March 2020 U.S. Employment Preview

Wells Fargo Securities Economics Group
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March Employment Data Won’t Reflect Full-Coronavirus Outbreak

- **Nonfarm employment should eke out a modest gain of 50K jobs in March.** Consensus calls for a 100K drop.
- The virus-related impact on hiring will be large and far-reaching. But since the BLS survey week (period including the 12th of the month) was just before drastic containment efforts took effect across the country, March employment should be largely spared. Employment will tank in April.
- Secondary labor market indicators remain mixed, though most are lagging and therefore of limited use. Initial jobless claims emphasize the magnitude of virus-related job losses. **We expect the labor market to shed millions of jobs in the second quarter as economic activity comes to a standstill.**
- The unemployment rate likely remained unchanged at 3.5% in March. But be prepared for it to more than double in April. We expect average hourly earnings rose 0.2% month-over-month in March.
- **Temporary Census hiring will mitigate some job losses.** In the past two Census years, there was an average of about 71K Census workers added in March. With a halt in Census field workers, however, there may be some downside to this estimate.
The Labor Market is Shaping Up To Shed Millions of Jobs

Initial Jobless Claims

- The BLS surveys firms in the week including the 12th of the month.
- For the March survey week, claims were up 67,000 compared to February, and were up an average 24,500 for the four weeks leading to the survey week.
- The March employment survey therefore only included a period that saw modestly higher claims. April employment, however, is set to plummet. Three-million people filed for unemployment insurance the week ending March 21—and that is likely just the beginning of job losses. This surge in claims was previously inconceivable and makes past recessions mere blips.

ISM Manufacturing & Non-Manufacturing Employment Sub-Index

- Regional survey employment measures show hiring activity slowed in March.
- The ISM manufacturing employment index dropped to 43.8, the lowest level since 2009. Only three of the 18 manufacturing industries reported hiring growth. Many firms will likely continue to put hiring decisions on hold as uncertainty from the virus continues.
- We will not have the March ISM non-manufacturing survey until after Friday’s payroll report, but COVID-19 is set to hit the service sector particularly hard.

PMI Readings of Employment

- Consumers’ perceptions of the labor market do not appear to be in-sync with the most recent data.
- The proportion of consumers that felt jobs were plentiful in March stayed historically high at 44.9%. But, notably the Conference Board noted the release came ahead of the record-shattering rise in jobless claims and that “further declines are sure to follow.”
- Consumers’ confidence is highly dependent on their job situations, and as the labor market seizes up, confidence will plummet.

Consumers’ Assessment

Initial Claims for Unemployment

Many workers in some of the hardest hit industries are unable to work from home and/or do not have access to paid leave and medical benefits, leading to potential job losses across many industries due to COVID-19.
As industries grind to a halt and businesses are forced to temporarily close their doors, we expect the labor market to shed millions of jobs in the second quarter. As such, the unemployment rate is expected to more than double as early as next month.
Average weekly hours are set to drop as businesses more aggressively cut hours. Less working hours may upwardly bias wage growth in the near-term, but as industries grind to a halt and workers lose their jobs wage growth will subside.
Most measures suggest the labor market remains strong, but they are almost all lagging. It’s true, the labor market was solid before it was deliberately ground to a halt to contain COVID-19. But, initial jobless claims to date emphasize the magnitude of virus-related job losses. Other indicators will soon follow.

The labor market was strong through February.

But COVID-19 will have disproportionate effects on certain industries, particularly leisure & hospitality.

Lower oil prices will continue to put downward pressure on mining & logging.
Year-over-Year Employment Growth – February 2020

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

United States = 1.4%

- Less than 1.0%
- 1.0%-1.5%
- 1.6%-2.0%
- 2.1%-3.0%
- Greater than 3.0%

Source: U.S. Department of Labor and Wells Fargo Securities
Unemployment Rate by State – February 2020

Source: U.S. Department of Labor and Wells Fargo Securities
Economists & Macro Strategists

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