ECONOMIC UPDATE
REGIONS
May 8, 2020

April Employment Report: Sudden Stop Decimates Labor Market

- Nonfarm employment fell by 20,500,000 jobs in April; prior estimates for February/March were revised down by a net 214,000 jobs
- Average hourly earnings rose by 4.7 percent in April; aggregate private sector earnings fell by 10.9 percent (down 8.6 percent year-on-year)
- The unemployment rate rose to 14.7 percent in April; the broader U6 measure rose to 22.8 percent

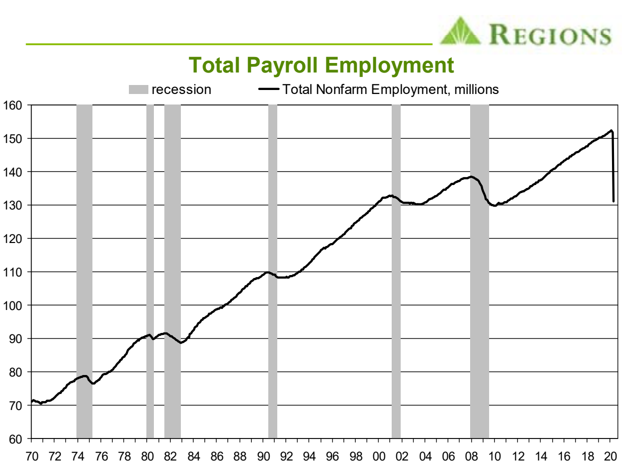
Total nonfarm employment fell by 20.500 million jobs in April, with private sector payrolls down by 19.520 million jobs and public sector payrolls down by 980,000 jobs. Prior estimates for job growth in February and March were revised down by a net 214,000 jobs – the initial estimate of a decline of 701,000 jobs in March was revised to show a decline of 870,000 jobs. The unemployment rate rose to 14.7 percent, while the broader U6 estimate, which also accounts for underemployment and those marginally attached to the labor force, rose to 22.8 percent. Average hourly earnings rose by 4.7 percent in April, while the average length of the work week rose to 34.2 hours, both of which reflect the mix of job losses across the broad industry groups. Of those who lost jobs in April, the vast majority reported they were on temporary layoff as opposed to having lost their job permanently. What remains to be seen, of course, is the extent to which this turns out to be the case. Either way, the COVID-19 virus and the efforts to stem its spread have left a gaping hole in the U.S. economy, as evidenced by the April employment report.

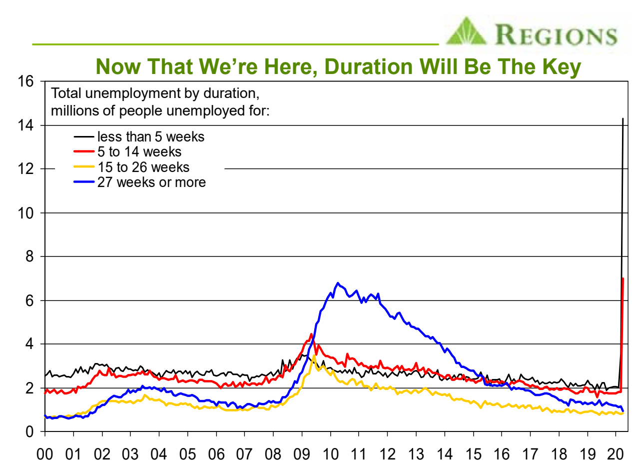
Payrolls in the leisure and hospitality services group declined by 7.653 million jobs in April, bringing the two-month total of job losses in this industry group to 8.152 million jobs. Of the jobs lost in the broad industry group in April, 5.491 million came from restaurants while 839,000 came from lodging establishments. Payrolls in education & health services fell by 2.544 million jobs, over half of which came from health care. While this may seem surprising, keep in mind that many medical practices, doctors and dentists, were shut down along with other businesses deemed "non-essential." Manufacturing payrolls fell by 1.330 million jobs, a smaller decline than our forecast anticipated, with job losses across each of the main industry groups within the broad sector.

The unemployment rate rose to 14.7 percent in April, below the 15.3 percent rate we expected and further below the consensus forecast of 16.0 percent. As we noted in our weekly *Economic Preview*, however, there is a lot of play in the reported jobless rate. BLS notes that reporting issues led to a high number of people who should have been categorized as unemployed instead being categorized as being employed but absent from work for the entire survey reference period. Had they been correctly categorized, the actual unemployment rate would have been almost five percentage points higher (on a not seasonally adjusted basis). Either way, the broader U6 measure is a more apt reflection of the effects on the labor market of the sudden stop in economic activity. The number of those still working but reduced to part-time status rose to 10.887 million in April, an increase of over 5.1 million from March. The number of, to borrow a term from former Fed Chairwoman Janet Yellen, underutilized labor resources rose to 36.176 million in April, easily surpassing the peak of 26.934 million during the 2007-09 recession. Furthermore, the number of people not in the labor force but who wanted a job jumped to 9.9 million in April, almost double the number in March.

The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, fell to 4.8 percent in April, easily surpassing the prior low of 15.5 percent registered in April 2009. Within the manufacturing sector, the one-month hiring diffusion index tumbled to 2.6 percent. As noted above, the mix of job losses amongst the broad industry groups in April skewed toward those with shorter work weeks and lower hourly earnings. The May data will show further job losses, and while of a much smaller magnitude than April job losses, our sense is that the jobs lost in May will be more evenly distributed across the broad industry groups, which could bring similarly sharp swings in average hourly earnings and average weekly hours.

We are mindful of the fact that each job lost over the past several weeks comes with a name and a human story. The April employment report, however, at least helps us size the hole the economy will have to dig its way out from. Obviously, the public health outcome remains highly uncertain. As to the economic outcome, the great unknown is the extent to which a liquidity crisis turns into a solvency crisis, which will have a direct bearing on how many job losses that started out as temporary morph into permanent job losses. It will take time to answer this question.





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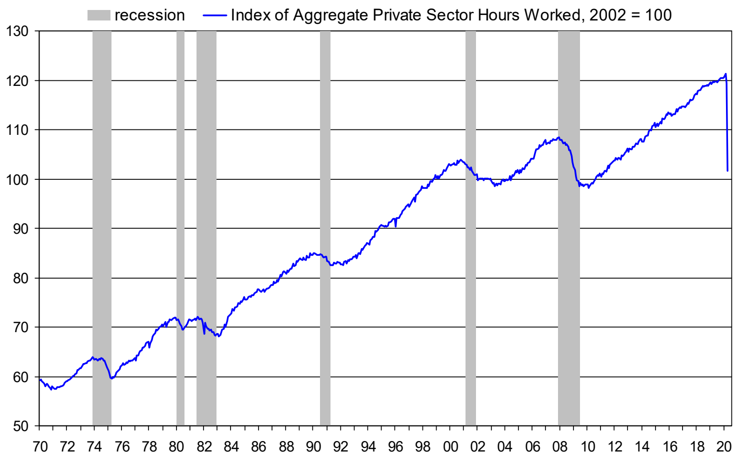
Aggregate Private Sector Hours Worked



Massive job losses and a shorter workweek combined to yield a staggering decline in aggregate hours worked in April, with an annualized decline of 47.55 percent. The annualized rate is the basis on which changes in aggregate hours map into annualized changes in real GDP from a supply-side perspective. The decline in hours worked for Q2 as a whole will not be as large as that seen in April, but will be consistent with the roughly 30 percent annualized contraction in real GDP we and most others expect for Q2.

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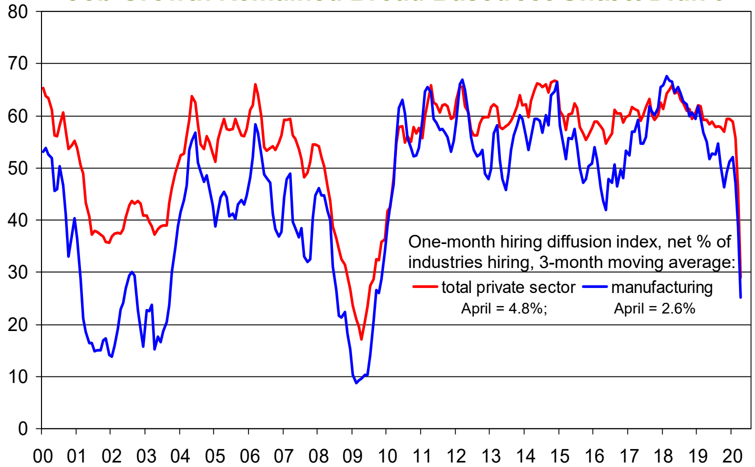
Job Growth Remained Broad Based . . . Until It Didn't



One hallmark of the recently ended expansion was notably broad based hiring. The hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, has been a reliable leading indicator of turns in the business cycle. Given the sudden stop across much of the economy in mid-March, however, the hiring diffusion index sent no such warning this time around. Our chart shows the three-month moving average to smooth out the volatility in the series, but note the record-low readings for April.

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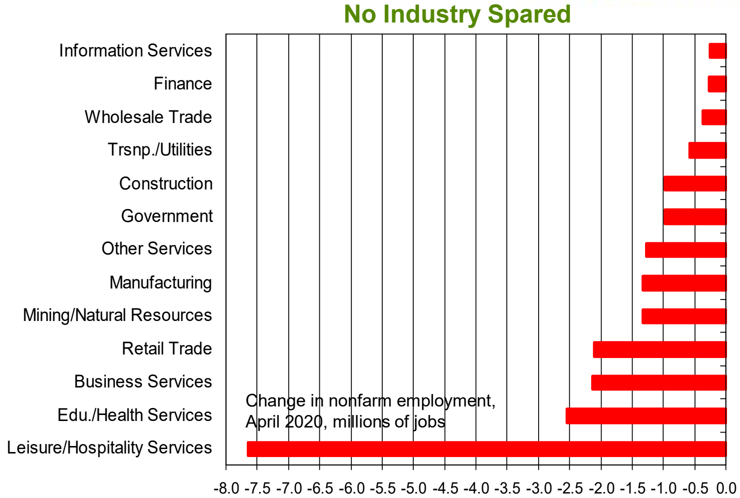
No Industry Spared



None of the broad industry groups was spared from the damage done to the labor market by the COVID-19 virus and the efforts to stem its spread. The distribution of job losses, however, was more concentrated in industry groups with shorter average work weeks and lower hourly earnings, and this shift in mix is seen in the 4.7 percent month-over-month increase in average hourly earnings and the slight increase in the average length of the workweek. May will almost surely bring further job losses, but the mix may differ starkly from that seen in the April data.

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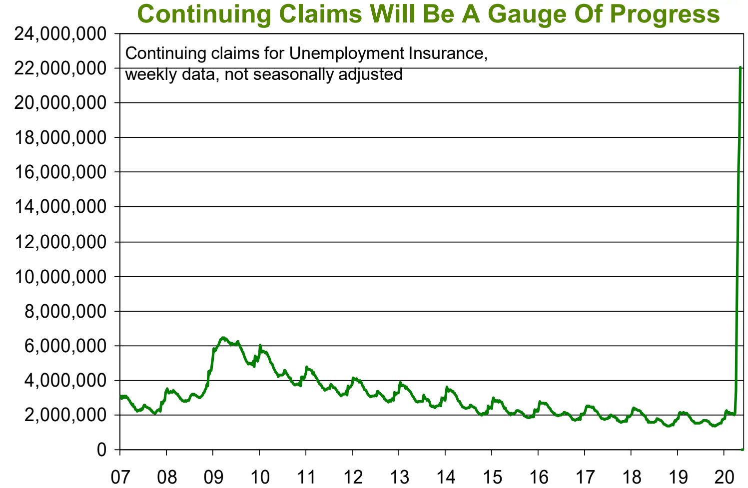
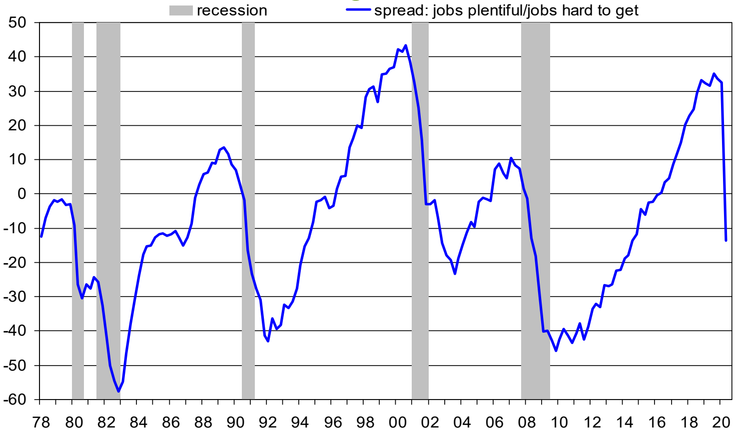
Continuing Claims Will Be A Gauge Of Progress



Though still elevated, initial claims for Unemployment Insurance (UI) have subsided over recent weeks. Going forward, continuing claims, i.e., the number of people drawing UI benefits each week, will be a better marker of the extent to which the labor market is recovering, given that as people return to work they will drop off the UI roles. That said, the $600 per week in supplemental UI benefits paid by the federal government on top of state payments could mean many companies willing to take on/take back workers have difficulty doing so until August.

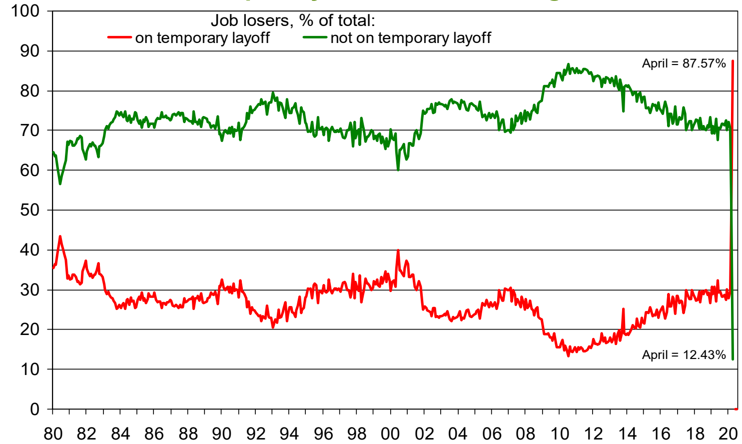
When Will Consumers Regain Faith In The Labor Market?



Source: The Conference Board; Regions Economics Division

Consumers' assessments of labor market conditions, as measured in the Conference Board's consumer confidence survey, have been a reliable leading indicator of turns in the business cycle. The massive job losses that began in mid-March and carried through April, however, came with no advance warning. Consumers' perceptions of labor market conditions, particularly their own job and income prospects, are an important driver of overall consumer confidence, and any rebound in consumer spending will be restrained until consumers regain their faith in the labor market.

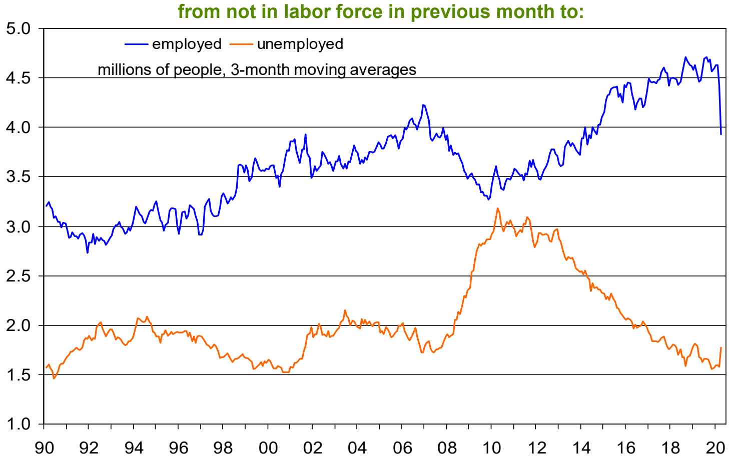
Temporary, But For How Long?



Of those who lost a job in April, the number reporting they were on temporary layoff topped the number reporting they were not on layoff, the first such instance in the life of the data that go back to 1967. Going forward, the question is the extent to which these temporary layoffs are just that, as opposed to turning into permanent job losses. While lending programs aimed at small and mid-sized businesses are intended to keep this from becoming the case, it is too soon to assess their effectiveness, especially since the recovery in the broader economy is likely to be slow and uneven.

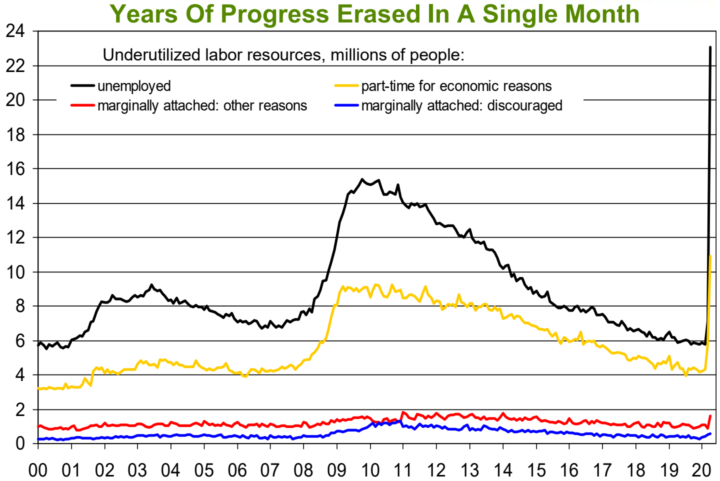
Labor Force Flows:

from not in labor force in previous month to:



One striking element of the recently ended expansion was the steady but slow rate at which people were drawn into, or back into, the labor force as the expansion endured. The participation rate amongst the 25-to-54 year-old age cohort (the "prime" working age population) was only beginning to approach the peak seen prior to the 2007-09 recession as labor market conditions began to deteriorate in March. What remains to be seen is how low participation rates will fall and how long it will take them to recover, and there are likely to be significant differences across age cohorts.

Years Of Progress Erased In A Single Month



The impact on the labor market of the COVID-19 virus and the efforts to stem its spread goes beyond the number of people who have lost their jobs. Many remain employed but have had their hours cut, leading to a reduction in their total earnings. Many job losers have not begun to look for a new job given the extent to which large swaths of the economy are still shuttered, as reflected in the jump in the number of those marginally attached to the labor force. It took years to pare down the labor market slack stemming from the 2007-09 recession – how long will it take this time around?

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