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July 2020 U.S. Employment Preview

Wells Fargo Securities Economics Group

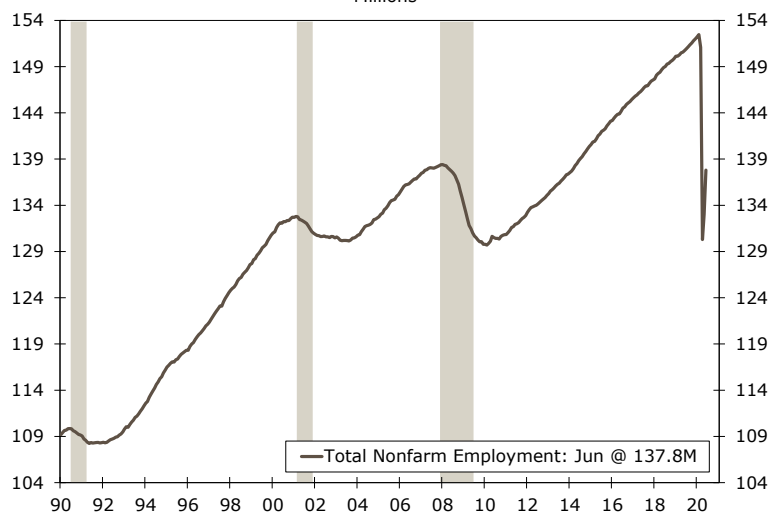
August 05, 2020



The July Employment Report Should Show An Extending Labor Market Recovery

- Payroll growth is positioned to remain positive, yet slow materially following the past two months of a rapid rebound. **We look for nonfarm employment to add 1.7 million jobs in July.** Even with our above-consensus call, that would still leave employment 8.5% below its pre-pandemic level.
- Forward-looking employment indicators have been 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.
- The unemployment rate should continue to come off April's high, falling to 10.4%.**
- On balance, **we expect the July employment report performance to be positive, extending improvement in the U.S. labor market.** That said, questions around the strength and duration of the economic rebound are increasing given the recent surge in new virus cases in the Sun Belt states. This has intensified the uncertainty about whether state & local economies can continue to recover, keeping the markets' focus squarely on the dashboard of labor market indicators.

Total Nonfarm Employment
Millions

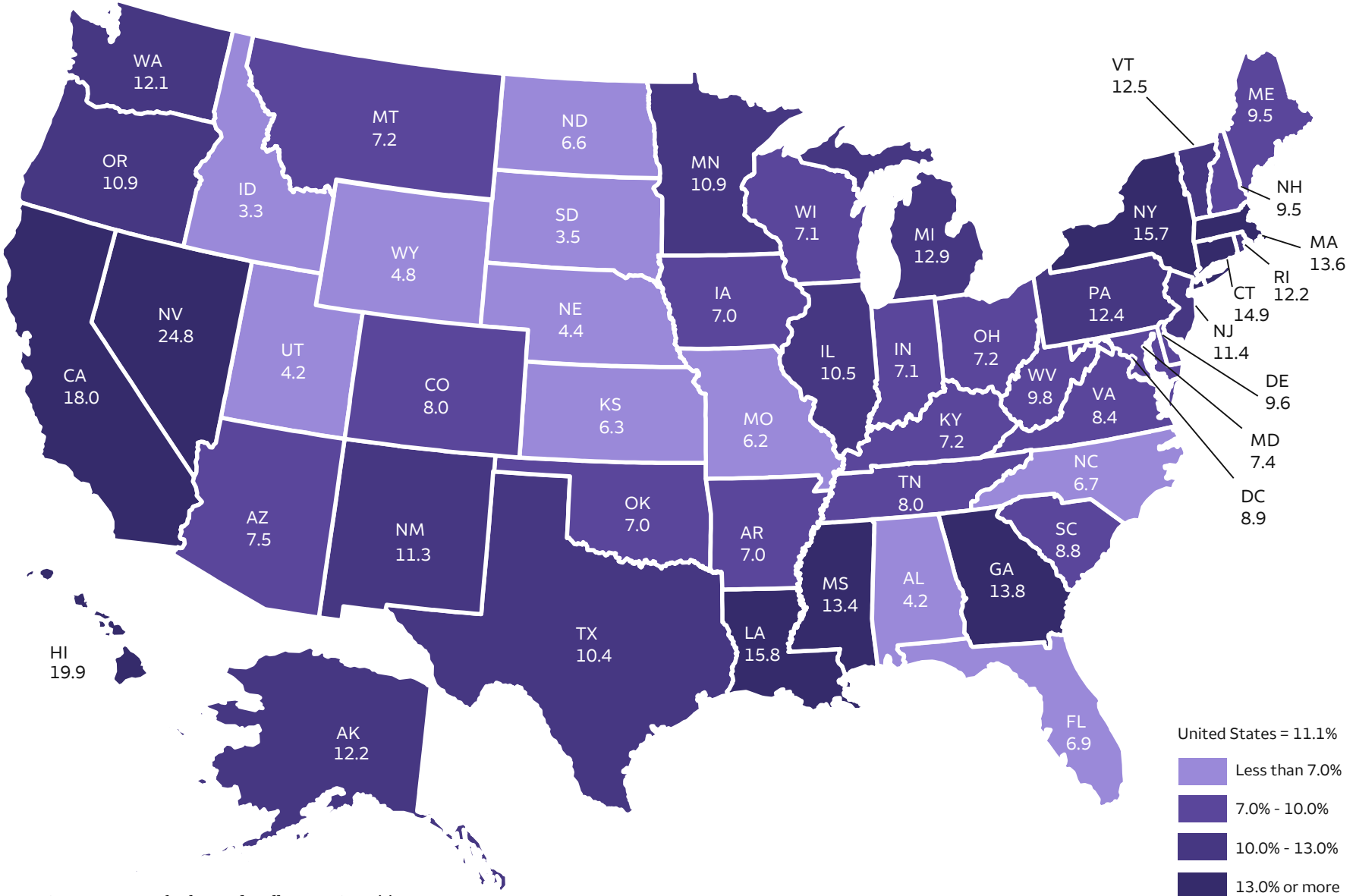


Payroll Forecast

	2019		2020			July 2020	
	July	April	May	June	3-MMA	WFS Forecast	Bloomberg Consensus
Nonfarm Payrolls	194,000	(20,787,000)	2,699,000	4,800,000	(4,429,333)	1,700,000	1,500,000
Private Payrolls	160,000	(19,835,000)	3,232,000	4,767,000	(3,945,333)		1,350,000
Household Employment	198,000	(22,369,000)	3,839,000	4,940,000	(4,530,000)		
Private Service Providing	151,000	(17,447,000)	2,548,000	4,263,000	(3,545,333)		
Manufacturing	7,000	(1,317,000)	250,000	356,000	(237,000)		280,000
Government	34,000	(952,000)	(533,000)	33,000	(484,000)		
Unemployment Rate	3.7%	14.7%	13.3%	11.1%	13.0%	10.4%	10.5%
U-6 Unemployment Rate	6.9%	22.8%	21.2%	18.0%	20.7%		
Labor Force Participation Rate	63.0%	60.2%	60.8%	61.5%	60.8%		
Average Hourly Earnings, m/m	0.3%	4.7%	-1.0%	-1.2%	0.8%	-0.7%	-0.5%
Average Hourly Earnings, yr/yr	3.5%	8.0%	6.6%	5.0%	6.6%	4.0%	4.2%
Average Weekly Hours Worked	34.30	34.20	34.70	34.50	34.47		34.40

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

Continuing Claims for Week Ended July 18 as Percent of February Labor Force

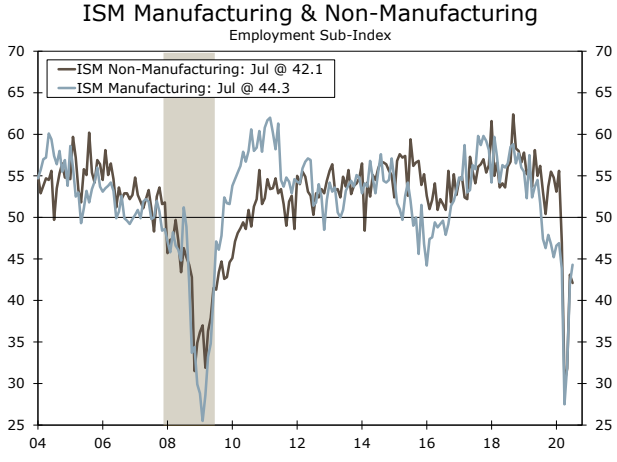
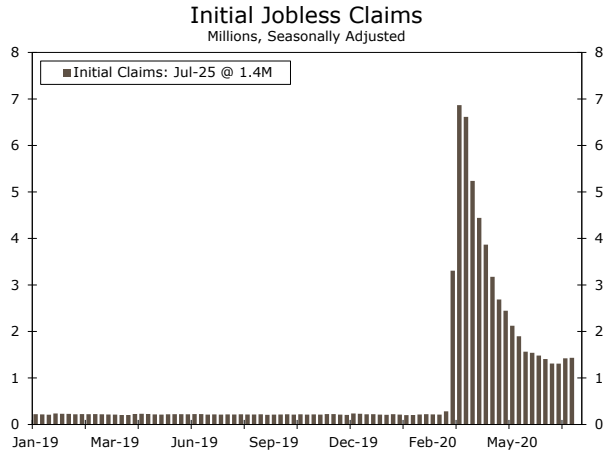


Source: U.S. Department of Labor and Wells Fargo Securities

Re-Imposed Restrictions Have Stalled Secondary Employment Indicator Improvement

Initial Jobless Claims

- After 15 consecutive declines, initial jobless claims have risen the past two weeks, raising concerns that the U.S. economic rebound is at risk.
- Note, **July is a notoriously volatile month where seasonal adjustment issues can exacerbate weekly moves.**
- For the July survey week, initial claims were down nearly 118K compared to June. Continuing claims are also lower, down 2,213K between survey weeks.
- **More than 30-million workers are receiving some form of jobless benefits,** elevating the stakes for some form of resolution for the extension of enhanced unemployment benefits.

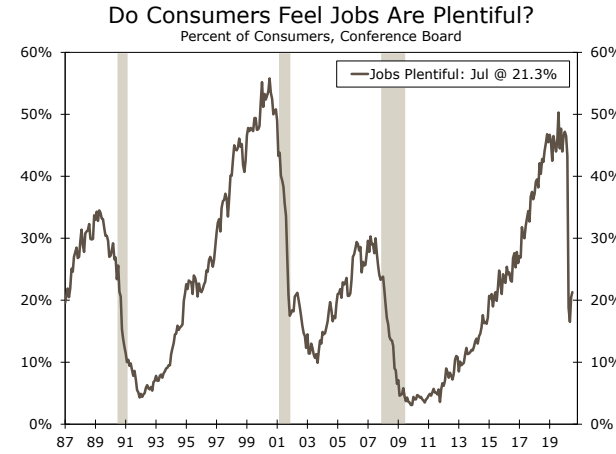


PMI Readings of Employment

- The ISM manufacturing employment index improved for the third consecutive month in July as firms reported the rate of job shedding was the softest in five months. Generally speaking, **manufacturing firms are able to achieve gains in output with a reduced labor force.**
- The ISM services employment index remains weak. Facing the brunt of the virus, **services firms continue to balance payrolls and associated costs against the uncertainty over what the future holds for their business.**

Consumers' Assessment

- **Consumers' perception of the labor market has improved only modestly.**
- The proportion of respondents to the July Consumer Confidence survey saying jobs are plentiful is still pitifully low at 21.3%, but is up from 16.5% in May. The share of participants finding jobs "hard to get" fell to 20% which is the lowest since March.
- These modest improvements likely reflect the gradual re-opening of the economy. But, **increasing COVID-19 case counts and localized set-backs may weigh on consumers' outlooks.**



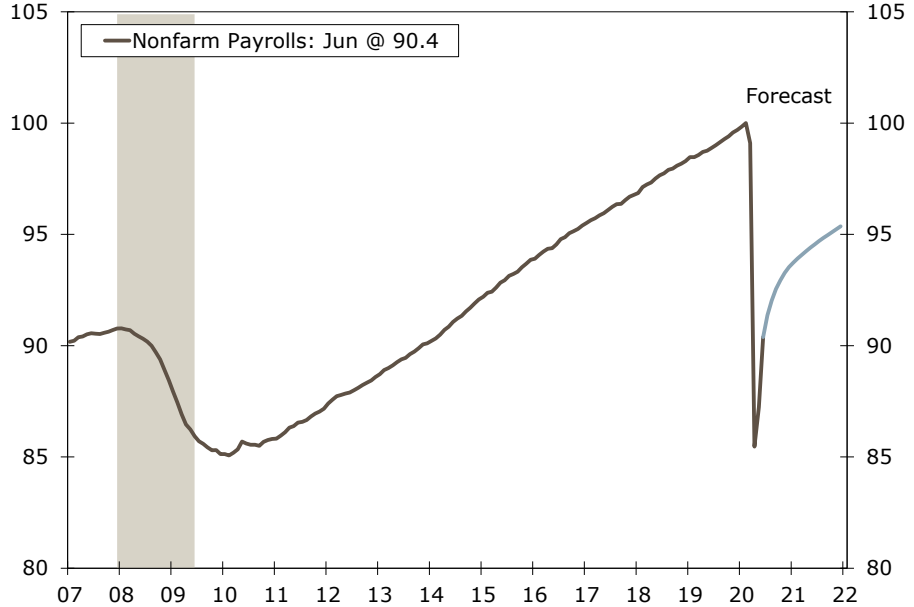
Source: U.S. Department of Labor, Institute for Supply Management, The Conference Board and Wells Fargo Securities

The renewed wave of coronavirus infections across the Sunbelt has prompted many states to re-impose restrictions on non-essential businesses. This has intensified the uncertainty about whether the labor market can continue to recover at its current pace.

Hiring

Nonfarm Payrolls

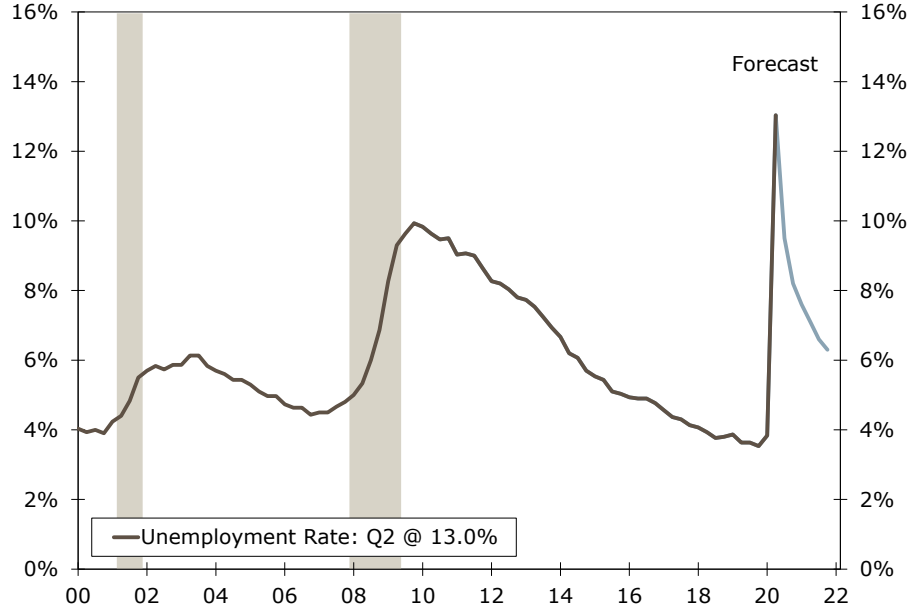
Index 100 = February 2020



Joblessness

Unemployment Rate

Seasonally Adjusted

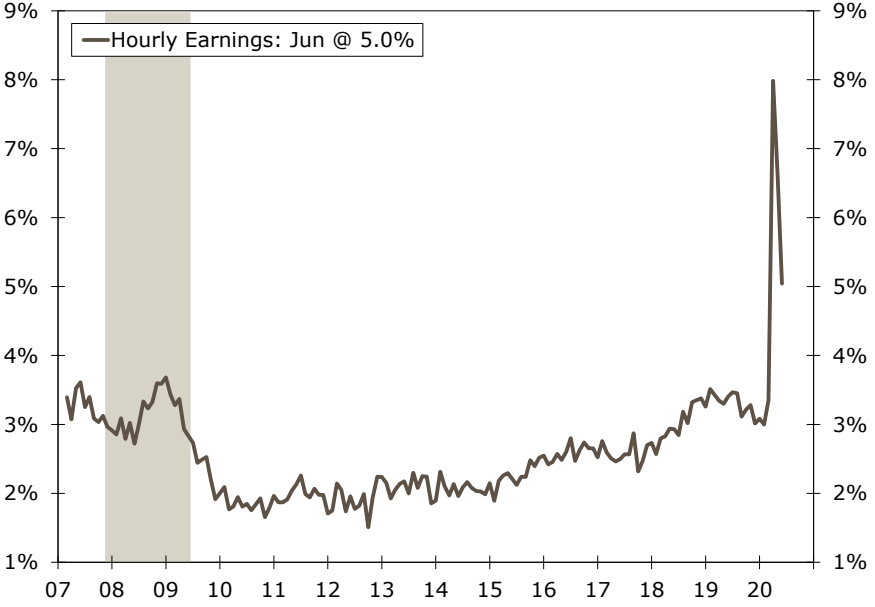


Source: U.S. Department of Labor and Wells Fargo Securities

As lower-paid workers return and the associated boost from the compositional effects unwind, average hourly earnings growth should continue to moderate in the coming months.

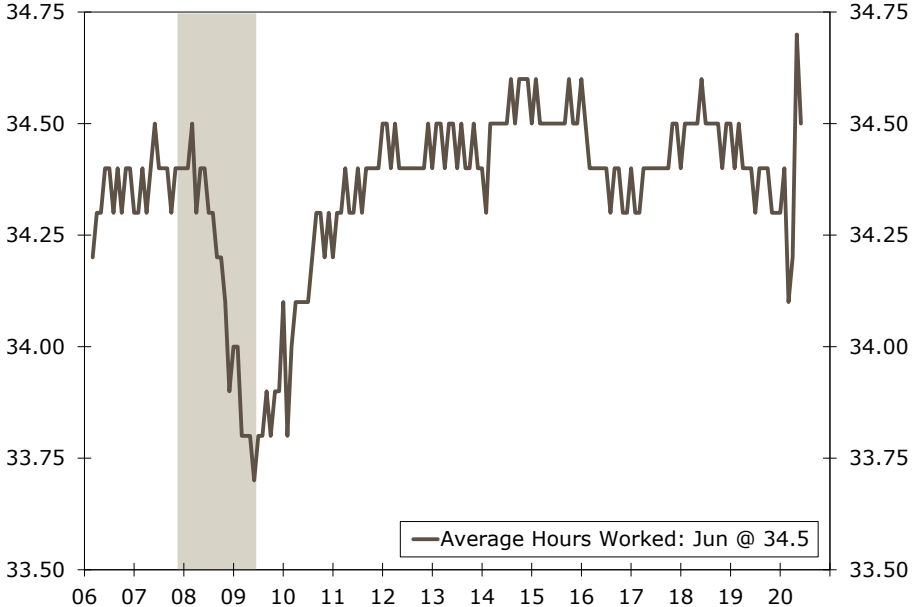
Wage Pressure

Average Hourly Earnings
Year-over-Year Percent Change



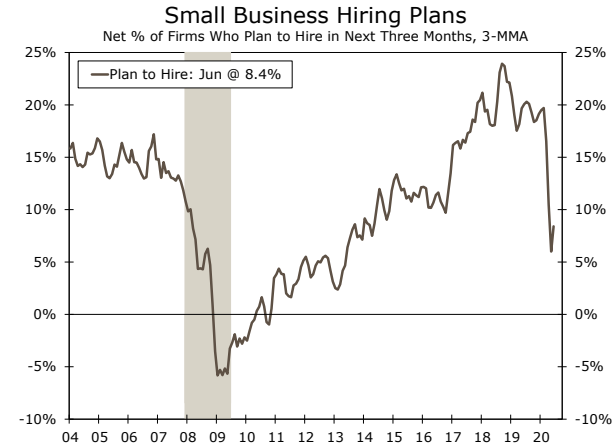
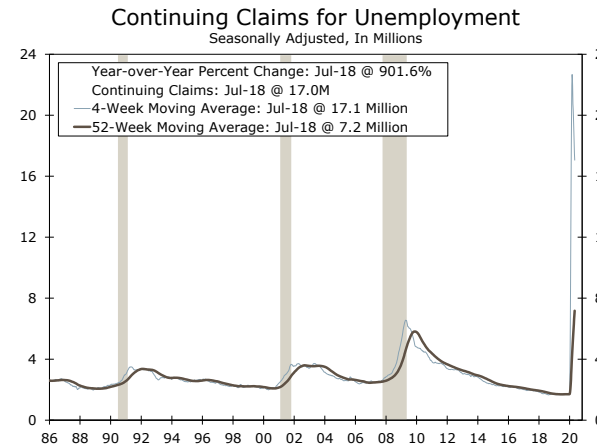
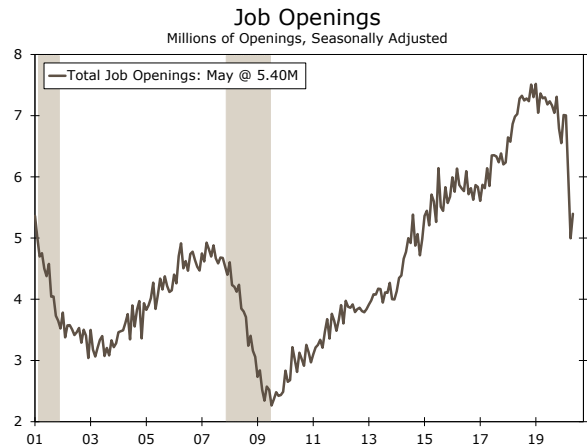
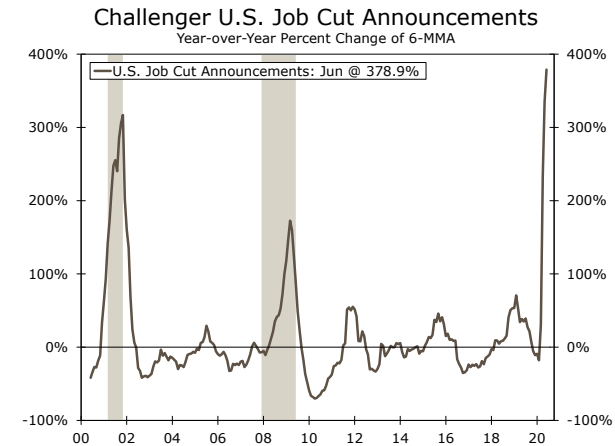
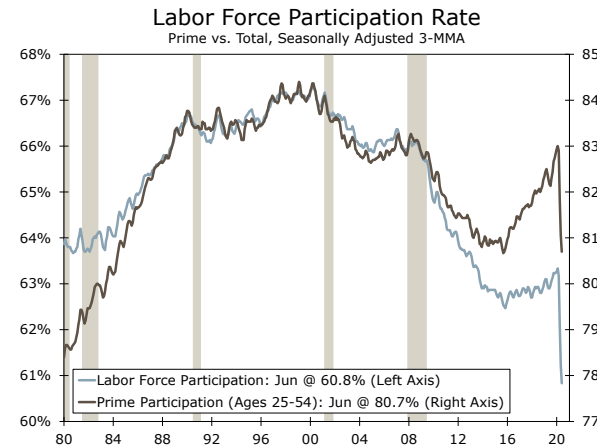
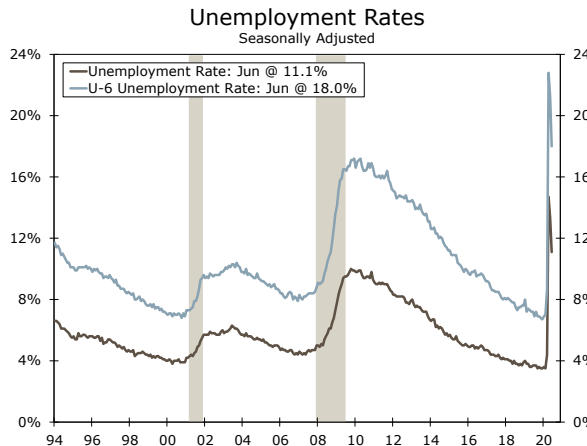
Hours Worked

Average Weekly Hours Worked
Private Sector Workers



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

Most measures of the labor market have stopped deteriorating, yet a full recovery is still years in the making given the uncertainty around when economic activity returns to pre-pandemic levels.

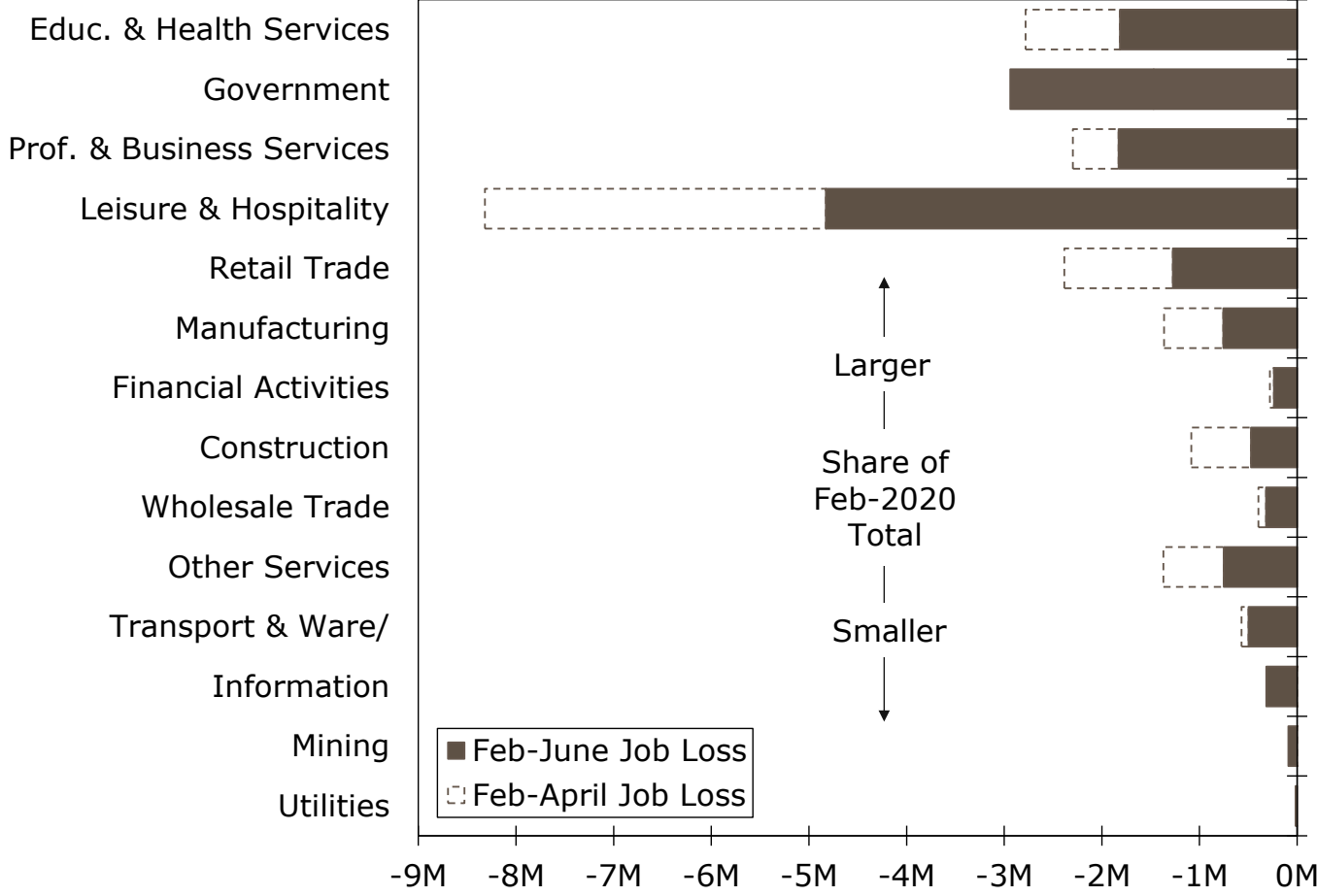


Source: U.S. Department of Labor, Challenger, Gray and Christmas, Inc., Bloomberg LP, NFIB and Wells Fargo Securities

Even as furloughed workers return, payrolls across the board are significantly lower than they were in February.

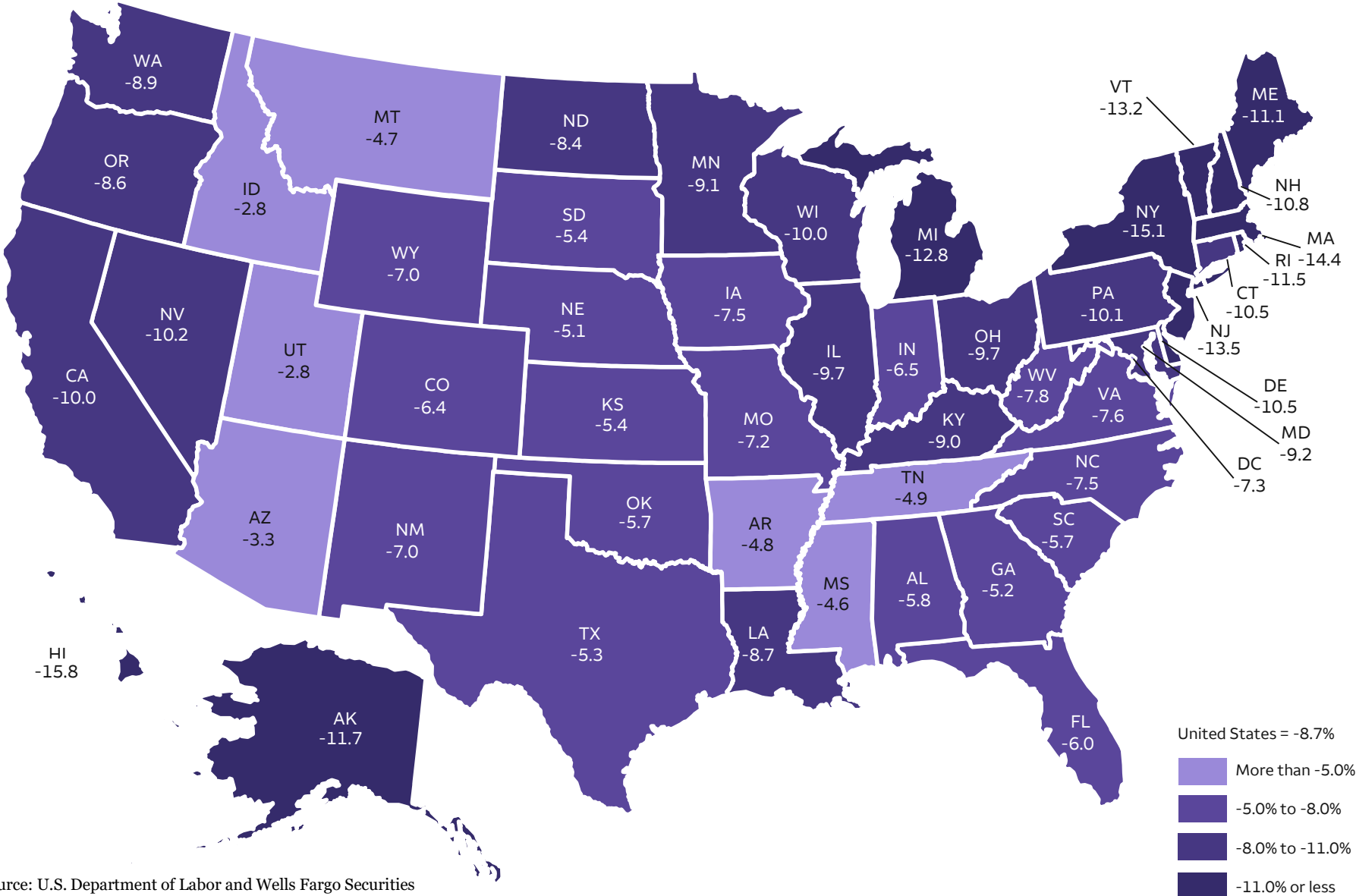
Job Loss by Industry

Millions



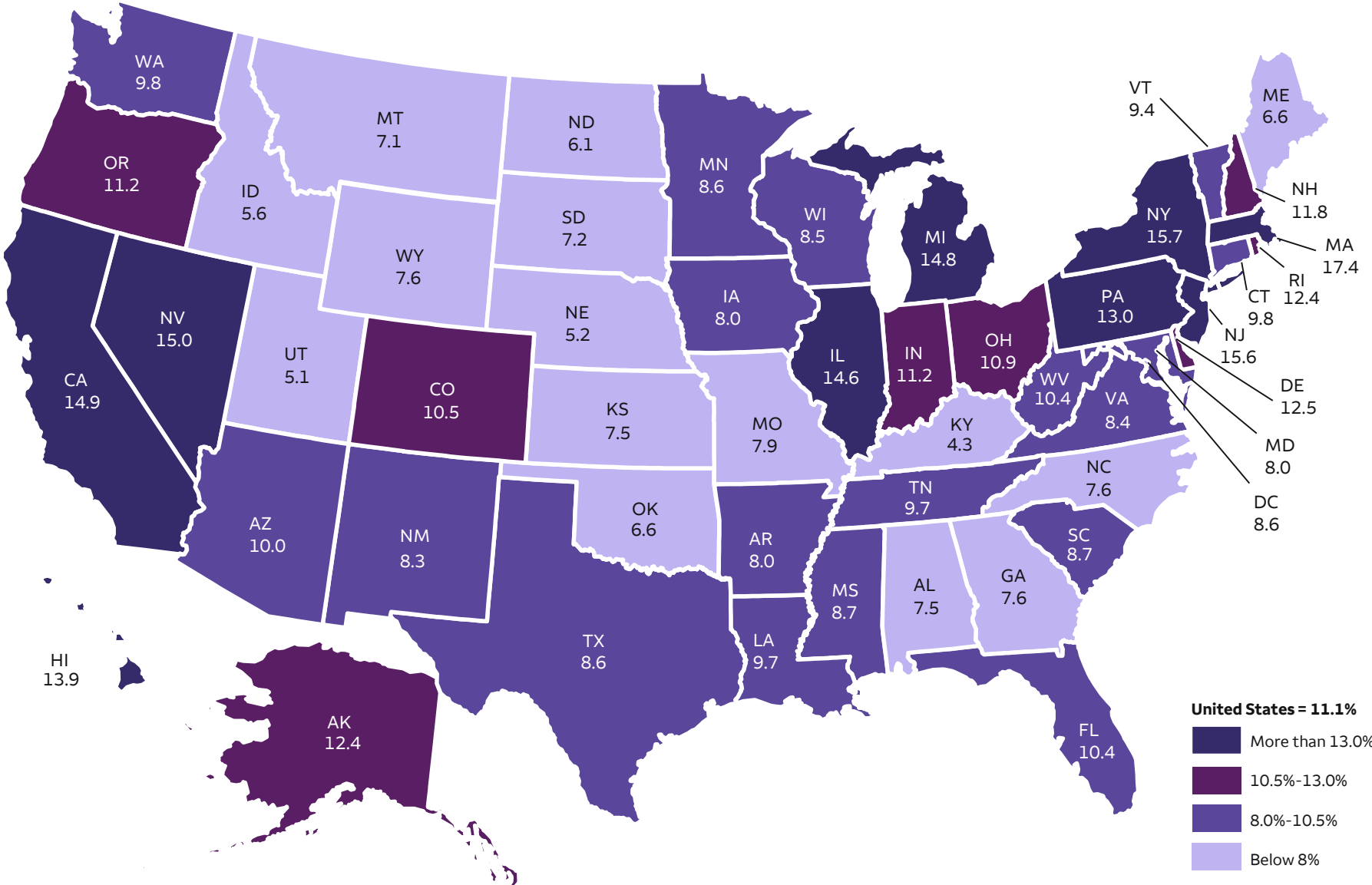
Source: U.S. Department of Labor and Wells Fargo Securities

Year-over-Year Employment Growth—June 2020



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

Unemployment Rate by State—June 2020



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

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