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August 2020 U.S. Employment Preview

Wells Fargo Securities Economics Group

September 3, 2020

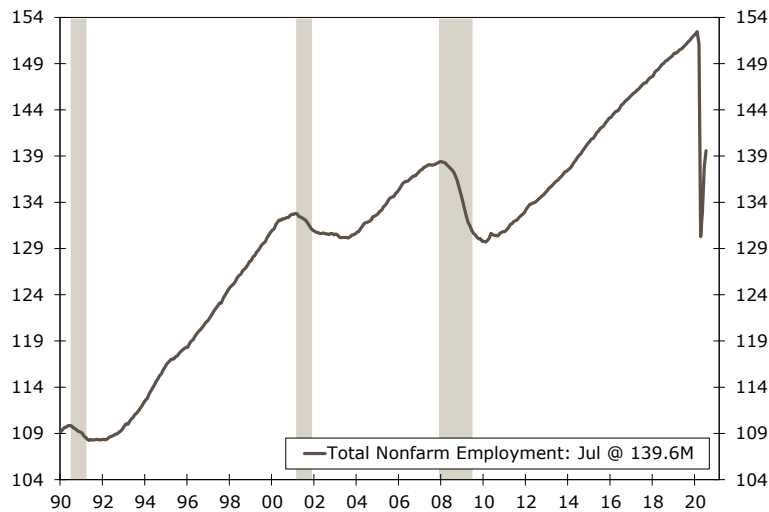
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The Labor Market Continues to Recover, Albeit at a Slower Pace

- Payroll growth is positioned to remain positive, yet continue to slow materially following rapid gains over the past few months. **We look for nonfarm employment to add 1.4 million jobs in August.** If our call is realized, employment would still be 7.5% below its pre-pandemic level.
- Forward-looking employment indicators were mixed, with initial jobless claims remaining stubbornly high on one hand, and business surveys suggesting varying degrees of ongoing improvement in hiring on the other hand.
- Improvement in the unemployment rate may be restrained by firming labor force participation. Still, **we look for the unemployment rate to slip to 10.0% in August.**
- The August employment report should remain encouraging, showing the U.S. labor market continuing to heal and remaining firmly on its recovery path. That said, the pace of hiring is slowing and the trajectory of the recovery going forward is heavily dependent on the coronavirus.

Total Nonfarm Employment
Millions

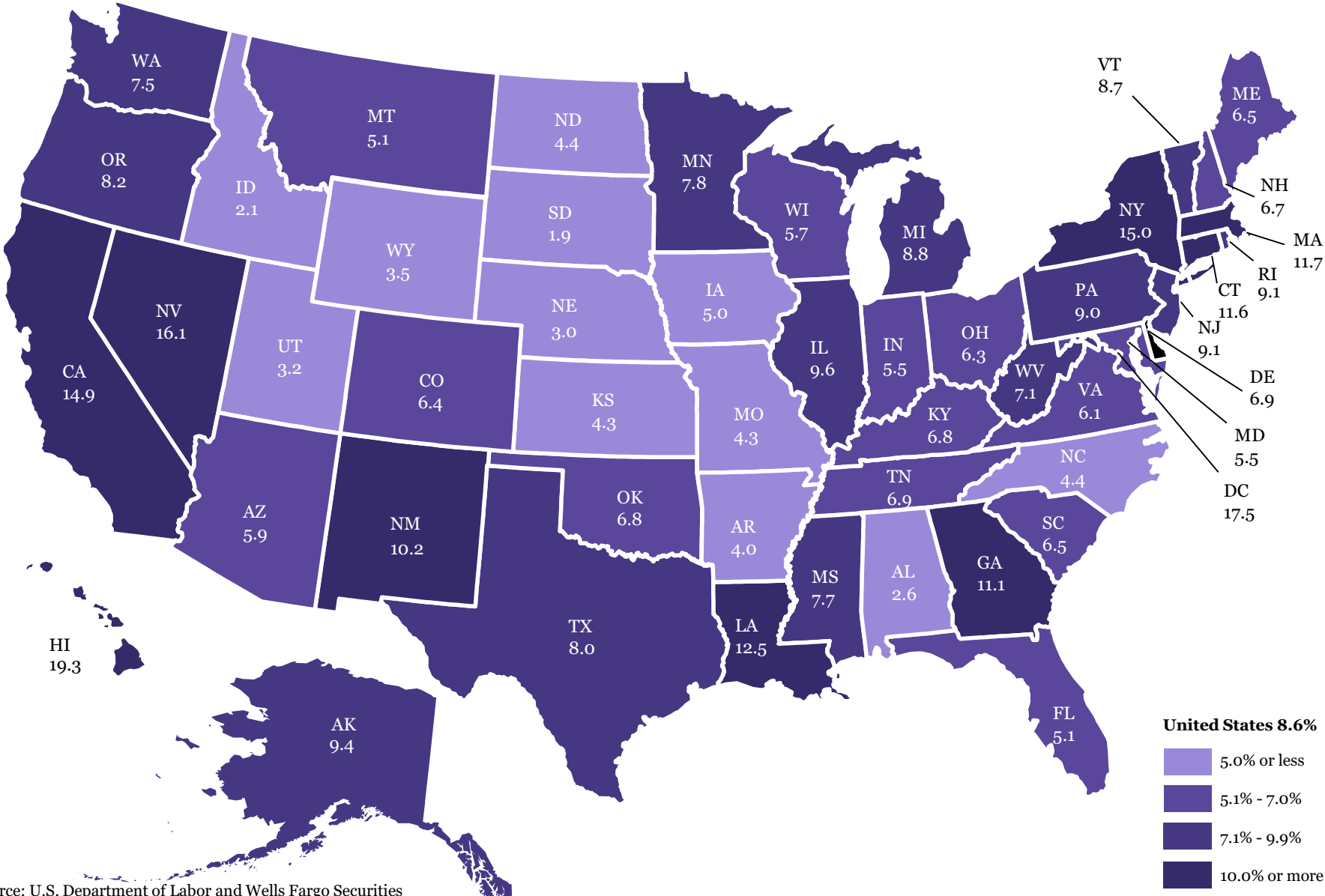


Payroll Forecast

	2019	2020				August 2020	
	August	May	June	July	3-MMA	WFS Forecast	Bloomberg Consensus
Nonfarm Payrolls	207,000	2,725,000	4,791,000	1,763,000	3,093,000	1,400,000	<i>1,350,000</i>
Private Payrolls	157,000	3,236,000	4,737,000	1,462,000	3,145,000		<i>1,284,000</i>
Household Employment	549,000	3,839,000	4,940,000	1,350,000	3,376,333		
Private Service Providing	155,000	2,560,000	4,222,000	1,423,000	2,735,000		
Manufacturing	3,000	240,000	357,000	26,000	207,667		<i>60,000</i>
Government	50,000	(511,000)	54,000	301,000	(52,000)		
Unemployment Rate	3.7%	13.3%	11.1%	10.2%	11.5%	10.0%	<i>9.8%</i>
U-6 Unemployment Rate	7.2%	21.2%	18.0%	16.5%	18.6%		
Labor Force Participation Rate	63.2%	60.8%	61.5%	61.4%	61.2%		
Average Hourly Earnings, m/m	0.4%	-1.1%	-1.3%	0.2%	-0.7%	0.1%	<i>0.0%</i>
Average Hourly Earnings, yr/yr	3.5%	6.6%	4.9%	4.8%	5.4%	4.5%	<i>4.4%</i>
Average Weekly Hours Worked	34.40	34.70	34.60	34.50	34.60		<i>34.50</i>

Source: U.S. Department of Labor, Bloomberg LP and Wells Fargo Securities

Continuing Claims for Week Ended August 15 as Percent of February Labor Force



Source: U.S. Department of Labor and Wells Fargo Securities

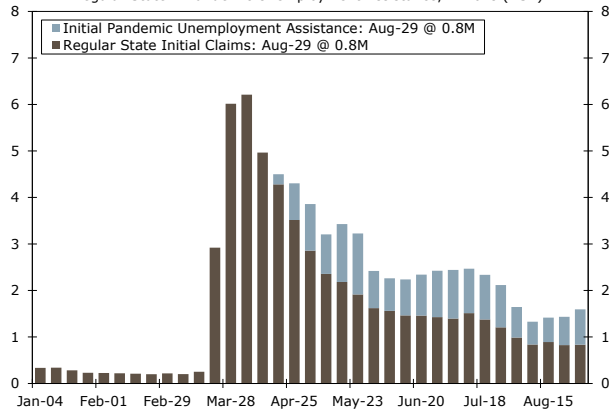
Secondary Employment Indicator Improvement Stalls

Initial Jobless Claims

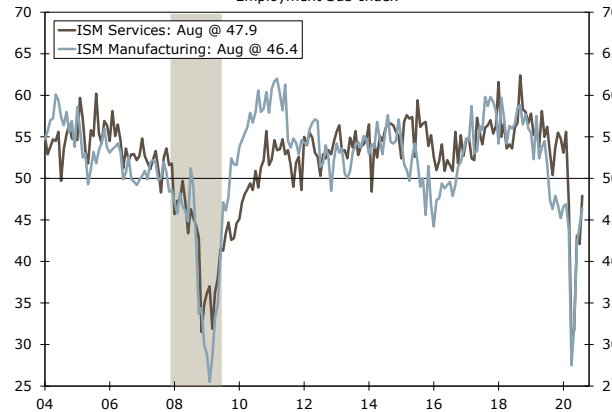
- Remaining historically elevated, initial and continuing jobless claims' performance continues to signal ongoing strains in the labor market.
- For the August survey week, initial claims were down 318K compared to July. Continuing claims are also lower, down 2,459K between survey weeks.
- **There are still around 29-million workers receiving some form of jobless benefits.** Lawmakers appear to be no closer to some form of resolution for an extension of enhanced unemployment benefits.

Initial Jobless Claims

Regular State + Pandemic Unemployment Assistance, Millions (NSA)



ISM Manufacturing & Services Employment Sub-Index



PMI Readings of Employment

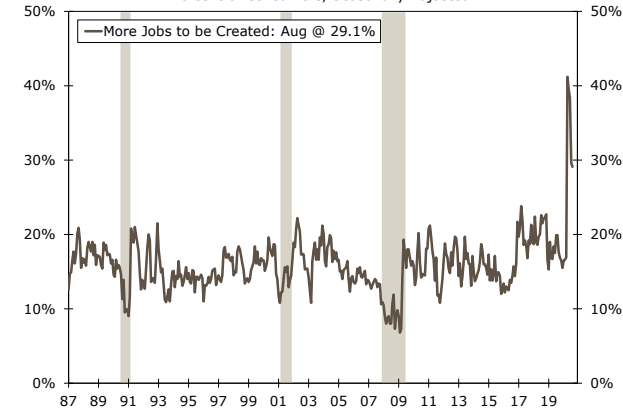
- The ISM manufacturing employment index improved for the fourth consecutive month as firms reported the rate of job shedding close to the pre-pandemic pace seen in February.
- The ISM services employment index showed further improvement in August, yet it remains in contractionary territory. **Comments suggested that hiring has been authorized, but has been slow to materialize.**

Consumers' Assessment

- **Consumers' perception of the labor market deteriorated modestly last month.**
- The proportion of respondents to the August consumer confidence survey saying jobs are "plentiful" is still pitifully low at 21.5%. The share of participants finding jobs "hard to get" rose to 25.2%, a three-month high.
- Even though the economy continues to gradually re-open, consumers appear concerned that the pace of job growth could be set to slow in the coming months.

Future Employment Conditions

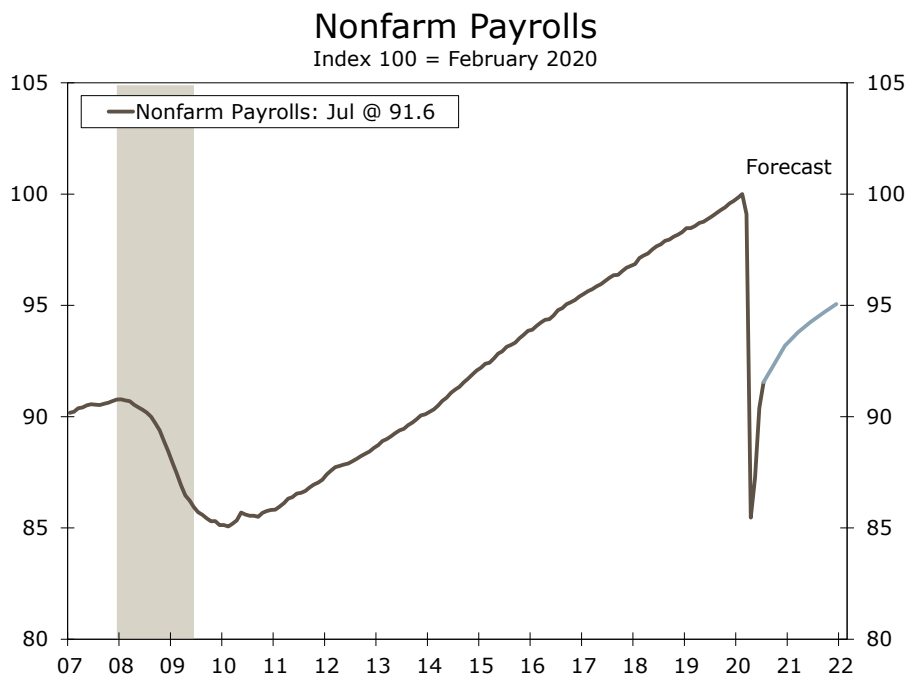
Percent of Consumers, Seasonally Adjusted



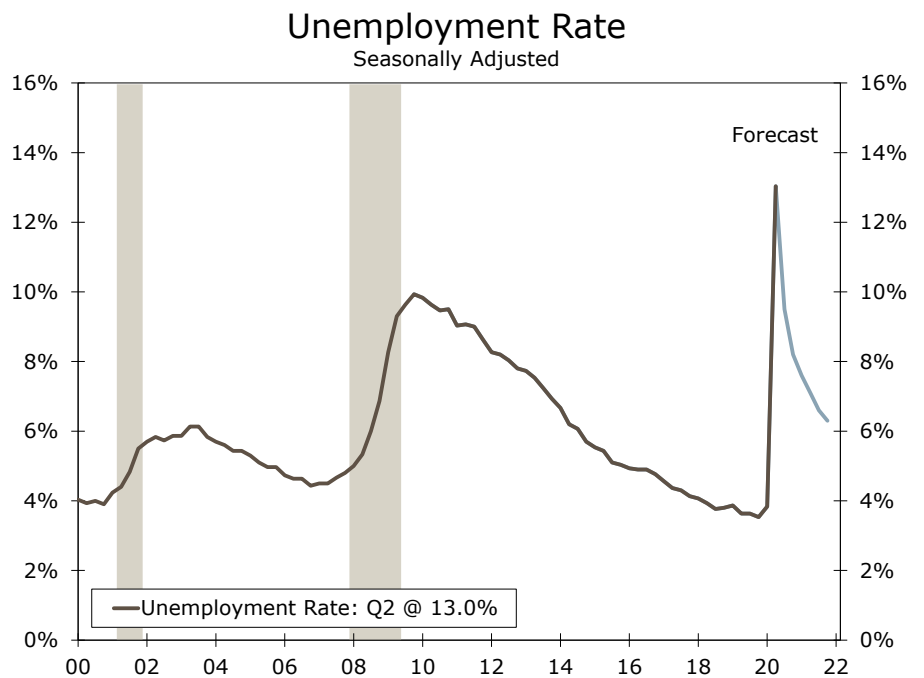
Source: U.S. Department of Labor, Institute for Supply Management, The Conference Board and Wells Fargo Securities

Thankfully coronavirus case growth has slowed in recent weeks, which if sustained will be a tailwind to the pace of hiring and overall economic growth. However, the potential for new virus outbreaks this fall and winter are clearly a downside risk to the labor market outlook.

Hiring



Joblessness

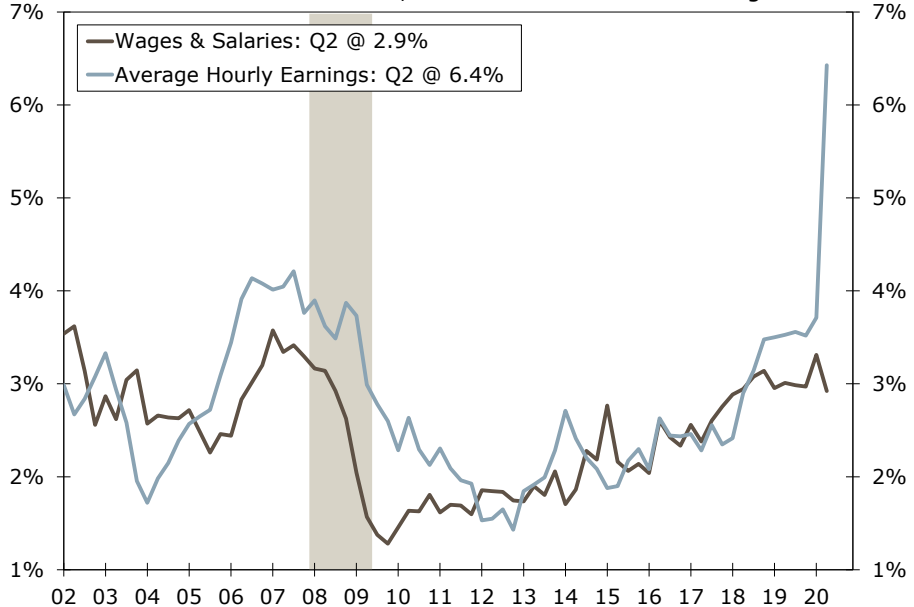


Source: U.S. Department of Labor and Wells Fargo Securities

As lower-paid workers are rehired and the associated boost from the prior compositional effects unwind, average hourly earnings growth should continue to moderate in the coming months. A more reliable measure of compensation trends during the pandemic, the Employment Cost Index, is not impacted by the wage distortion issue.

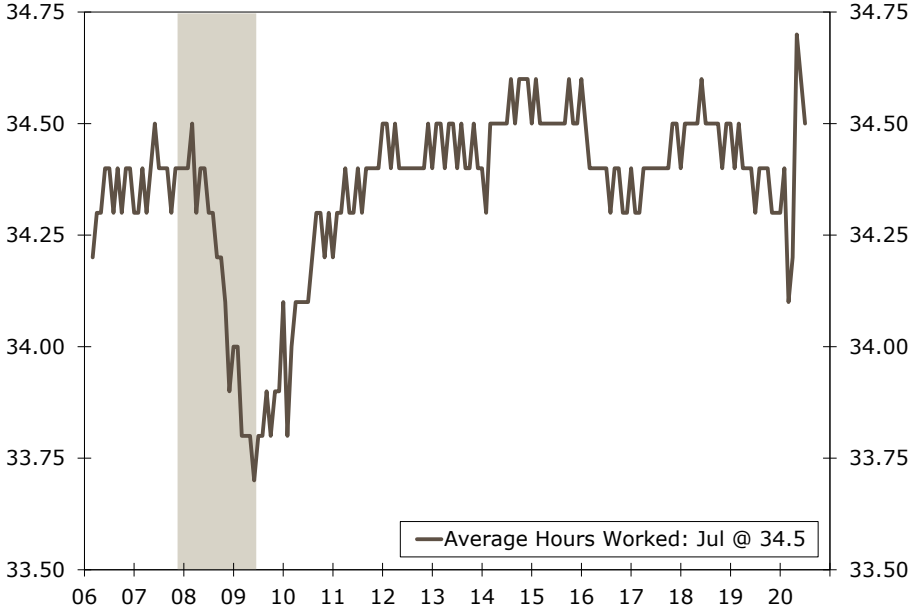
Wage Pressure

ECI Wages and Average Hourly Earnings
Private Sector Workers, Year-over-Year Percent Change



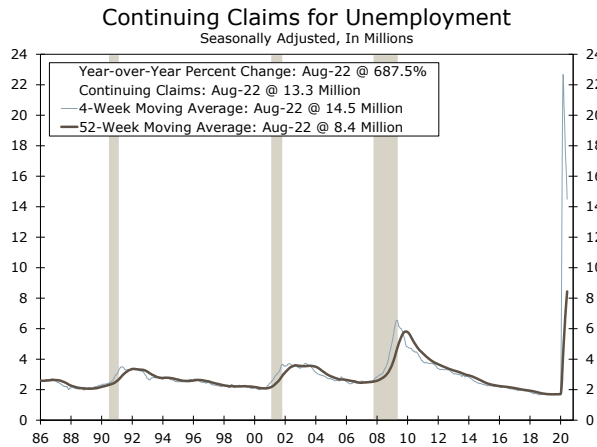
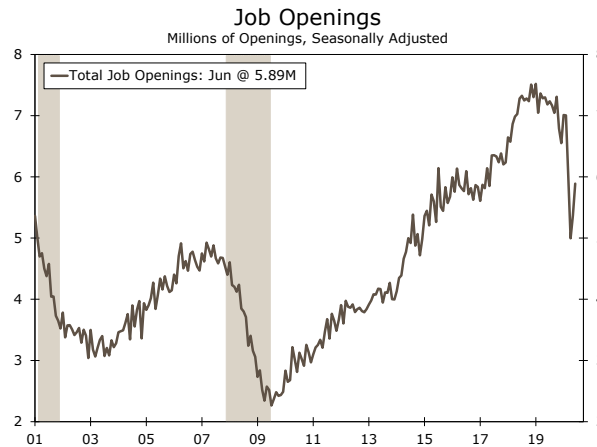
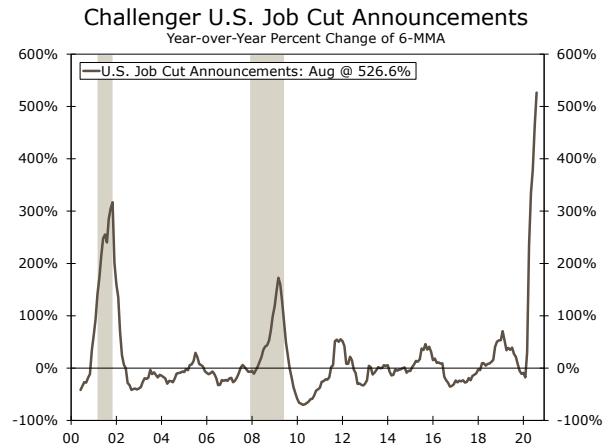
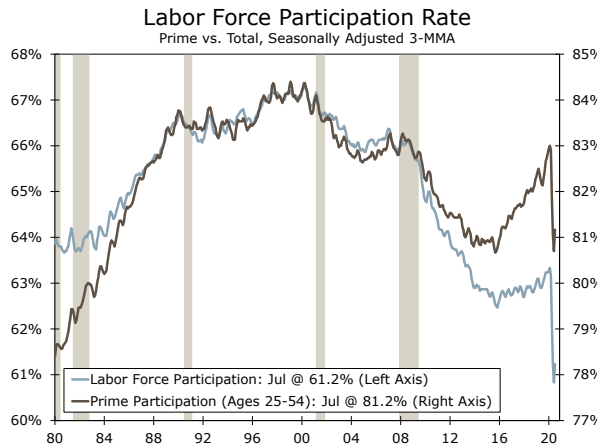
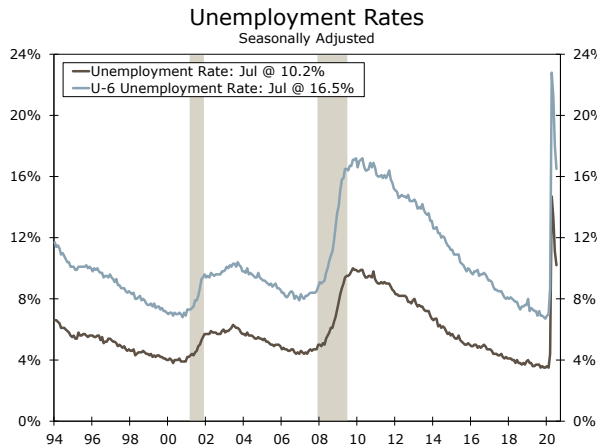
Hours Worked

Average Weekly Hours Worked
Private Sector Workers



Source: U.S. Department of Labor and Wells Fargo Securities

The U.S. labor market has improved considerably over the past few months as state and local economies engaged in the re-opening process. However, a full recovery is still years in the making as some businesses will not re-open and others will rely less on labor.

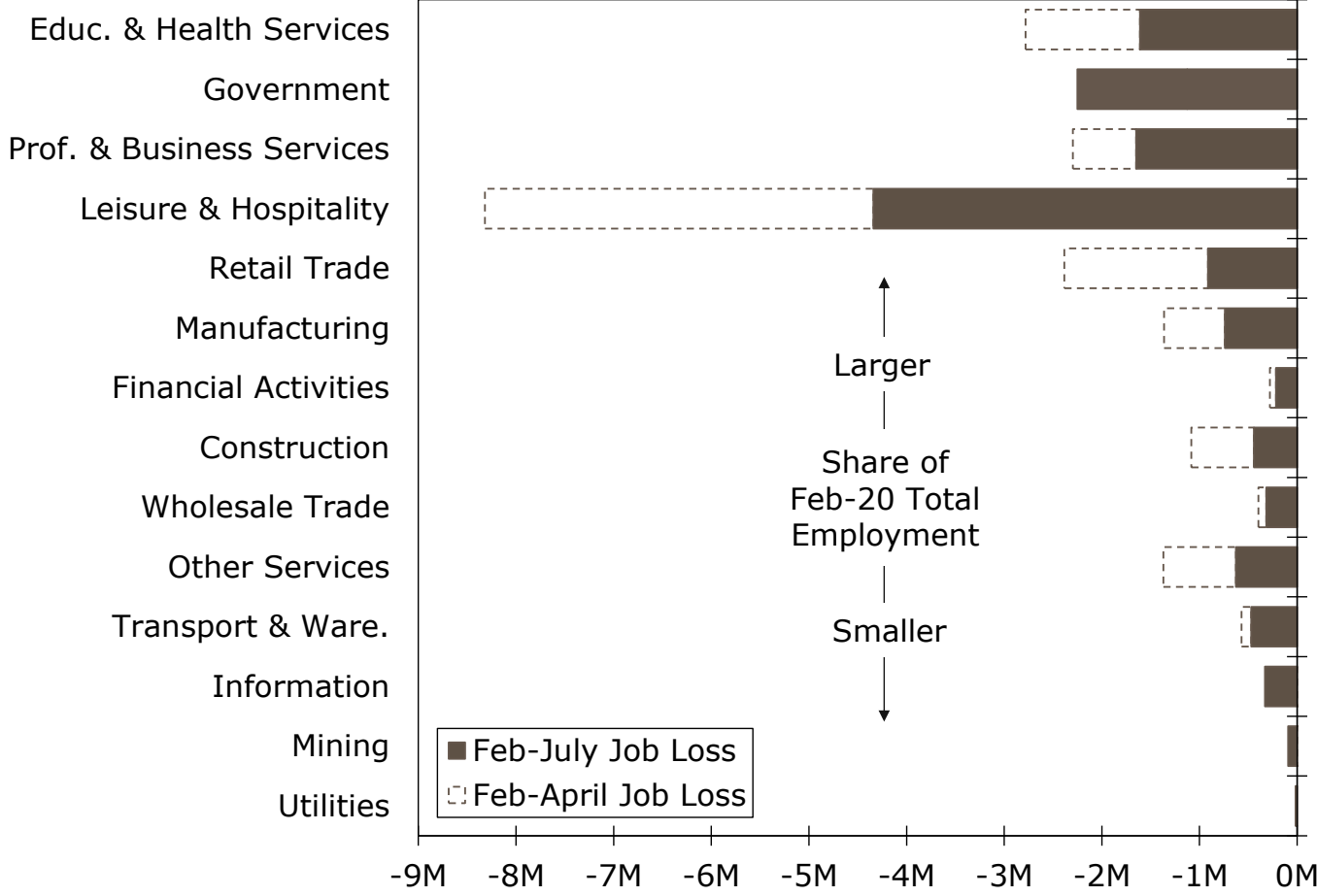


Source: U.S. Department of Labor, Challenger, Gray and Christmas, Inc., Bloomberg LP, NFIB and Wells Fargo Securities

Even as material progress has been made, payrolls across the board are still significantly lower than in February.

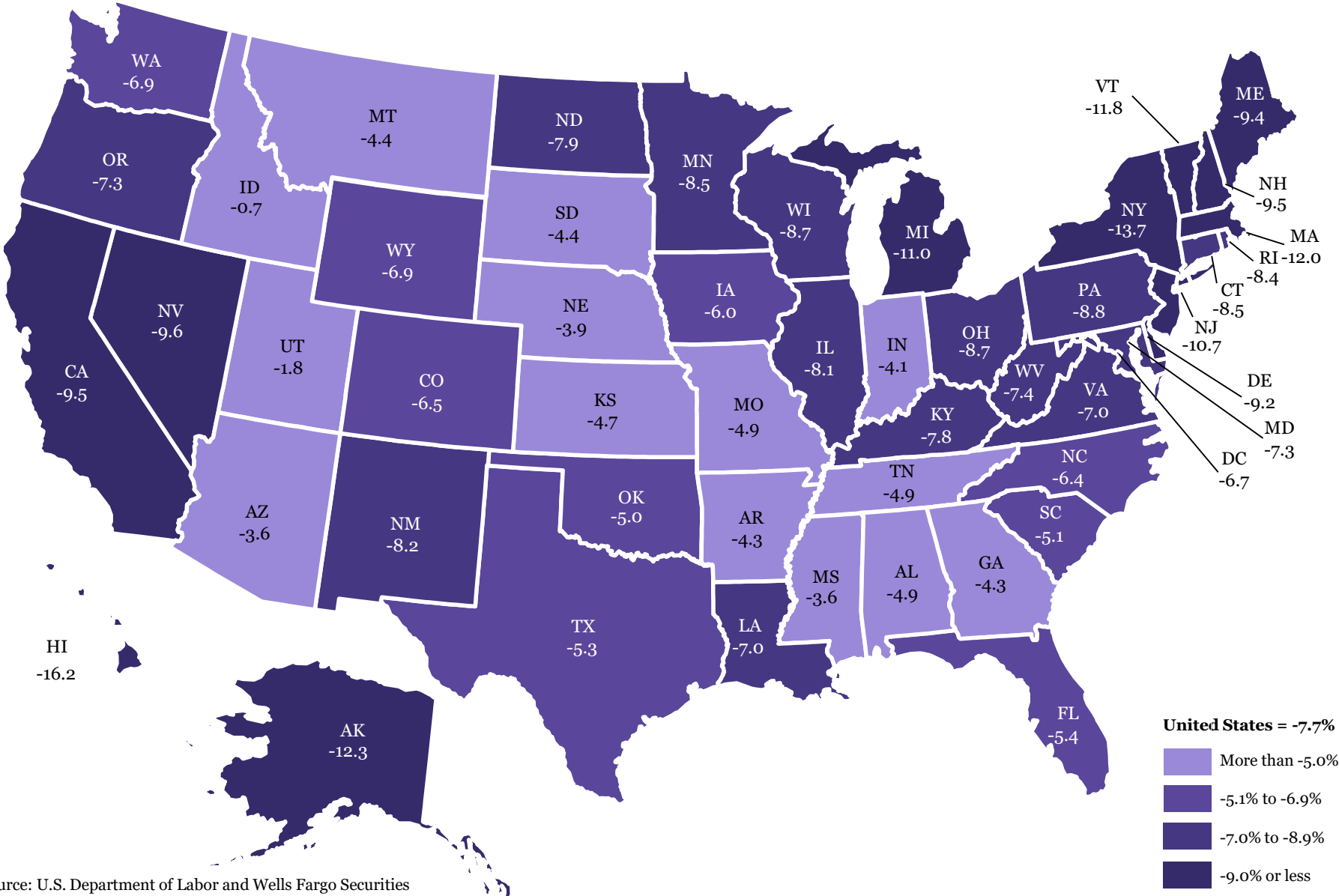
Job Loss by Industry

Millions



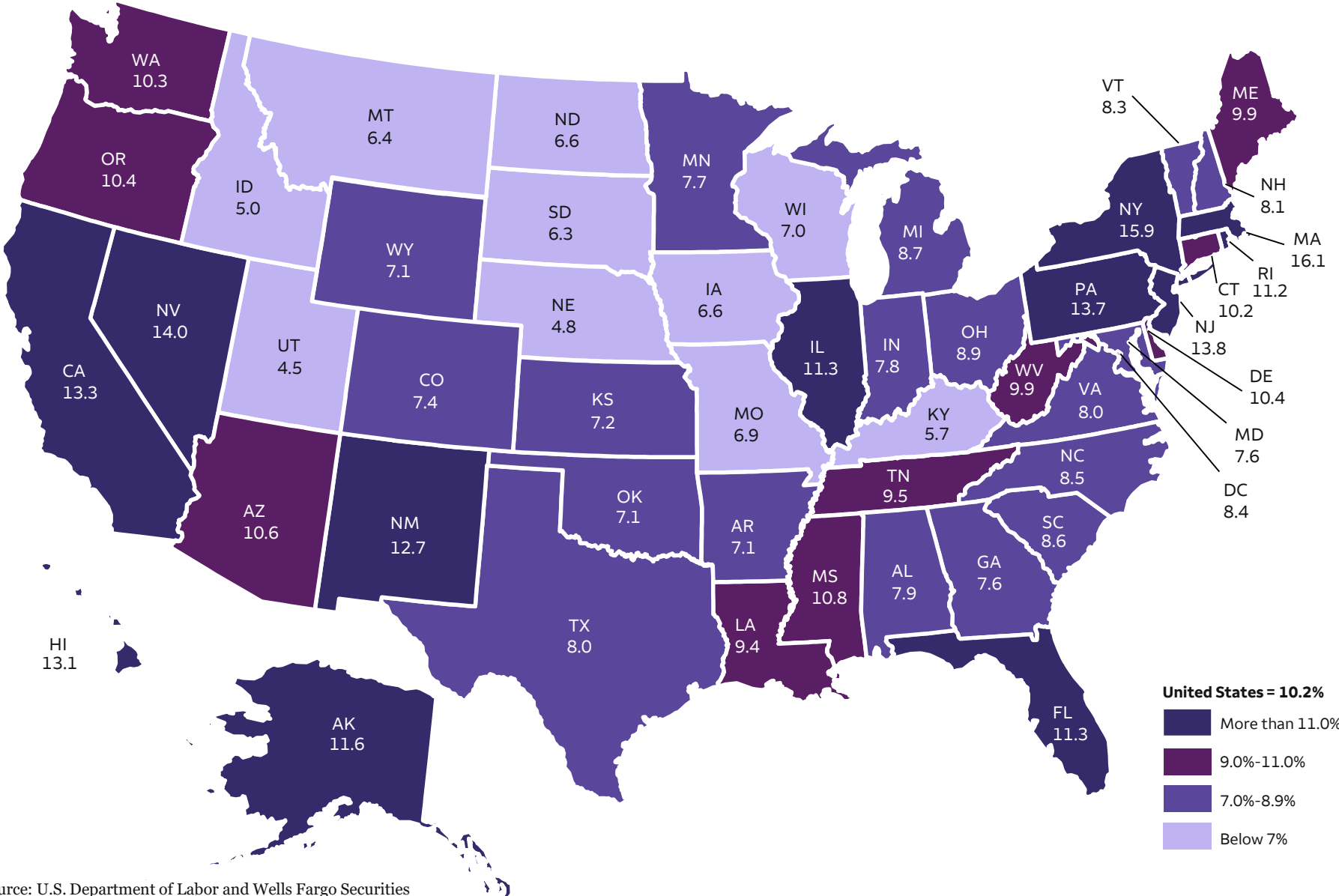
Source: U.S. Department of Labor and Wells Fargo Securities

Year-over-Year Employment Growth — July 2020



Source: U.S. Department of Labor and Wells Fargo Securities

Unemployment Rate by State – July 2020



Source: U.S. Department of Labor and Wells Fargo Securities

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