30 July 2020

RESEARCH NOTE

A Summer Setback in Jobs Doesn't Mean a Double-Dip Recession

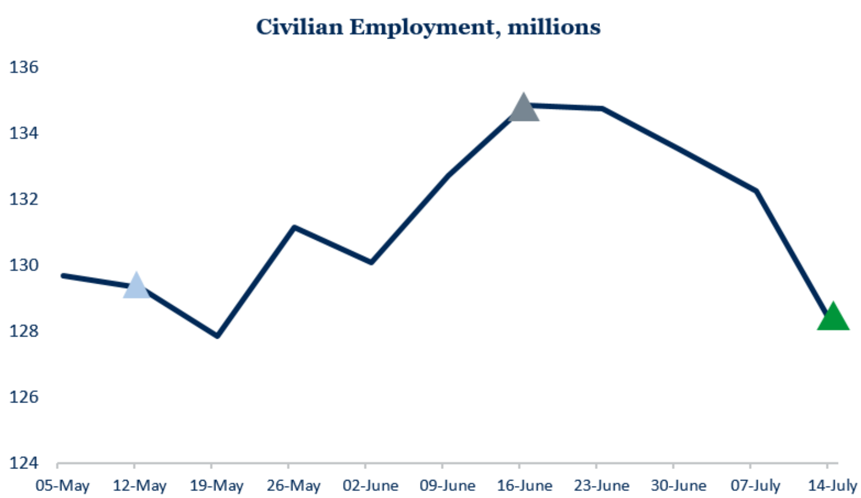
The odds are rising that July will produce a poor employment report in the U.S.—possibly even retrenching into negative territory and including further signs of the long-term labor force damage as more workers become permanently separated from their jobs. Nevertheless, as long as Congress delivers a fourth stimulus bill that continues to support the incomes of those out of work, the U.S. economy should be able to continue its slow recovery.

Last week's initial claims data added further reason to be more cautious about the July jobs report, as it aligned with the payroll reference week—the week in which the survey for the July employment report is taken, which includes the 12th of the month—and notched its first increase since March.

Rising COVID-19 cases, greater restrictions across many states, and uncertainty over a fourth fiscal bill—and therefore financial uncertainty—have led consumers to pull back on spending and activities such as dining at restaurants. Consumer demand is the biggest driver of business activity, and if consumer demand pulls back in July—as high-frequency data suggests—businesses may respond by laying off workers. This would have big implications for the July employment report, which is scheduled to be released on Friday, August 7. In fact, high-frequency employment data have shown deteriorating trends throughout the month, particularly during the payroll reference week, suggesting the July jobs report will be weaker:

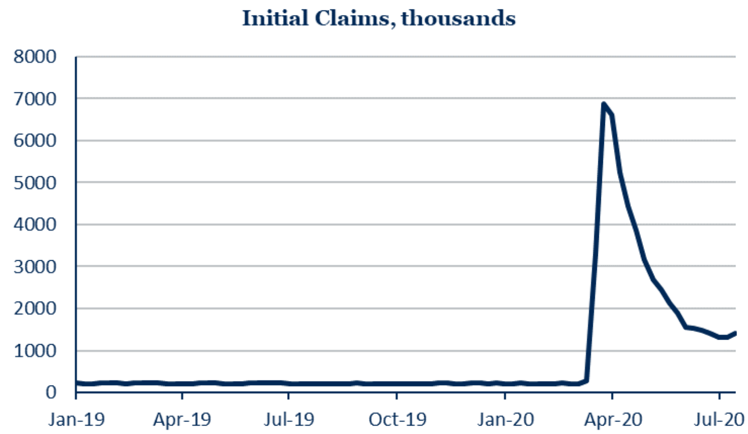
Employment trends

- **The Census Bureau's Pulse Survey**, which correctly signaled the direction of the last jobs report, showed employment falling 6.7 million between the June and July payroll reference weeks.



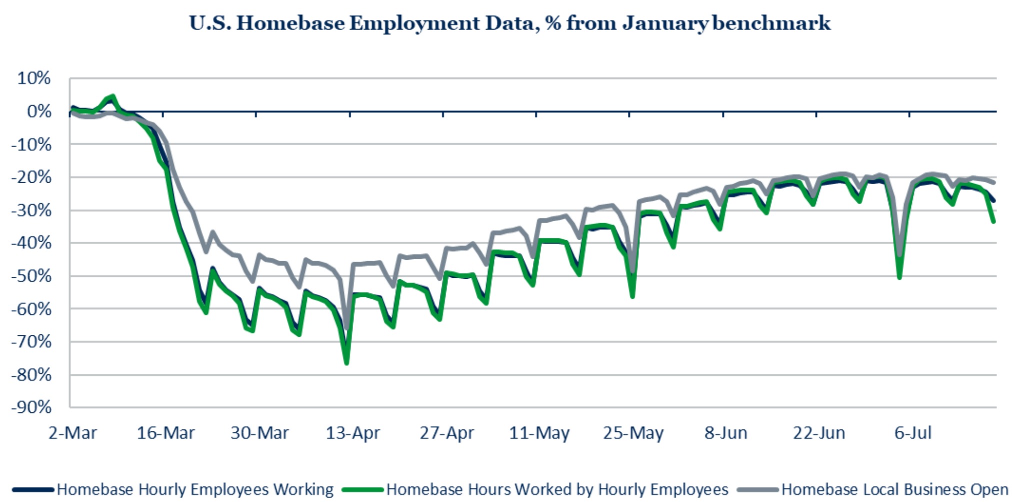
Source: Census Bureau. As of July 24, 2020.

- **Initial claims** rose for the first time since March during the payroll reference week, after remaining stubbornly above 1 million per week, compared with the pre-crisis average of just over 200,000 per week. While initial claims are more volatile in July, the increase suggests a more precarious labor market situation in July, as it signals job separations remain elevated.



Source: Bloomberg. As of July 28, 2020.

- Other data, such as **Homebase employment**, has trended sideways throughout the month after showing considerable improvement in May and June—matching the trend in nonfarm payrolls. Homebase is a scheduling and time-tracking tool used by over 100,000 local businesses and hourly employees. The daily data provides a high-frequency view into how employment is faring among small businesses across the country.



Source: Bloomberg. As of July 28, 2020.

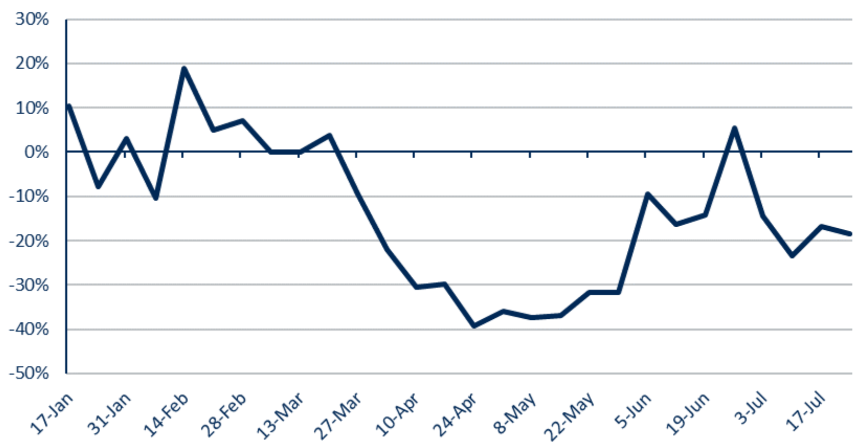
Are companies hiring?

The June employment report was a positive beat, noting a 4.8 million rise in nonfarm payrolls. However, the details revealed a more precarious labor market position. Underneath the hood of the topline number were 7.5 million workers who were separated from their jobs—going from employed to unemployed or out of the labor force. While job separations were high in June, the surge in people becoming employed gave it a positive beat. This is important because if job separations remain elevated—seen in the weekly initial claims data—and hiring does not keep up, the headline employment number would deteriorate.

In fact, additional high-frequency data has shown more cautious signs on hiring:

- The trend in **weekly job postings** weakened in July compared to June—down 16.9% from its January benchmark during the week-ended July 17, compared with up 5.4% at the end of June.

Average Level of Job Postings, relative to January Benchmark



Source: tracktherecovery.org. As of July 28, 2020.

The road ahead

The June employment report also showed a rise in the permanently unemployed. The share of those unemployed noting permanent layoff rose from 11.1% in April to 20.9% in June, while the share of temporary layoffs fell from 78.3% in April to 59.5% in June. Though some of the temporary layoff decline may be those returning to work, the rising permanent layoffs suggests a slower decline in the unemployment rate over the months and quarters ahead.

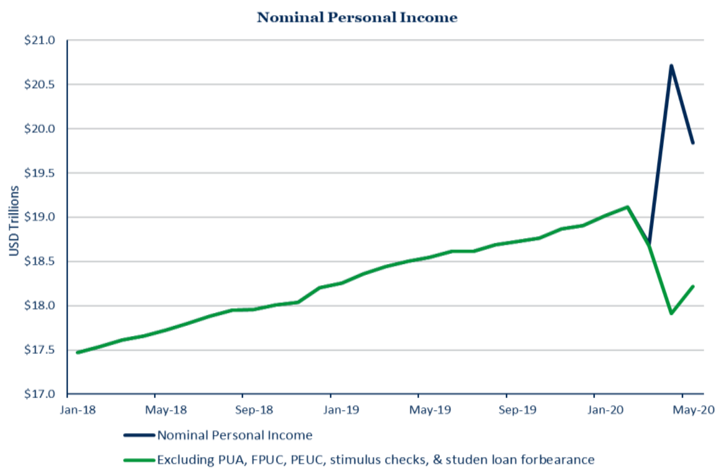
	U-3	U-6	Labor Force Participation Rate	Employment-to-Population Ratio	Permanent Job Losers, ths
Feb-20	3.5%	7.0%	63.4%	61.1%	1,279
Mar-20	4.4%	8.7%	62.7%	60.0%	1,456
Apr-20	14.7%	22.8%	60.2%	51.3%	2,000
May-20	13.3%	21.2%	60.8%	52.8%	2,295
Jun-20	11.1%	18.0%	61.5%	54.6%	2,883

Source: Bloomberg. As of July 28, 2020.

With an unemployment rate of 11.1% in June, a U-6 unemployment rate—which includes marginally attached workers and those employed part-time for economic reasons—at 18%, and employment still 14.66 million below February levels, it is clear that the labor market has a long road ahead before returning to pre-crisis levels.

The impact—or lack thereof

The stock market has a tendency to react to the monthly jobs reports, particularly when the results are significantly different from consensus expectations. Despite high-frequency data pointing to worsening labor market conditions in July, the current Bloomberg consensus is for about a 2 million rise in nonfarm payrolls.

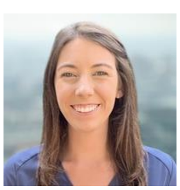


Source: Bureau of Economic Analysis. As of July 28, 2020.

However, during the current crisis, the impact of the unemployment rate on economic activity and spending is much less than has historically been the case. This is due to massive fiscal support, which has boosted personal income above levels prior to COVID-19—which has supported spending and loan repayments.

While the fourth fiscal bill is still being negotiated in Congress, a poor jobs report would put additional pressure on the federal government to enact and maintain supportive policies, such as additional unemployment insurance benefits and a second round of stimulus checks.

Though consumers' fears amid high and rising COVID-19 cases still threatens spending—particularly in sectors such as leisure, hospitality, bars, restaurants, and travel—if a bill with sufficient income support is passed and continued support is signaled, it is likely that overall consumer spending would pick back up, even if a portion goes into savings, and the labor market could resume its rally. While the recovery in the labor market is set to be more gradual than in May and June, and will likely have a wavy path, a poor July jobs number doesn't signify an end to the current recovery.



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