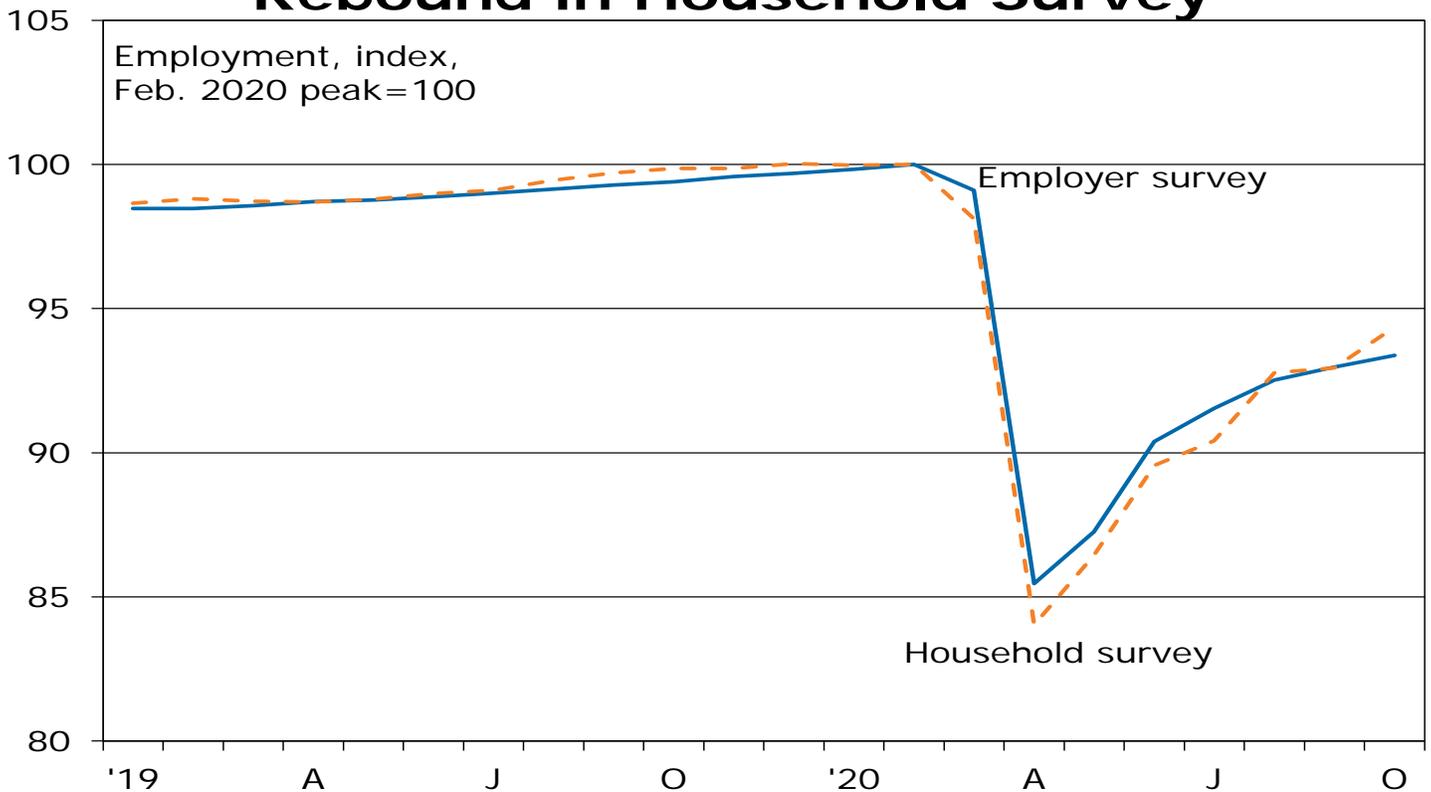


Chart source: Bureau of Labor Statistics

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household surveys, although job growth during the recovery has been stronger in the household survey (see Chart 1). The household survey has a smaller sample size and is usually more volatile than the employer survey. But given the unprecedented stress in the labor market, and the huge shifts in industry employment, it could be that the household survey is doing a better job of picking up the improvement.

That being said, the pace of improvement in the job market will be much slower in 2021 than in 2020. Job growth in the employer survey has slowed for four straight months, and is far slower than it was in the early stages of the recovery. The number of the permanently unemployed was essentially flat in October at around 3.7 million, while the number of those on temporary layoff fell from 4.6 million to 3.2 million; it is much more difficult for the permanently unemployed to move back into employment (see Chart 2). In addition, companies are announcing big layoffs as they

adjust to the changing post-pandemic economy.

Risks to the job market recovery remain weighted to the downside. The number of coronavirus cases has hit a record, and additional fiscal stimulus remains stuck in Congress. The uncertainty surrounding the presidential election could further delay another stimulus bill. And without federal aid, state and local government could be forced to make huge job cuts in the months ahead to balance their budgets.

Market reaction to the jobs report was muted, with ongoing results from the presidential election also influencing markets. The S&P 500 was flat on the day, with the yield on the 10-year Treasury note up 5 basis points to 0.82 percent. The price of a barrel of West Texas Intermediate crude oil was up by 1 percent to \$37.50, while the dollar weakened slightly against a basket of currencies.

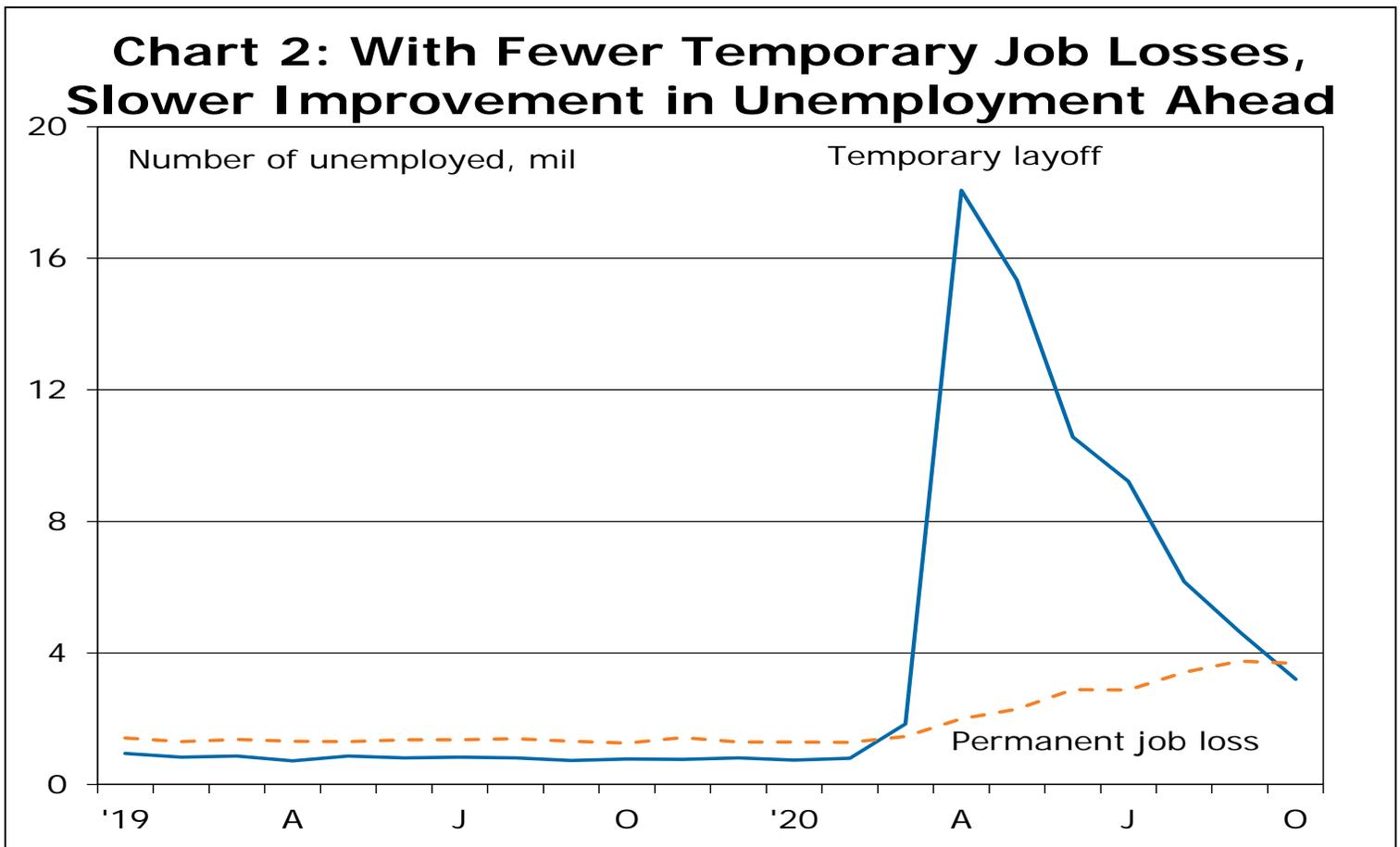


Chart source: Bureau of Labor Statistics

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