A Slower Gear

The September jobs report offered more evidence that the second half of the economy’s recovery will be much slower than the first. Employers added 661K jobs last month, less than half the number added in August. The headline number was held down by the release of 41K temporary Census workers. Remote learning appears to have contributed to less government hiring than usual this time of year, leading to a seasonally-adjusted decline of state and local education payrolls of 49K and 231K, respectively.

Private sector hiring held up better, increasing 877K, but that too marks a downshift from the 1.02M jobs added in August and the 2.43M average registered the prior three months. Job gains continue to be strongest in the industries hardest hit by shutdowns in last spring. Leisure & hospitality jobs rose by 318K with 54% of jobs lost since February recovered. Retail jobs have bounced back even more impressively with another 142K added for 80% of losses recovered as consumers have devoted more spending to goods and services. That shift has also benefited manufacturing, where hiring rose by the most in three months (+66K).

The unemployment rate fell half a point to 7.9%, but came as more than twice as many people left the labor force (-695K) than became employed (+275K) according to the household survey. The number of workers on temporary layoff continued to decline (-1.52M), but permanent job losers rose again (+345K). Along with the drop in the participation rate, the rise in permanent job losers suggests an arduous recovery as workers’ ties to employers and the labor market weaken more broadly.

With unemployment still high, average hourly earnings (AHE) ticked up just 0.1%, with broad weakness across all major industries with the exception of retail (+1.7%). The downshift in job growth and AHE brings with it a slower pace of labor market earnings at the same time as financial support for those out of work has been reduced. An income proxy capturing aggregate hours worked and hourly pay for private sector workers rose 1.2% in September, matching the smallest monthly gain since the pandemic. The weaker pace of labor market earnings as well as reduced jobless benefits will be a headwind on consumer spending in coming months and whittle down savings further.

Today’s employment report is somewhat more backward looking than usual due to the fast-moving nature of the pandemic and relatively early survey period (week of Sep. 6). A wave of high-profile mass layoff announcements in recent days and stubbornly high jobless claims suggest the speed of the recovery is likely to downshift even further in the coming months. Just over half (52%) of the 22.2M jobs lost are now recovered, and with the virus continuing to circulate and waning fiscal support, the second half of the recovery will likely be notably, and at times, painfully slower. While we estimate GDP will recover to its pre-pandemic level by late 2021, the jobs recovery is unlikely to be complete by the end of 2022.