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ECONOMIC REPORT

Gus Faucher Chief Economist | **Stuart Hoffman** Senior Economic Advisor | **William Adams** Senior Economist | **Kurt Rankin** Economist | **Abbey Omodunbi** Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

FOMC HOLDS STEADY; ADP POINTS TO SLOWER JOB GROWTH IN OCTOBER

SUMMARY

- The FOMC kept monetary policy unchanged at its early November meeting. Monetary policy remains extremely positive for growth.
- According to the ADP National Employment Report, private-sector job growth slowed in October, to 365,000.
- Despite the ADP number, PNC expects job growth of 900,000 in October, with the unemployment rate falling to 7.5 percent.
- The uncertainty surrounding the results of the presidential election will not affect the economy.

As expected, the Federal Open Market Committee maintained its current very expansionary monetary policy. The forward-looking portion of the statement on November 5 was unchanged from the prior statement, released on September 16. The FOMC kept the fed funds rate in its near-zero range (0.00 to 0.25 percent), and said that it expects to keep the funds rate there until the labor market has moved to full employment and “and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.” The FOMC also said that it expects to purchase long-term Treasuries and mortgage-backed securities “at least at the current pace” of around $120 billion per month to ensure the continued flow of credit and to keep long-term interest rates low. The statement was approved unanimously.

In the summer the FOMC adjusted its guidelines, moving to an average inflation target of 2 percent. Before this the central bank was looking for inflation of around 2 percent; with the change, the Fed is now looking for inflation to average 2 percent. In practical terms, with “inflation running persistently below this longer-run goal” of 2 percent, as the November 5 statement notes, the Fed is now looking to have inflation “moderately exceed 2 percent for some time.” This means that the FOMC does not expect to raise the fed funds rate until inflation hits 2 percent (using the personal consumption expenditures price index). PNC does not expect the next increase in the fed funds rate at least until 2024.

The second paragraph of the statement, on current conditions, was updated slightly from September 16. On November 5 the FOMC said that “economic activity and employment have continued to recover but remain well below their levels at the beginning of the year”; in the prior statement, the language was “economic activity and employment have picked up in recent months.…” The difference reflects that after an initial surge in economic activity in the summer after some restrictions on economic activity were lifted, growth in various economic measures like employment and consumer spending has slowed.

As they had previously, the FOMC members said that “the path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will continue to weigh on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term.”

Given that the November 5 statement came just two days after the presidential election, the FOMC was highly unlikely to make any major changes to monetary policy, or even its policy statement, to avoid the appearance of playing politics. At some time in the next few months the FOMC may adjust its quantitative easing program, where it creates money electronically and puts it on the central bank’s balance sheet to purchase securities, to put a greater emphasis on purchases of longer-dated Treasurys. This would put additional downward pressure on long-term interest rates, including mortgage rates, encouraging business investment and sales of homes and big-ticket consumer items.

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According to the ADP National Employment Report, based on data from the payroll-processing firm, the private sector added just 365,000 jobs in October, down from gains of 753,000 in September and 482,000 in August. The Bureau of Labor Statistics releases the government's official jobs report on Friday, November 6. PNC expects an increase in employment of 900,000 over the month, including job gains of 1.2 million in the private sector. Since the pandemic struck in early 2020 the ADP employment report and BLS monthly employment situation report have varied widely (see chart). In August ADP private-sector employment growth was almost 600,000 below the BLS reading, while in September ADP was 128,000 below the BLS (all before revisions). Therefore, the predictive power of the ADP report right now is questionable. PNC expects that the unemployment rate declined to 7.5 percent in October, from 7.9 percent in September.

According to the ADP report goods-producing industries added just 17,000 jobs in October, while private service-providing industries added 348,000. Firms with fewer than 50 employees added 114,000 jobs over the month, while those with 50 to 499 employees added 135,000 jobs. The largest firms added 116,000 jobs.

The labor market continues to recover from the Viral Recession, but the pace of job gains has slowed dramatically from mid-year, when business reopenings powered monthly employment growth in the millions. Although the ADP report and the monthly BLS report have diverged widely in recent months, both tell a story of solid job growth, albeit far below this summer's pace. With firms adjusting to shifts in demand and the reality that the coronavirus is not under control, even with solid job growth it will take a few years for employment to return to its pre-pandemic peak.

The outcome of the presidential election remains uncertain as of the afternoon of November 5, although former Vice President Biden appears to have an edge in the Electoral College over President Trump. With vote counting progressing and little turmoil, the uncertainty surrounding the election will not affect the economy. PNC Economics will provide an update on the impact of the election once the results are known.

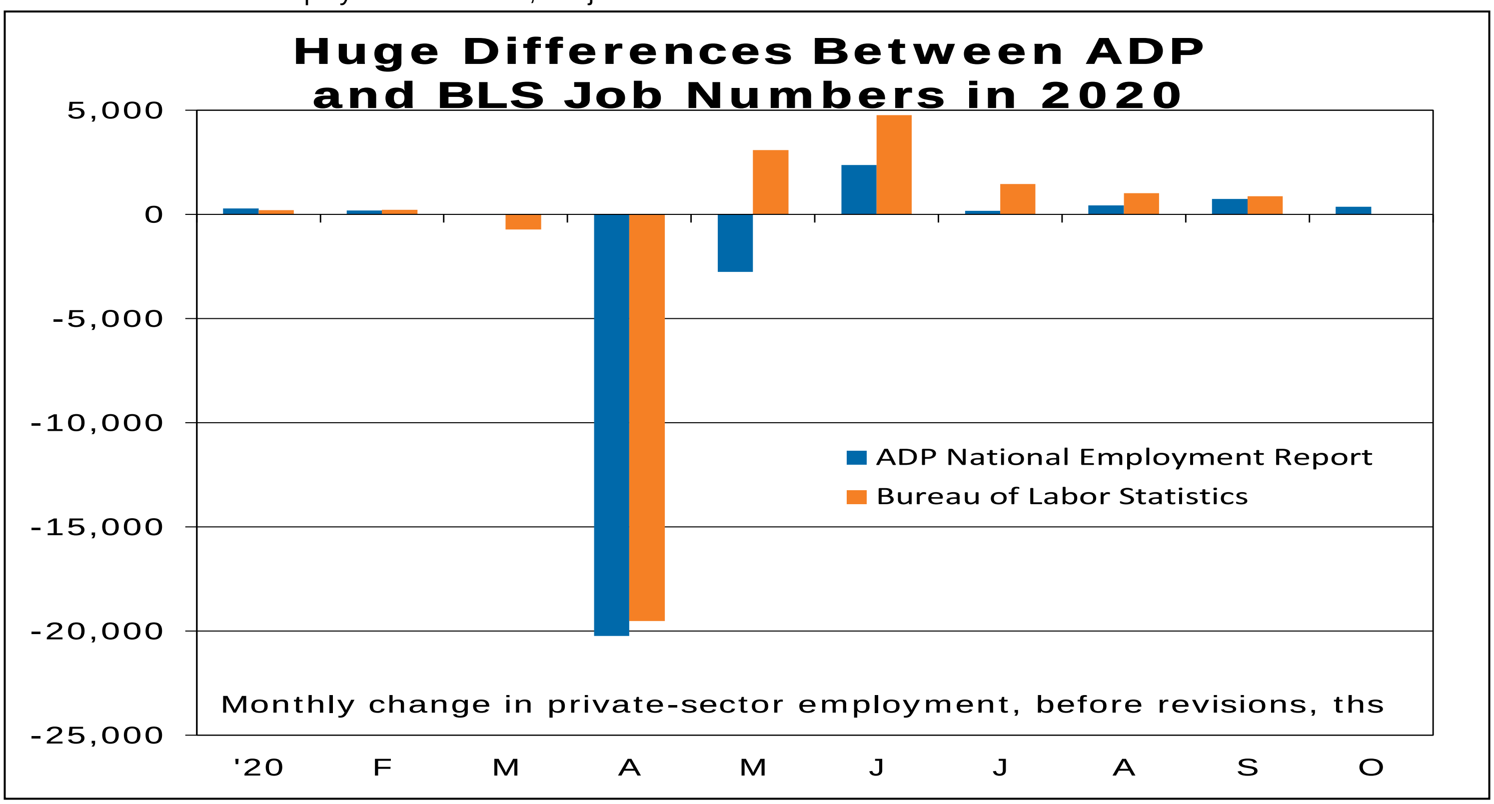

Chart sources: ADP Research Institute, Bureau of Labor Statistics

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