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ECONOMIC REPORT

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APRIL JOBS REPORT A BIG DISAPPOINTMENT: ONLY 266,000 JOBS ADDED, UNEMPLOYMENT RATE UP SLIGHTLY

SUMMARY

- The April jobs report came in well below expectations, with only 266,000 jobs added over the month.
- Supply chain disruptions, labor shortages, and seasonal adjustment issues may have weighed on job growth in April.
- The unemployment rate rose for the first time since April 2020, up slightly to 6.1% in April 2021.
- Job growth will pick up over the rest of 2021 as the economy recovers from the Viral Recession.

The April jobs report was a huge disappointment. The consensus expectation was for job growth of around one million, but instead the economy added only 266,000 jobs in April, according to a survey of employers. Under normal circumstances an increase in employment of 266,000 would be a solid number. But with employment still about 8.2 million (4.3%) below its pre-recession peak, at this pace it would take a few years for employment to return to its pre-recession level.

Supply chain issues, labor shortages, and seasonal adjustment issues may have been a drag on job growth. There were notable job losses in three industries: auto and parts manufacturing (-27,000), couriers and messengers (-77,000), and temporary help (-111,000). It could be that parts shortages, most notably for semiconductors, weighed on auto production and employment in April. Seasonal adjustment issues and labor shortages may have been a drag for couriers and messengers and temporary help. There was a big increase in employment in leisure/hospitality services of 331,000 in April as travel and dining out picked up. But employment in the industry is still down by 2.8 million, or 17%, from early 2020.

Overall, employment in goods-producing industries fell by 16,000 in April, while employment in private services-providing industries rose by 234,000. Government employment rose by 48,000 over the month.

Job growth in March was revised lower by 146,000 to 770,000, while job growth in February was revised higher by 89,000 to 536,000. The three-month moving average of job growth through April was 524,000, up slightly from 513,000 in March. But in January the three-month moving average was only 64,000, due to a resurgence in the pandemic and state restrictions on economic activity (see Chart 1).

The unemployment rate rose slightly to 6.1% in April from 6.0% in March. This was the first increase in the unemployment rate since March 2020, when the pandemic was first coming to the U.S. Employment in a survey of households (different from the survey of employers) rose by 328,000 in April, while the labor force increased by 430,000 as more people were looking for work. With the labor force up by more than employment, the unemployment rate rose a bit in April. Notwithstanding the April increase the unemployment rate has fallen quickly since peaking at 14.8% in April 2020, but it remains well above its pre-pandemic level of 3.5%. Unemployment remains a widespread problem for the U.S. economy.

In an encouraging sign, the labor force participation rate, the share of adults either working or looking for work, rose to 61.7% in April, from 61.5% in March. However, the labor force participation rate was above 63% in early 2020, so millions of people have dropped out of the labor force since the pandemic started (see Chart 2). The incomplete recovery in labor force participation is probably due to a combination of concerns about catching the coronavirus, childcare responsibilities, and generous unemployment insurance benefits. Bringing these people back into the workforce will be crucial for economic growth over the next few years. The U6 rate, which includes unemployment, underemployment, and discouraged workers, fell to 10.4% in April from 10.7% in March. The U6 rate was 7% in early 2020.

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Employment in manufacturing fell by 18,000 in April, led by the decline of 27,000 in autos and parts. Construction employment was flat over the month, even as homebuilding booms. Employment in retail trade fell by 15,000, despite increasing consumer spending on goods. Employment in transportation and warehousing, which has been booming since the pandemic started as consumers buy more online, fell by 74,000 over the month, led by the drop in couriers and messengers. Employment in professional/business services fell by 79,000 with the big drop in temporary help. Employment in education/health services fell by 1,000 over the month, with declines in private education and healthcare, but an increase in social assistance.

Local government employment rose by 32,000 over the month, with almost all of that coming from education as

schools reopened. Federal government employment rose by 9,000 in April, with an increase in state government employment of 7,000.

Average hourly earnings rose 0.7% in April from March, despite the addition of more than 300,000 jobs in lower-wage leisure/hospitality services. The average workweek ticked up slightly to 35.0 hours in April, from 34.9 hours in March. With a moderate increase in wages and small gains in jobs and the average workweek, total pay rose by 0.5% in April. However, overall personal income will plunge for the month after it jumped by 21% in March with the distribution of hundreds of billions of dollars of stimulus payments.

The April jobs report was a head-scratcher. Other

Chart 1: Despite Disappointing April Job Growth, Trend Has Improved

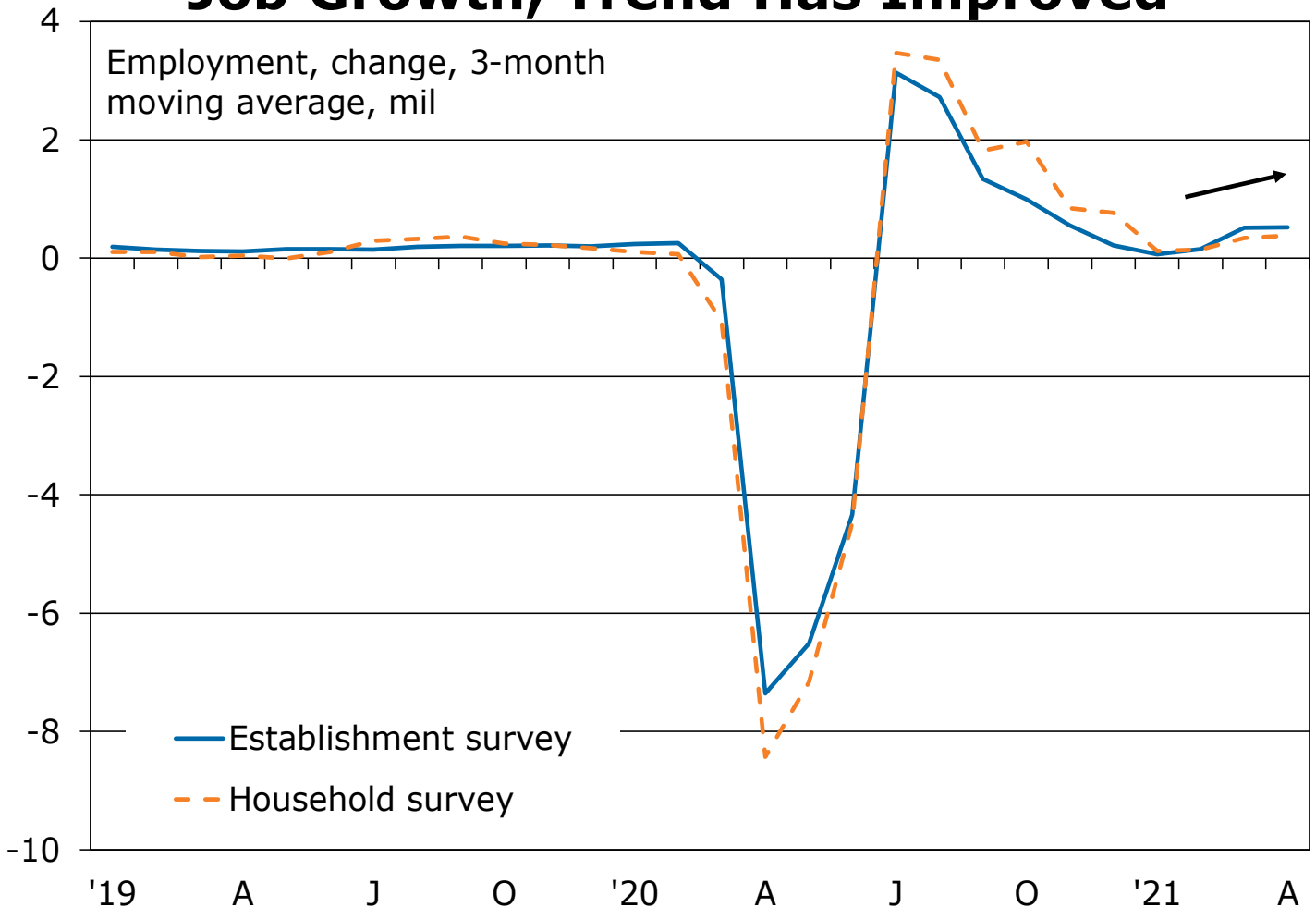


Chart source: Bureau of Labor Statistics

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indicators, such as the ADP report, unemployment insurance claims, and purchasing manager surveys, pointed to job growth of around 1 million. Instead, job growth was a disappointing 226,000, and the unemployment rate rose slightly. But the job market should pick back up as the recovery continues.

Consumers are spending freely thanks to vaccines, stimulus checks, an improving job market, and low interest rates. Business investment and housing are also very

strong, and trade will contribute to growth later this year as the global economy improves. The weakness in April was likely due to temporary factors, including input supply shortages in some industries, labor supply issues as the pandemic remains a concern, and perhaps seasonal adjustment factors. But those drags will lift, and job growth should average above 500,000 per month throughout 2021. The unemployment rate will resume its decline, and end this year at around 5%, and next year at around 4%.

Chart 2: Unemployment Rate Rose in April, But Other Measures Improved; Still a Long Way to Go

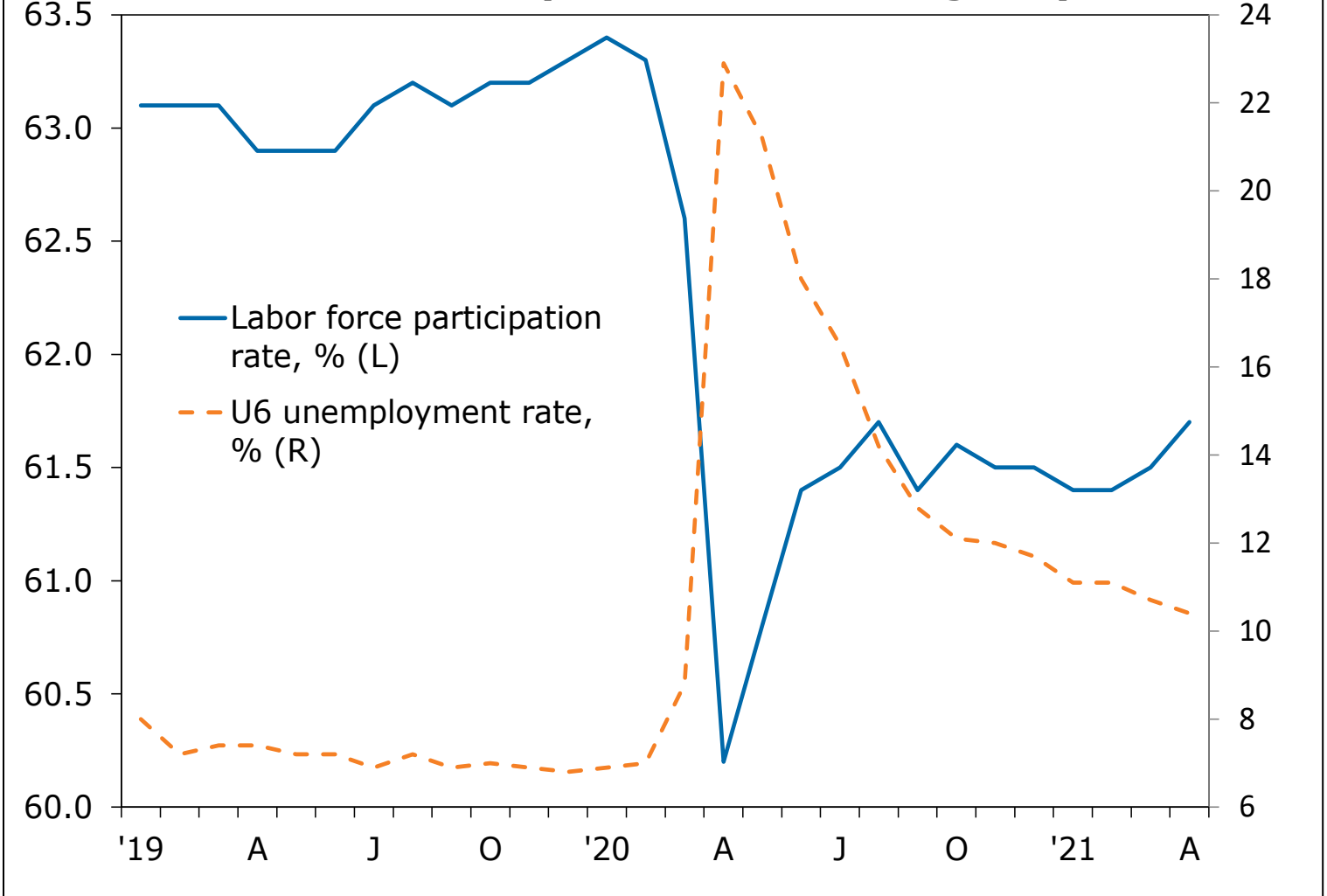


Chart source: Bureau of Labor Statistics

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