ECONOMIC UPDATE

REGIONS

August 7, 2020

July Employment Report: Better Than Expected, Better Than Feared . . .

- Nonfarm employment rose by 1.763 million jobs in July; prior estimates for May/June were revised up by a net 17,000 jobs
- Average hourly earnings rose by 0.2 percent in July; aggregate private sector earnings rose by 1.2 percent (down 3.2 percent year-on-year)
- The unemployment rate fell to 10.2 percent in July; the broader U6 measure fell to 16.5 percent

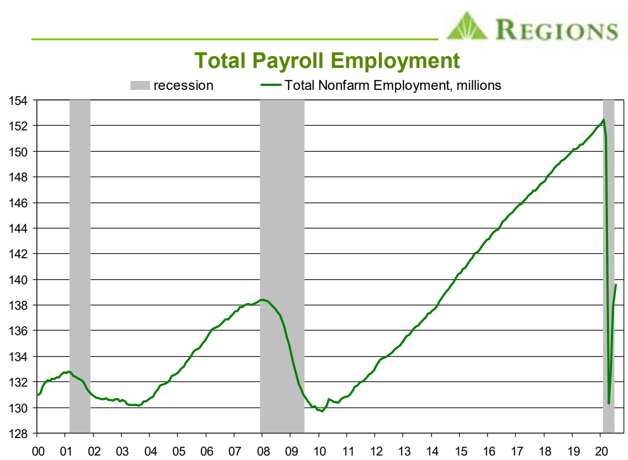
Total nonfarm employment rose by 1.763 million jobs in July, with private sector payrolls up by 1.462 million jobs and public sector payrolls up by 301,000 jobs. The "increase" in public sector payrolls is more illusory than it is real, stemming from seasonal adjustment issues in the education segment of state and local government, and there is also some seasonal adjustment noise, though to a much lesser degree, in the count of private sector job gains. Even so, the increase in private sector payrolls came in ahead of expectations. The unemployment rate fell to 10.2 percent in July, though this is in part due to a decline in the labor force participation rate, while the broader U6 measure, which also accounts for underemployment, fell to 16.5 percent. Average hourly earnings rose by 0.2 percent in July, contrary to expectations of a third straight decline, while average weekly hours fell to 34.5 hours. Aggregate private sector wage and salary earnings, the largest component of personal income, rose by 1.2 percent in July, but are nonetheless down 3.2 percent year-on-year.

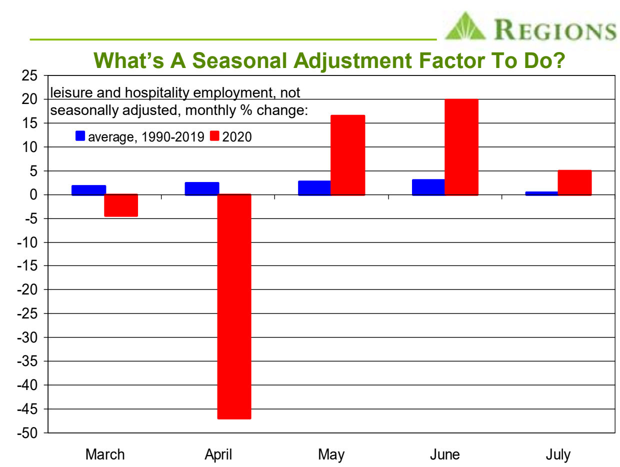
As in each of the prior four months, BLS notes that the reported jobless rate for July was understated by reporting errors – people incorrectly reporting their status as "absent from work" rather than "unemployed." BLS puts the upper end of their estimate of the degree to which the July unemployment rate is understated at one percentage point. Still, even accounting for the consistent understatement, the unemployment rate is consistently drifting lower, though it bears watching for whether the decline in participation seen in July will continue. The decline in the broader U6 rate reflects the decline in the number of unemployed as well as the decline in the number of those working part-time for economic reasons, which fell to 8.843 million people in July from 9.062 million in June (this number stood at 4.318 million in February).

The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, fell to 61.4 percent in July from 75.0 percent in June. That the index was so high in June likely reflected the effects of the economy reopening, and the July number is more in line with what had been the run rate prior to the pandemic. Within the factory sector, however, the one-month hiring diffusion index fell to 43.4 percent in July from 77.0 percent in June. This goes with what was a much smaller increase in manufacturing payrolls in July – up by just 26,000 jobs – than had been anticipated. Moreover, that reported increase seems little more than seasonal adjustment noise, as producers of motor vehicles more than accounted for the entire increase. In a "normal" year July is the month in which producers shut plants down to gear up for production of the coming year's models, hence the seasonal adjustment factor is geared for a large decline in employment in this industry group. Those shutdowns did not occur this year – the unadjusted data show job counts amongst vehicle producers increased slightly, and this was exaggerated to an increase of 39,300 jobs in the seasonally adjusted data. Barring this, job counts amongst producers of durable goods fell in July, a disturbing sign but one consistent with the ISM's gauge of factory employment.

Payrolls in the leisure and hospitality services industry group rose by 592,000 jobs in July, accounting for more than 40 percent of private sector job growth. What stands out even more is that 502,000 of these jobs came amongst restaurants and bars. This does not seem to square with what were renewed restrictions on bars and restaurants in many states in July in response to the upturn in COVID-19 cases. It will be interesting to see what the August data show for this segment, but, as it is, the data for this industry group have been prone to considerable seasonal adjustment noise over the past few months.

The July employment report was better than expected. More importantly, the July employment report was better than feared. Alternate indicators, such as Homebase and the Census Bureau's *Household Pulse Survey* pointed to a much weaker report than the one we actually got. In that sense, the July employment report comes as somewhat of a relief, but the bottom line is that the labor market is far from healed. With lingering uncertainty over the course of the COVID-19 virus and whether there will be additional fiscal relief, further improvement in the labor market is likely to come at a highly uneven pace over coming months.





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