Weekly Economic Update—October 5th, 2020

GOVERNMENT PORTFOLIO ADVISORS

News that President Trump tested positive for the coronavirus on Friday overshadowed what normally would be the headline-grabbing event of the day, namely the all-important jobs report. With the health crisis making a direct hit on the White House, the uncertainty surrounding an already tumultuous election will only grow more intense and add another source of volatility to the financial markets. As it is, the markets entered the last day of the week keenly focused on whether Congress would pass another relief bill before going on recess to help an economy that is clearly losing momentum. While negotiations were still in process on Friday, the window of getting anything done was rapidly closing.

Importantly, a key area of disagreement between Republicans and Democrats is the amount of aid that should go to state and local governments, with the latter proposing significantly more than the former is willing to accept. Regardless of the merits of their respective arguments, the data released on Friday bolstered the case for more support, as the loss of public sector jobs was the weakest link in the overall jobs report. In September, state and local governments purged 182 thousand workers from payrolls, with the bulk of the downsizing undertaken by local governments. This is consistent with the expanding list of municipalities that are being forced to lay off teachers and other public service workers in the education sphere, including bus drivers, cafeteria workers, teacher assistants and janitors in the face of slumping tax revenues amplified by school closings related to the pandemic recession.

That said, the rest of the jobs report was nothing to write home about. Yes, the labor market continues to recover, with more jobs added than subtracted last month. But the pace of improvement is slowing dramatically, a combination that economists refer to as a positive first derivative but a negative second derivative. We suspect that the positive segment of that equation will have an even smaller influence in coming months as the headwinds from Covid-19 continue to weigh on the job market. Indeed, the October jobs report is looking ever-more precarious in light of the widespread layoffs announced by an expanding list of high-profile companies in recent weeks, including those in the leisure and hospitality industry (Disney), the airlines and insurance industries.

Overall, the economy added 661 thousand net new jobs in September, less than half the 1.49 million generated in August and the smallest monthly increase since the economy reopened from strict lockdown conditions in March and April. Over that five-month span, the labor market recovered 11.4 million jobs, but that still leaves total payrolls an eye-opening 10.7 million below the level that prevailed just before the pandemic struck in February. In March and April, 22 million workers were purged from nonfarm payrolls. At the current pace of job growth, it would take almost a year and half to get back to the pre-pandemic level, but that would be an optimistic timetable given the slowing progression in job growth that is clearly underway.

And just as progress on the employment front is grinding slower, so too are unemployed workers struggling to get their jobs back. Like the slowing pace of job gains, the unemployment rate is falling in smaller increments, slipping half-percent in October to 7.9 percent. The jobless rate surged to 14.7 percent in April and has fallen by an average of 1.6 percent a month since. The half-percent drop in October was the slimmest of the five previous monthly declines. Importantly, the latest drop occurred largely for the wrong reason, as more than 70 percent of the decline in unemployment reflected people dropping out of the labor force. When a worker stops looking for a job, he or she is no longer counted as unemployed and, hence, is not included in the jobless rate. The more dropouts there are, the lower the rate.

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In September, an eye-opening 675 thousand workers left the labor force, lowering the labor force participation rate 0.3 percent to 61.4 percent. Excluding the depressed pandemic-related readings in recent months, this is the lowest rate since the mid-1970s. True, monthly changes in the labor force can be highly volatile, as the September decline followed an even larger 968 thousand increase in August. But the total number of workers holding a job or looking for one is still 4.4 million below the level that prevailed in February. In an improving job market, you would expect the labor force to be expanding, attracting more people off the sidelines, not contracting. In the year leading up to February as the unemployment rate fell from 3.8 percent to a 50-year low of 3.5 percent the labor force expanded by 1.5 million.

Simply put, the pandemic recession aborted a much-welcomed trend associated with a tightening job market, namely drawing in low skilled and other marginal workers who had long stayed out of the labor force because of the lack of job opportunities. Hence, the labor force participation rate for workers with less than a high school diploma plunged 1.2 percent last month, four times greater than the decline in the overall rate. Since February, the rate has tumbled by 5.9 percentage points, double the decline in the overall rate. A more direct influence of the pandemic on women's participation in the work force may also be unfolding, particularly as it relates to school closings that are prompting more in-home parenting. That influence was particularly apparent last month, as women accounted for almost 90 percent of the 695 thousand shrinkage in the labor force.

Interestingly, the pandemic does not seem to be taking as much of a toll on older workers as had been expected. This group was thought to be most likely to take early retirement or simply drop out of the labor force due to heightened health risks of returning to their jobs. But the data so far do not seem to support that notion as the participation rate among those over 55 or between 55-65 has not deviated from the overall trend. In fact, the rate for both groups has fallen less than the rate for the broader workforce since February. That said, the rate for older workers did fall more sharply than the overall rate in September, so there simply may be a delayed reaction that is starting to gain traction.

Perhaps the most disturbing trend in the overall employment picture is that the job losses since February are becoming more permanent than temporary. Recall that in the weeks and even months immediately following the onset of the coronavirus, the vast majority of workers that lost their jobs thought they would soon be rehired. This, combined with the generous unemployment benefits and one-time stimulus payments, gave laid-off workers the confidence and wherewithal to continue spending, spurring the sharp rebound in consumption over the summer. Those uplifting moments are rapidly vanishing as the length of time workers are staying unemployed is extending well beyond earlier expectations.

Indeed, the number of workers unemployed for longer than six months – generally classified as long-term unemployed – jumped by nearly 800 thousand in September, the largest one-month increase on record. Another measure of entrenched joblessness is the number of job losers not on layoff as a percentage of the total unemployed. This gauge, which tracks the trend in permanent unemployment, jumped to 35.6 percent in September, up from 11.1 percent in April and the highest share since June 2017. The worrisome aspect of this trend is that the longer people are unemployed, the more likely their skills will atrophy and they become more detached from the labor force. When they become part of the hard-core unemployed, the task of drawing them back to the work force becomes ever-more challenging.

To be sure, the September jobs report, while weaker than expected, is far from portraying a doomsday scenario. Jobs are still growing and the unemployment rate is still declining. But the best of the improvement is clearly in the rear view mirror and the path ahead will be more of a grind. What's more, the details of the report depict a less flattering picture than the headline data. No doubt, a big influence going forward will be the progress in finding a vaccine for the virus and how quickly households and business resume normal behavior thereafter. The reopening of schools nationwide, for example, would go a long way towards boosting the participation rate of women in the workforce as well as reviving jobs in education.

A wild card, of course, is whether a second wave of the virus occurs in coming months and short-circuits a recovery that is already losing momentum. If there is a silver lining to the President's positive testing of the coronavirus, which hopefully will turn out to be mild, it may spur skeptics of the health crisis to more diligently heed the warnings of health professionals to don masks and follow the required protocols to prevent the spread of the pandemic. That, together with a much-needed pandemic relief bill from Congress would go a long way towards keeping the job market – and the broad economy – on the recovery trail.

FINANCIAL INDICATORS

INTEREST RATES	October 2	Week Ago	Month Ago	Year Ago
3-month Treasury bill	0.09	0.10	0.11	1.71
6-month Treasury bill	0.11	0.12	0.13	1.65
3-month LIBOR	0.23	0.23	0.25	2.04
2-year Treasury note	0.13	0.14	0.15	1.40
5-year Treasury note	0.28	0.27	0.30	1.35
10-year Treasury note	0.70	0.66	0.72	1.53
30-year Treasury bond	1.49	1.40	.1.47	2.02
30-year fixed mortgage rate	2.88	2.90	2.93	3.65
15-year fixed mortgage rate	2.36	2.40	2.42	3.14
5/1-year adjustable rate	2.90	2.90	2.93	3.38

STOCK MARKET				
Dow Jones Industrial Index	27,682.81	27,173.96	28,133.31	26,573.72
S&P 500	3,348.44	3,298.46	3,426.96	2,952.01
NASDAQ	11,075.02	10,913.56	11,313.13	7,982.47

COMMODITIES				
Gold ($ per troy ounce)	1,904.50	1,863.30	1,940.90	1,510.10
Oil ($ per barrel) - Crude Futures (WTI)	36.99	40.08	39.51	52.95

ECONOMIC INDICATOR	Latest Month/Quarter	Previous Month/ Quarter	Two-Months/ Qtrs Ago	Average-Past Six Months or Quarters
ISM Manufacturing Index (September)	55.4	56.0	54.2	50.5
Nonfarm Payrolls (September) - 000s	661	1,489	1,764	-1,562
Unemployment Rate (September) - Percent	7.9	8.4	10.2	10.9
Personal Income (August) - % change	-2.7	0.5	-1.2	0.5
Personal Consumption (Aug.) - % change	1.0	1.5	6.5	-0.3
Savings Rate (August) - Percent	14.1	17.7	18.7	20.3

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