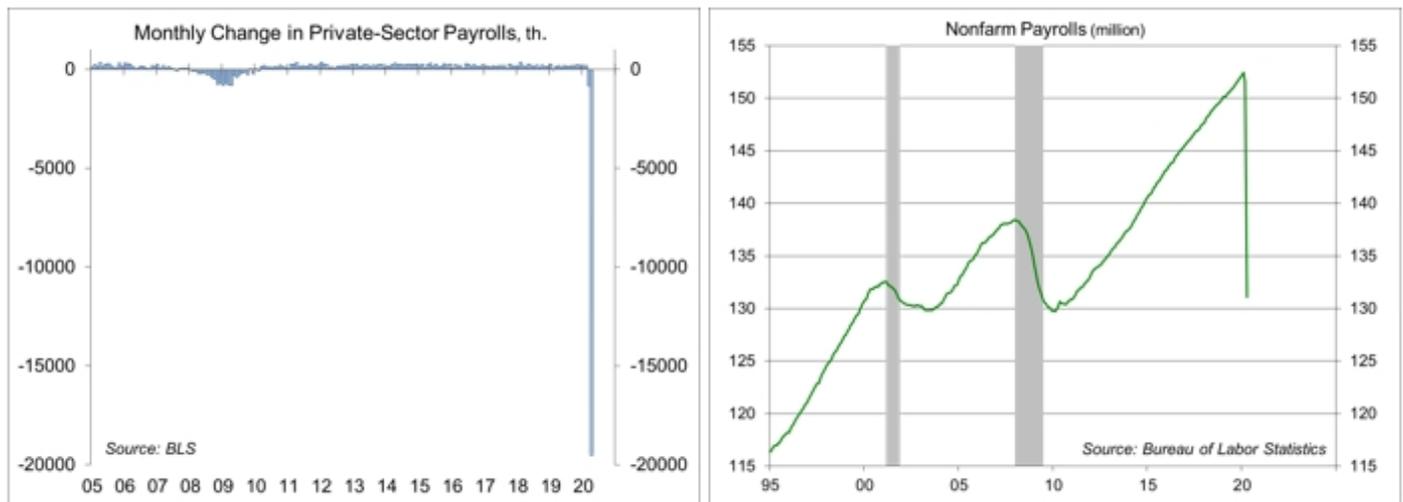


Weekly Economic Monitor -- The Job Market

The Job Market – The April Employment Report was flawed, reflecting issues with data collection, classification, and methodology. However, results were consistent with an unprecedented, sharp deterioration in labor market conditions, mostly at the lower rungs. Payrolls fell by more than 20 million, nearly erasing the number of jobs gained since the financial crisis. The unemployment rate jumped to 14.7%, but that understated the problem. Correcting for a classification issue, the figure would have been closer to 20%. So many lower-income workers were jettisoned in April, average hourly earnings surged. None of this tells anything about where we’re going. While many are hoping for an economic rebound, recovery will take time and there is going to be some permanent job destruction.

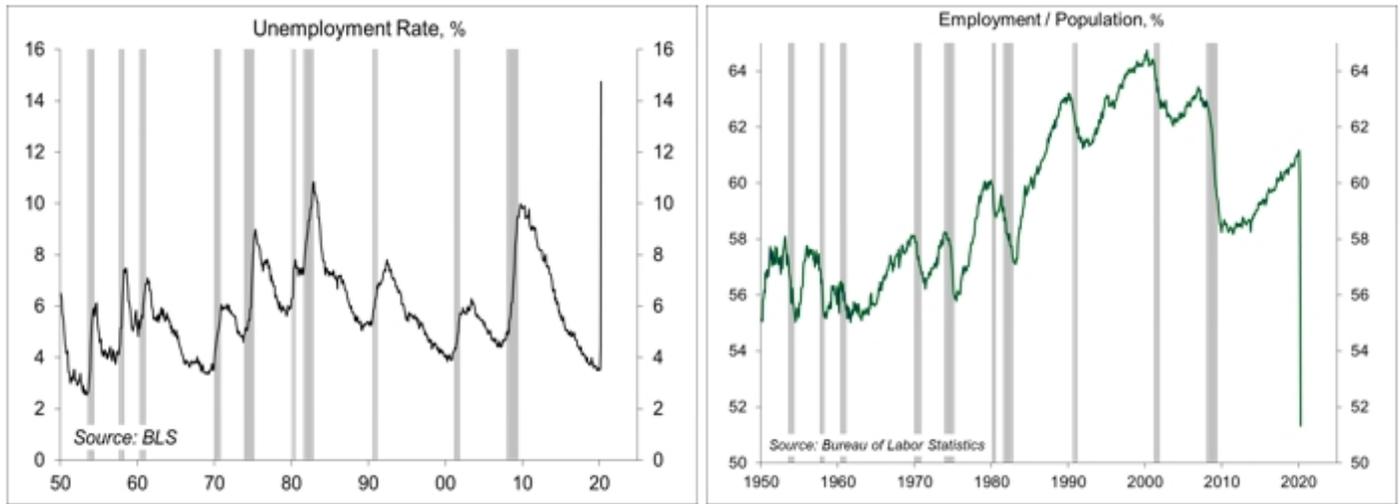
Nonfarm payrolls fell by 20.5 billion in the initial estimate for April, the largest decline on record, dwarfing the amount of job losses during the financial crisis. Private-sector jobs were down 14.5% from a year earlier. Leisure and hospitality lost 7.65 million in April, down 48% in the last two months (5.49 million of that in restaurants). Manufacturing shed 1.3 million jobs. Construction lost 975,000. Retail jobs fell by 2.1 million. Temp-help payrolls fell by 842,000 (-30.9% y/y). State and local government lost 981,000 jobs, about two-thirds in education (in comparison, we lost about 700,000 state and local government jobs in total during the financial crisis).



In a normal April, we would expect to add around one million jobs. Prior to seasonal adjustment, payrolls fell by 19.5 million. The Bureau of Labor Statistics uses a birth/death model to account for business creation and destruction. This model does well in normal circumstances, but tends to miss badly at turning points. The model would have added 246,000 to the unadjusted payroll total, but the BLS adjusted that to -553,000 to account for the effects of COVID-19. Annual benchmark revisions will eventually correct that, but why worry about the nearest million or so at this point.

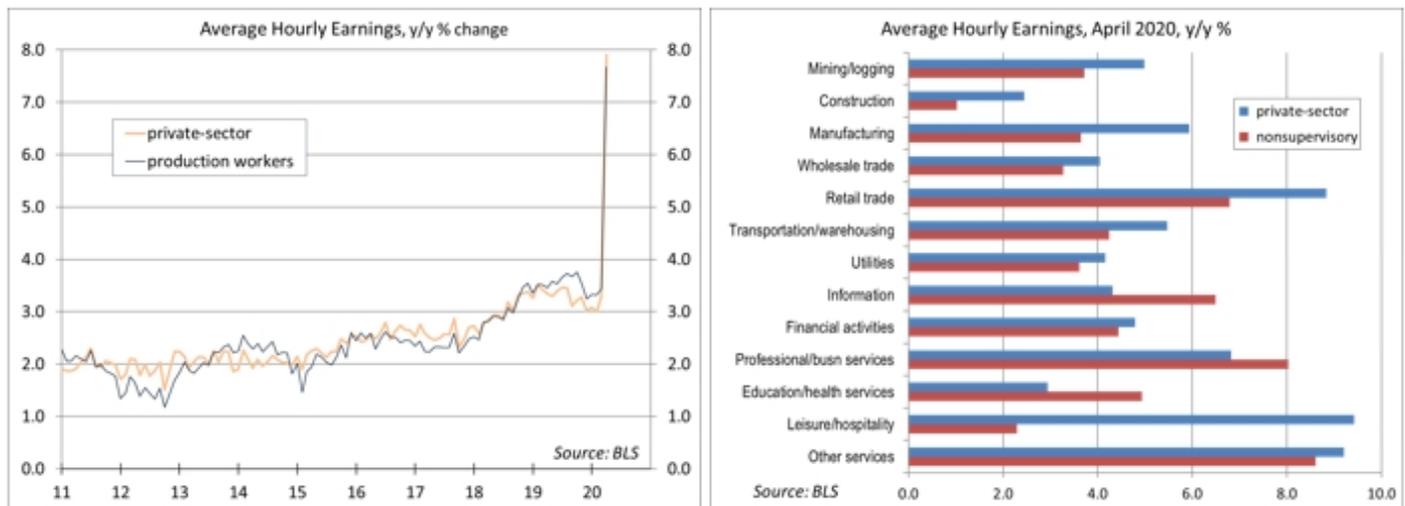
Weekly jobless claims have been trending lower in recent weeks, but the level remains elevated. Over the seven weeks ending May 2, 33.5 million workers had filed a claim. The Labor Department’s seasonal adjustment is multiplicative, which exaggerates the headline figure. Prior to seasonal adjustment, 30.7 million filed claims (18.7% of the labor force, or more than one in six workers). There may be multiple filings, as some workers get tired of waiting and file again, but that is likely small. On the other hand, a lot of workers can’t file, so the headline figure tends to understate the amount of job losses.

The unemployment rate spiked to 14.7% in April. Furloughed individuals should be tallied as “unemployment on temporary layoff,” but a lot weren’t. Enough, according to the BLS, to reduce the unemployment rate by about five percentage points. In other words, the unemployment rate should have been reported closer to 20%. The unemployment rate for teenagers jumped to 31.9% (from 14.3 in March and 11.0% in February). The rate for young adults (aged 20-24) rose to 25.7% (from 8.7% in March and 6.4% in February). For prime-age workers (25-54), the rate rose to 12.8% (from 3.6% in March and 3.0% in February).



The weakness in the labor market was better reflected in the employment/population ratio, which fell to a record low of 51.3% (vs. 60.0% in March and 61.1% in February).

Average hourly earnings are lower in leisure & hospitality than in other industries (in February, \$16.85 vs. \$28.52 for the private sector as a whole). Hence, greater job losses in lower paying industries would boost the overall average. However, average wage gains picked up across a wide range of industries in April. It appears that lower-income workers fared the worst in general in April – not just in leisure & hospitality.



Many furloughed workers can expect to return to work at the economy opens up, but not all. The Payroll Protection Program, “recovery rebates,” and extended unemployment benefits should help to less the damage, but many will fall through the cracks and not every job will come back. There will be some permanent damage. How much is unclear.

Most of the economic data reports are backward-looking, but weekly jobless claims will remain the key real-time figure to watch. Claims have been coming down in recent weeks, but they have remained in the millions. Seeing claims falling a lot more would be a hopeful sign, but that may not happen anytime soon.

This Week – Retail sales are expected to have fallen further in April (motor vehicle sales were reported to have declined by 24.5%, following a 32.2% drop in March) and gasoline prices fell. The Bureau of Census is tweaking the seasonal adjustment on the fly, adding another level of uncertainty to the sales figure. Industrial production should post a large decline. Aggregate hours (from the employment report) were reported to have fallen 17.9% last month. Inflation reports should reflect the drop in gasoline prices and weak demand. Jobless claims are likely to continue to trend low, but the level remains elevated. Thursday's figures are expected to show 20% of workers (one in five!) having filed a claim in the last eight weeks. The Peterson Institute for International Economics (PIIE) will host Fed Chair Powell for a live streaming event on Wednesday. (M20-3078534)

This Week:					<i>forecast</i>	last	last –1	comments
Monday	5/11		no significant data					
Tuesday	5/12	6:00	Small Business Optimism	Apr	NF	96.4	104.5	should fall further
		8:30	Consumer Price Index	Apr	-0.5%	-0.4%	+0.1%	lower gasoline prices
			year-over-year		+0.8%	+1.5%	+2.3%	lower
			ex-food & energy		-0.2%	-0.1%	+0.2%	mild general deflation
			year-over-year		+1.7%	+2.1%	+2.4%	lower
		8:30	Real Hourly Earnings	Apr	+5.2%	+0.8%	+0.3%	average hourly earnings rose 4.7%
			year-over-year		+7.0%	+1.6%	+0.6%	good for those who still have a job
		2:00	Treasury Budget, Sbln	Apr	-737.0	+160.3	+214.3	receipts down 50%, spending doubled
Wednesday	5/13	8:30	Producer Price Index	Apr	-0.3%	-0.6%	+0.5%	mixed food & energy
			ex-food & energy		-0.2%	-0.3%	+0.5%	seen lower
			ex-f, e, & trade services		-0.3%	-0.1%	+0.4%	mild deflation
		9:00	Powell Economic Update					live streaming
Thursday	5/14	8:30	Jobless Claims, th.	5/09	2600	3169	3846	trending down, but still highly elevated
		8:30	Import Prices		NF	-2.3%	-0.7%	lower petroleum prices
			ex-food & fuels		NF	+0.1%	+0.1%	a low trend
Friday	5/15	8:30	Retail Sales	Apr	-8.6%	-8.4%	-0.4%	another large drop in motor vehicles
			ex-autos		-5.8%	-4.2%	-0.4%	lower gasoline sales
			ex-autos, bld mat, gasoline		-4.9%	-3.2%	-0.1%	mixed, but mostly lower
		9:15	Industrial Production	Apr	-12.4%	-5.4%	+0.5%	another large decline
			Manufacturing Output		-15.5%	-6.3%	0.0%	aggregate hours fell 17.9%
			Capacity Utilization		62.4%	72.7%	77.0%	falling
		10:00	Business Inventories	Mar	-0.1%	-0.4%	-0.3%	mixed
		10:00	UM Consumer Sentiment	m-Apr	68.0	71.8	89.1	seen somewhat lower
Next Week:								
Monday	5/18	10:00	Homebuilder Sentiment	May	25	30	72	down sharply in April
Tuesday	5/19	8:30	Building Permits, th.	Apr	1220	1350	1452	seen lower
			% change		-9.6	-7.0	-6.3	with some volatility in multi-family
			Housing Starts		1180	1216	1564	these data are erratic
			% change		-3.0	22.3	-3.41	watch for possible revisions
Wednesday	5/20	2:00	FOMC Minutes	4/29				any disagreements?
Thursday	5/21	8:30	Jobless Claims, th.	5/09	2200	2600	3839	still elevated
		10:00	Existing Home Sales, mln.	Apr	5000	5270	5760	seen lower
			% change		-5.0	-8.5	+6.3	limited by supply constraints
		10:00	Leading Econ Indicators	Apr	-4.0%	-6.7%	-0.2%	jobless claims still dominate
Friday	5/22		SIFMA: early bond close					at least the weather's warming up

Coming Events and Data Releases

May 25	Memorial Day Holiday (markets closed)	June 1	ISM Manufacturing Index (markets closed)
May 26	CB Consumer Confidence (May)	June 5	Employment Report (May)
May 28	Durable Goods Orders (April)	June 10	FOMC Policy Decision
May 29	UM Consumer Sentiment (May)	July 29	FOMC Policy Decision

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange's Globex electronic trading platform. Dow

Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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