The Daily Dish

October Jobs

GORDON GRAY | NOVEMBER 6, 2020

Last month's overall jobs number disappointed, coming in somewhat below expectations. American employers added 661,000 new workers to payrolls in September, with private sector payrolls picking up 877,000 new employees. The private sector gains were largely concentrated in service jobs, which saw 784,000 employees gained. On net government at all levels lost 216,000 jobs, driven substantially by a 280,000 decline in state and local education jobs. Combined, over the last 4 months payrolls have recovered about 49 percent of the jobs lost in March and April. The unemployment (U-3) rate fell 0.5 percentage points to 7.9 percent. The labor force participation rate declined to 61.4 percent, reversing the gains from the previous month. Since May, 3.7 million Americans have entered the labor force, just under half of the roughly 8 million lost in March and April. The unemployment rate dropped for all education levels except for those with some college or an associate degree, and it decreased for all races as well. Average hourly earnings increased by 2 cents, marking a 4.65 percent yearly gain, while production and nonsupervisory workers gained 1 cent per hour for a 4.60 percent yearly gain.

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

- The Producer Price Index for final demand increased 0.4 percent in September;
- The Consumer Price Index increased 0.2 percent in September;
- Real average hourly earnings decreased one cent from August to September;
- Orders for durable goods (including defense and aircraft) increased 1.9 percent in September;
- New home sales decreased 3.5 percent in September;
- The Price Index of U.S. imports increased 0.3 percent in September;
- ISM Services Index decreased 1.2 percentage points to 56.6 percent in October;
- ISM Manufacturing increased 3.9 percentage points to 59.3 percent in October;
- Consumer Confidence Index decreased slightly from 101.3 to 100.9 in October;
- ADP reported private sector employment increased by 365,000 jobs in October.

Gordon's Guesstimate: October Jobs

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Today's report should give us a good glimpse into the next several months of employment data. The virus has been the key determinant for the path of the labor market, countered by the effects of the federal response. It seems likely that the path of the virus will, all else equal, pose at least equal or greater challenges to the economy in the months to come as we've seen in the recent past, and the likelihood of Congress passing mitigating policy seems small over the same period. These factors support the observation that today's report is probably a good indicator of what the next several months in the labor market will look like.

It's worthwhile to reiterate that projecting a relative slowing in the recovery is not the same thing as predicting declines in employment. Rather, the labor market recovery is facing a couple of headwinds of somewhat different direction and force that should not combine to tank the labor market. First, of course, is the coronavirus. The virus is the key weight on the recovery and will continue to be until an effective vaccine is broadly deployed. In addition to the cost the virus has already imposed, it also poses ongoing risks. A repeat of the spring's shutdowns is unlikely, but simple prudence suggests that severe restrictions in the future can't be entirely ruled out, should the virus so prompt state and local governments.

The second headwind is more typical of ordinary recoveries. As of last month, the labor market had recovered, on net, 52 percent of the jobs lost in the spring. It was always going to take longer to recover the second half – if ever in this business cycle – of the jobs lost in March and April. To be sure, these new jobs aren't the *same* jobs lost. Indeed, as the recovery advances, job gains will look more like new hires for new openings. The number of unemployed workers classified as temporarily laid off has fallen considerably from 18.1 million in April to 4.6 million in September. Though more than four times higher than the number of temporarily laid-off workers in February, this decline underscores the fact that the low-hanging fruit – the ability of workers to go back to their old jobs – has substantially declined. It is likely that in October the number of unemployed workers classified as a permanent job-losers will exceed the number of workers classified as being on temporary layoff for the first time since February.

While the coronavirus poses a unique challenge to the economy in general and the labor market in particular, as the tenor of the recovery changes, the policy landscape should as well. While the risks posed to the economy by COVID-19 counsel in favor of additional federal support, those policies should be mindful of the particular challenges faced at present, not August.

In October, this guesstimator is throwing in with the consensus, and estimating a payroll gain of 500,000 with unemployment falling to 7.5 percent, and with average hourly earnings remaining flat.