ECONOMIC UPDATE
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June Employment Report: A Strong Rebound For A Still Fragile Labor Market

- Nonfarm employment rose by 4.800 million jobs in June; prior estimates for April/May were revised up by a net 90,000 jobs
- Average hourly earnings fell by 1.2 percent in June; aggregate private sector earnings rose by 2.4 percent (down 4.2 percent year-on-year)
- The unemployment rate fell to 11.1 percent in June; the broader U6 measure fell to 18.0 percent

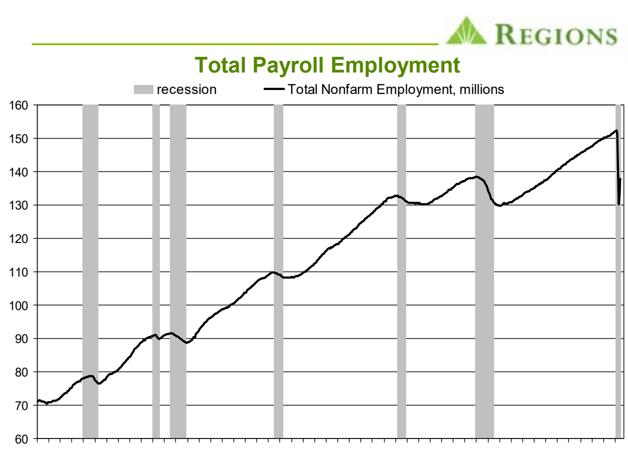
Total nonfarm employment rose by 4.800 million jobs in June, with private sector payrolls up by 4.767 million jobs and public sector payrolls up by 33,000 jobs. Prior estimates of job losses/gains in April and May were revised to show 90,000 fewer net job losses for the two-month period than had previously been reported. The unemployment rate fell to 11.1 percent in June, while the broader U6 measure, which also accounts for underemployment, fell to 18.0 percent. Average hourly earnings fell by 1.2 percent in June and average weekly hours fell to 34.5 hours; in each case, the decline reflects the extent to which June's job gains were skewed toward lower-wage, lower-hour industry groups such as retail trade and leisure and hospitality services. Still, even with the declines in average hourly earnings and average weekly hours, the magnitude of the increase in private sector payrolls resulted in a 2.4 percent increase in aggregate wage and salary earnings in June, though this nonetheless leaves them down 4.2 percent year-on-year.

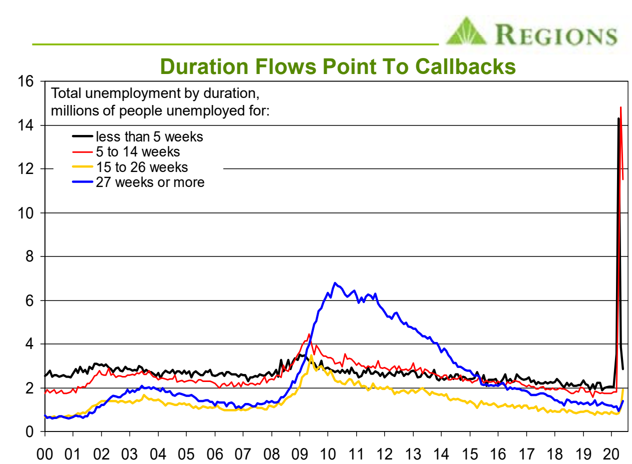
As in each of the prior three months, BLS notes that the reported jobless rate for June was understated by reporting errors – people incorrectly reporting their status as "absent from work" rather than "unemployed." Still, BLS notes the degree of understatement was less than had been the case, putting the upper end of their estimate for June at one percentage point. While the reported jobless rate has been understated, this does not alter the direction of the unemployment rate, i.e., it has declined meaningfully over the past two months though, obviously, it remains well above where it would be in the absence of the COVID-19 virus. The broader U6 rate fell to 18.0 percent in June. While the number of those marginally attached to the labor force increased, the number of those working part-time for economic reasons fell by roughly 1.6 million people. In June, the combined total of those unemployed or working part-time for economic reasons stood at 26.812 million, down from 31.618 million in May, though still far above 10.105 million in February.

One ongoing caveat pertaining to both the household survey and the establishment survey is that low response rates lessen the reliability of the reported data. BLS notes that the response rate to the June household survey (65 percent) was roughly 18 percentage points lower than the rates that prevailed prior to the pandemic. The 63.1 percent response rate to the June establishment survey is also well below pre-pandemic norms and is the lowest response rate for the month of June since 2008.

June's job gains were broad based, with the one-month hiring diffusion index, a measure of the breadth of hiring across the private sector, rising to 75.2 percent, up from 63.0 percent in May and 4.3 percent in April. That said, job gains over the past two months have been dominated by three industry groups, with leisure and hospitality services, education and health services, and retail trade accounting for 74.3 percent of private sector job gains in May and June after having accounted for 60.9 percent of private sector job losses in March and April. So, while most private sector industry groups have added workers over the past two months, the intensity of hiring has been much less than has been the case in these three industry groups. This, at least to some extent, reflects the effects of the Paycheck Protection Program (PPP), which has given businesses the incentive to bring previously laid off workers back on to payrolls or to forego layoffs that otherwise may have taken place. Keep in mind that BLS counts someone as being employed if they are paid for any day during the survey period, regardless of whether they actually work. This raises the question of how firms respond when the PPP runs its course, and this question becomes even more pressing in light of the reactions to the recent upturn in positive COVID-19 tests. Still, the data on the duration of unemployment suggests previously laid off workers have been called back to work, as the decline in the 5-14 weeks bucket far exceeds the increase in the 15-26 weeks bucket.

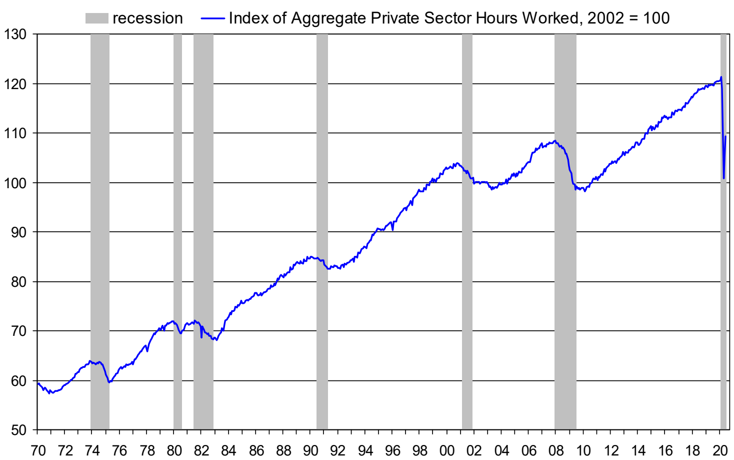
The June data point to further improvement in the labor market, but note that the June survey period ended prior to the jump in the positive COVID-19 tests. That retail trade and leisure and hospitality services accounted for so much of June's job growth points to the fragility of job growth amidst what remains a highly uncertain public health outlook.





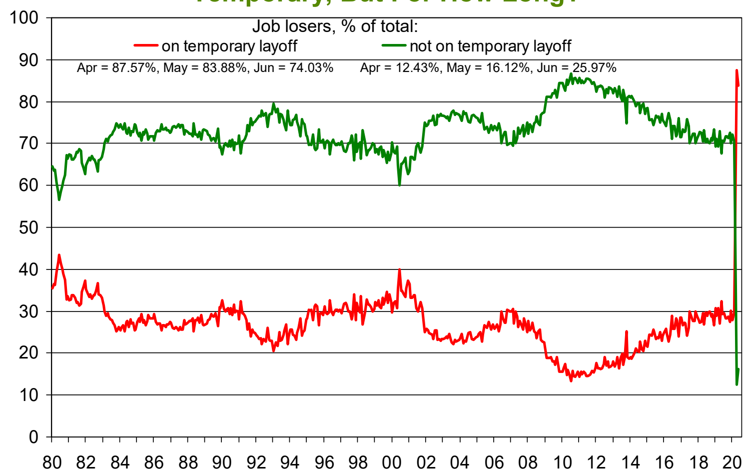
Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

Aggregate Private Sector Hours Worked



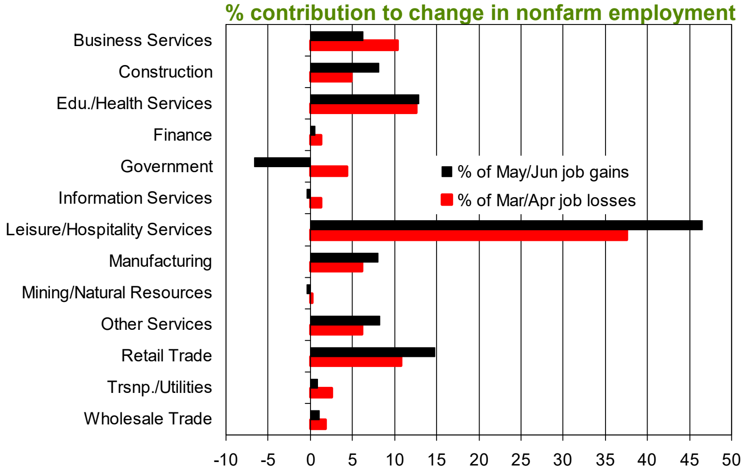
Though having risen smartly in May and June, aggregate hours worked nonetheless declined at an annualized rate of 41.6 percent in Q2. The annualized rate is the basis on which changes in aggregate hours map into annualized changes in real GDP from a supply-side perspective. This is consistent with what we expect to be a close to 40 percent annualized contraction in real GDP of more than 30 percent in Q2. On the flip side, June puts a solid base under Q3 aggregate hours worked, setting up a sizable increase in real GDP in Q3.

Temporary, But For How Long?



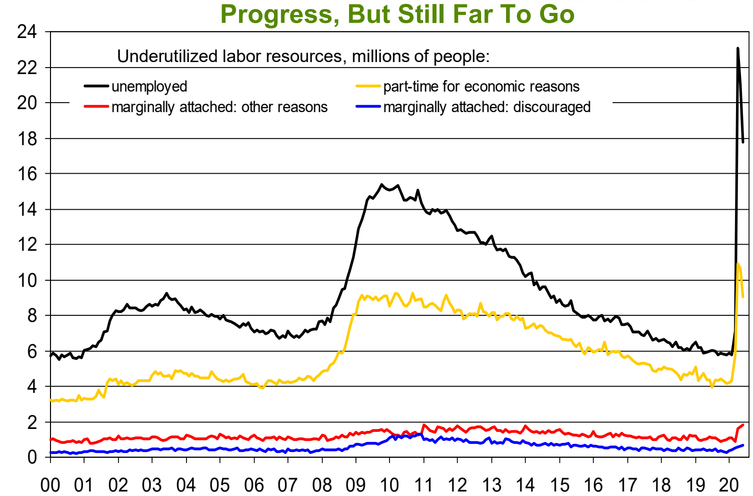
As in April and May, the majority of those who lost a job in June reported they were on temporary layoff as opposed to having lost their job permanently. Going forward, the question is the extent to which these temporary layoffs are just that, as opposed to turning into permanent job losses. While lending 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, particularly in light of the recent upturn in positive tests for COVID-19.

“Big Three” Dominate May/June Job Growth
% contribution to change in nonfarm employment



After having accounted for 60.9 percent of total private sector job losses in March and April, leisure and hospitality services, education and health services, and retail trade accounted for 74.3 percent of total private sector job gains in May and June. Though with the exception of mining/natural resources each of the broad private sector industry groups have added jobs over the past two months, the intensity of hiring has been modest. It is likely that the PPP has contributed to the strength of hiring amongst the “big three” industry groups. The magnitude and distribution of job gains will bear watching over coming months as a sign of progress in the broader economy.

Progress, But Still Far To Go



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 uneven rate at which economic activity is coming back online. The number of “underutilized labor resources” stood at 29.299 people in May, down from 33.910 million in April but well above February’s total of 10.105 million. It took years to pare down the labor market slack stemming from the 2007-09 recession – how long will it take this time around?.

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com