The Daily Dish

September Jobs

GORDON GRAY | OCTOBER 2, 2020

In August American employers added 1.371 million new workers to payrolls, with private sector payrolls picking up just over 1 million new employees. The private sector gains were largely concentrated in service jobs, which saw 984,000 employees gained. Overall government gained 344,000 jobs, of which 238,000 were added to federal job rolls due to temporary hiring for the 2020 Census. Combined, over the last 4 months payrolls have recovered about 48 percent of the jobs lost in March and April. The unemployment (U-3) rate fell to 8.4 percent, while the labor force participation rate increased to 61.7 percent on the strength of nearly 1 million new entrants to the U.S. labor force. Since May, 4.3 million Americans have entered the labor force, just over half of the roughly 8 million lost in March and April. The unemployment rate dropped for all education levels as well as all races. Average hourly earnings increased by 11 cents, marking a 4.65 percent yearly gain, while production and nonsupervisory workers gained 18 cents per hour for a 4.96 percent yearly gain. Both figures remain substantially elevated due to the compositional changes in the measured workforce.

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

- The Producer Price Index for final demand increased 0.3 percent in August;
- The Consumer Price Index increased 0.4 percent in August;
- Real average hourly earnings were unchanged from July to August;
- Orders for durable goods (including defense and aircraft) increased 5.6 percent in August;
- New home sales increased 4.8 percent in August;
- The Price Index of U.S. imports increased 0.9 percent in August;
- ISM Non-Manufacturing Index decreased 1.2 percentage points to 56.9 percent in August;
- ISM Manufacturing decreased 0.6 percentage points to 55.4 percent in August;
- Consumer Confidence Index increased from 86.3 to 101.8 in September;
- ADP reported private sector employment increased by 749,000 jobs in September.

Gordon's Guesstimate: September Jobs
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Evidently there is an election this year. While not the last jobs report before the election, it is likely the last jobs report that will have a significant effect on the contest, with the November release date falling just four days before election day. This report may also have an outsized affect on last-ditch (as of this writing) congressional negotiations on an additional fiscal relief package. Accordingly, all eyes are on this jobs number right when a downside surprise may be most consequential.

The major indicators do not presage a bad beat on the jobs numbers. For the week including September 12th, there were 866,000 initial unemployment claims, which is down by 238,000 from the preceding month. The contemporaneous indicators would suggest a jobs print at least similar to those seen in the prior two months. Consumer Confidence in September, as measured by the Conference Board, rebounded in the largest improvement in the index since 2003, seemingly shrugging off the falloff in fiscal support. Another index, the University of Michigan's survey of consumer sentiment, was also up over August levels, though only modestly.

ADP reported the largest increase in private payrolls since June, estimating that 749,000 workers were added to U.S. firm payrolls last month. Since June, ADP's initial estimate has underestimated monthly payroll gains by an average of 1.6 million over the previous three months. It is important to note that this mismatch does not impugn the data in any way, but rather 1) underscores the extraordinary magnitude of the labor flows seen over the last several months and 2) is potentially instructive in considering whether the jobs numbers are poised for a major swing. The picture that the ADP data are painting is at least very suggestive that today's jobs print will not show major weakening in the labor market.

The United States has not seen a major course change in the direction of the pandemic, one way or another. Regionally, there has been tremendous variation, and major sectors of the economy remain severely impaired. To be sure, flu season and the effects that cold weather may have on a struggling hospitality industry are significant risks heading into the fall and winter, but they will not animate the September jobs number.

In short, the data are not pointing to a jobs number – a decline, for example – that will alter the course of the nation's politics. But this is 2020: Nothing about a global pandemic, amid any number of other challenges to the nation's economy, should give analysts much confidence in asserting the coast is clear even narrowly with respect to a single new indicator. While households and firms have been able to weather this storm with remarkable steadfastness – buoyed by unprecedented fiscal intervention – those policies are running out and were never going to be an enduring substitute for real economic activity. That handoff was always going to be fraught. Doing so without additional fiscal support in place may succeed – it is simply riskier to do so. And those risks are bearing out in places, with some major employers announcing new mass layoffs. Anecdotally, some businesses that held on during the worst of the pandemic are simply running out of time.

There are significant risks to the labor market in the coming months, and the economy is far from strong, but the balance of the major indicators suggests a healthy gain in employment in September. This guesstimator is expecting a 1.1 million jobs gain, bringing unemployment down to 7.7 percent. Earnings continue to reconstitute as workers return – for this month, I'm assuming earnings to be flat.