The Daily Dish

July Jobs

GORDON GRAY | AUGUST 7, 2020

There remains tremendous uncertainty about the path of this recovery following the most severe economic shocks in U.S. history, but the June jobs report was undeniably strong. Payrolls in June gained 4.8 million jobs, the largest single-month gain in history. Private sector payrolls gained 4.77 million jobs, with the service sector picking up 4.26 million jobs. The leisure and hospitality industry gained 2.1 million jobs. Combined, the net change in May and June employment reflected a 34 percent replacement of the jobs lost in March and April. The unemployment rate fell to 11.1 percent, reflecting a decline of 2.2 percentage points, which is also a historic decline. The labor force gained 1.7 million workers for the second month in a row. All education levels saw a decrease in their unemployment rate, and the unemployment rate decreased for all races as well. Average hourly earnings fell by 35 cents, following a 31-cent decline last month, but remain substantially elevated – 5.23 percent over the year. Average hourly earnings for production and non-supervisory workers declined by 23 cents for a 5.59 percent gain over the year. These substantial declines reflect the return to the workforce of lower-paid workers.

Here is a brief summary of the major economic indicators since the last jobs numbers:

- The Producer Price Index for final demand decreased 0.2 percent in June;
- The Consumer Price Index increased 0.6 percent in June;
- Real average hourly earnings decreased 20 cents from June to July;
- Orders for durable goods (including defense and aircraft) decreased 16.5 percent in June;
- New home sales increased 13.8 percent in June;
- The Price Index of U.S. imports increased 1.4 percent in June;
- ISM Non-Manufacturing Index increased 1.0 percentage point to 58.1 percent in July;
- ISM Manufacturing increased 1.6 percentage points to 54.2 percent in July;
- Consumer Confidence Index decreased from 98.3 to 92.6 in July;
- ADP reported private sector employment increased by 167,000 jobs in July.

Gordon's Guesstimate: July Jobs
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The outlook for the June employment figures was somewhat sunnier than for July, when there was already concern that the pace of the recovery risked slowing. This is not to say that the recovery in the labor market will reverse, just that we should not expect to see the substantial payroll gains seen in May and June. This reflects the separate but related challenges confronting the United States: a global pandemic and a recovery from an historically sharp recession. To be sure, the COVID-19 pandemic induced the recession and continues to confound the recovery, but resolution of the pandemic will not singly ensure the recovery any more than a labor market recovery will change the virulence of the coronavirus.

Since the onset of the recession, expectations for a "v-shaped" recovery have given way to expectations of various other trajectories that tend to share one misleading trait – linearity. The more modest hopes of a “square root” (?) or “reverse square root” recovery belie the reality that the economy – particularly while the COVID-19 pandemic remains somewhat uncontrolled – will not be growing in anything like an orderly sloped line. The economy will have headwinds and tailwinds on the path to recovery. Policymakers should be appropriately responsive to these risks, but they shouldn’t wholly surprise.

For the month of July, the public health outlook deteriorated a bit from the preceding month. Simultaneously, there has been an observed tempering in the pace of the recovery, borne out by a modest ADP gain, new UI claims that remain stubbornly above 1 million, and some of the higher frequency data that show a leveling or modest declines in consumer spending, small business income, and job openings in the month of July.

But these data are not suggestive of a *reversal* of the recovery, but rather, a slowing in the pace of recovery from the preceding two months. Inasmuch as uncertainty abounds, however, we should recall that ADP underestimated the Bureau of Labor Statistics prints in May and June by about *8 million*, and the real-time data is novel and not plainly instructive on the state of the labor market.

In the month of July, labor markets will have had to confront some additional risks due to COVID-19, while also weathering some potential deceleration in the real economy. This is suggestive of a pick-up in payrolls on the order of 1 million – comfortably in positive territory and reflective of incremental improvement in the real economy, particularly in services, but short of the previous months’ gains. This guesstimator is further expecting unemployment to fall to 10.3 percent, and average hourly earnings to fall by 20 cents.