ODDO BHF
CORPORATES & MARKETS

Economy

Focus US
N° 2020 - 30

US employment: temporary shock vs permanent damage

Friday 31 July 2020

Bruno Cavalier - Chief Economist
bruno.cavalier@oddo-bhf.com
+33 (0)1 44 51 81 35

Fabien Bossy - Economist
fabien.bossy@oddo-bhf.com
+33 (0)1 44 51 85 38

https://www.oddosecurities.com

Despite the very brutal shock to the labour market, US households do not appear to be extremely depressed. Two reasons explain their relatively sanguine state of mind. First, those who have lost their jobs have received decent financial compensation. Second, most of them hope to be called back to work by their respective employers fairly soon. Two pitfalls are now looming. The first is that unemployment benefits will be significantly reduced in the upcoming fiscal package. The second is that the resurgence of the coronavirus pandemic risks turning temporary layoffs into permanent ones.

The week's focus

Employment rebounded sharply in May then June. High-frequency indicators suggest that this was not the case in July (the next monthly jobs report will be released on 7 August). Most of the jump was concentrated in four sectors representing less than a third of the economy: construction, retail trade, leisure and hospitality, and personal services (designated by a+b+c+d in the table below). However, these sectors are also those most exposed to the pandemic which is inciting households to reduce their travel. The sharp rebound in the number of cases of infection could leave the employment rate this summer almost 10 points below its pre-pandemic level.

However, in surveys of consumer morale, households do not express excessive anxiety (see p.2), as if they considered the shock to be just transitory. In fact, the majority of the newly unemployed are still hoping to be recalled by their companies in the next six months. In June, of the 18.1m unemployed registered, close to 60% were in this situation (they are described as being *on layoff*). Just 7.5 million were really looking for a new job. At that time, the official unemployment rate was 11.1%, but stripping out people hoping to return to their former employers, the rate would have been just 4.8%, compared with 3.4% at the low point (see first line of the table and the breakdown by sector). Unfortunately, this hope is often dashed as businesses face even stronger constraints. From April to June, we estimate that the fall in the number of unemployed *on layoff* can be broken down for two-thirds by the return to work and for the other third by permanent layoffs. If we extend this trend, the "restated" unemployment rate would continue to rise by about two points over the next six months. These are not the kind of developments that characterise a genuine recovery.

US: employment trends by sector (without seasonal adjustments)

	Employment							Unemployment excluding those on new layoffs				
	pre-shock level (millions)	% of total		February (index)	April	June	*Jan. 2010 vs Jan. 08*	February	April	June	*Jan. 2008*	*Jan. 2010*
Total	**156**	**100**		**100**	**84**	**90**	***95***	**3.4**	**3.4**	**4.8**	***5.0***	***9.5***
_Mining & utilities	2	1		100	98	98	*95*	2.8	2.3	5.7	*3.0*	*5.4*
_Construction	11	7	(a)	100	83	95	*79*	5.3	6.0	6.1	*9.9*	*19.5*
_Manufacturing	16	10		100	86	91	*83*	3.9	2.9	4.1	*5.1*	*12.3*
_Wholesale trade	4	2		100	88	88	*92*	3.0	3.7	4.3	*3.1*	*8.2*
_Retail trade	16	10	(b)	100	83	91	*93*	4.4	4.1	5.3	*5.7*	*10.5*
_Transportation & warehousi	8	5		100	86	86	*86*	3.8	2.9	5.6	*4.0*	*11.0*
_Information	3	2		100	88	87	*90*	2.6	3.9	5.2	*4.9*	*9.7*
_Finance	11	7		100	94	96	*94*	1.8	2.2	2.5	*3.1*	*6.4*
_Business services	20	13		100	90	96	*99*	4.1	4.0	4.9	*6.0*	*10.3*
_Education & health	36	23		100	86	91	*105*	1.9	1.8	3.4	*2.4*	*4.7*
_Leisure & hospitality	14	9	(c)	100	58	71	*95*	5.8	6.8	10.1	*9.2*	*13.9*
_Other services	8	5	(d)	100	73	85	*98*	2.8	3.0	4.3	*4.0*	*8.6*
_Government	8	5		100	96	100	*101*	1.3	1.1	2.0	*1.6*	*3.7*
(a)+(b)+(c)+(d)	**49**	**32**		**100**	**74**	**85**	***91***	**4.8**	**5.1**	**6.7**	***7.4***	***13.2***
Other nonfarm sectors	**106**	**68**		**100**	**89**	**93**	***96***	**2.8**	**2.6**	**3.9**	***3.7***	***7.7***

Sources: Thomson Reuters, Oddo BHF Securities

Economy

- The business climate index continued to pick up in **July**, despite resurgence of health risks over recent weeks. At this stage the recovery appears to be slowing, although it has not stalled. The Markit PMI indices thus gained 1.5 pts in the manufacturing sector and 1.7 pts in services, to 51.3 and 49.6 respectively (the increase and the levels are higher in Europe). The Dallas Fed index gained 1.9 pts to 53.7 (in ISM-equivalent) and that of the Richmond Fed was up 3.2 pts to 55.3. It is true that order books for capital goods continue to refill. After a fall of 32% in March-April, they rebounded 24% in May and June. The shock on industry was short and intense but without the same ramifications as during the industrial recessions in 2009 and, more recently, in 2014-2016 (crisis in the oil sector).
- It seems that there is a bit more hesitations when it comes to household morale. The Conference Board index was down by 5.7 pts in **July**, as a result of divergent trends between the present situation (+7.5) and expectations (-14.6). It stands at 92.6, closer to its recent low point (85.7 in April) than its level at the beginning of the year (>130). The index of employment conditions continued its recovery for the third consecutive month, but remains well below its pre-pandemic level.
- On the first estimates, real GDP growth stood at -32.9% q-o-q on an annualised basis in **Q2** (-9.5% on a non-annualised basis). This is, by far, the strongest decline since the Second World War. At the height of the financial crisis the maximum decline was only -8.4% (in Q4 2008). The bulk of the GDP contraction is explained by the -34.6% decline in private consumption. Investment is also down sharply, -38.7% in residential and -27.0% in non-residential. But the decline in investment is actually relatively limited. Typically, investment falls at a faster pace than consumption during recessions. Inventories have made a contribution to the tune of -4 pts. Contrary to previous recessions, foreign trade has also only made slightly positive contribution (+0.7 pts vs +2.4 pts in H1 2009) since US domestic demand has proven relatively resilient compared with foreign demand.
- For the second week in a row, weekly jobless claims have stopped falling and stand at 1.43 million (vs 1.42 million the previous week). This appears to confirm the slowdown of the recovery in July.

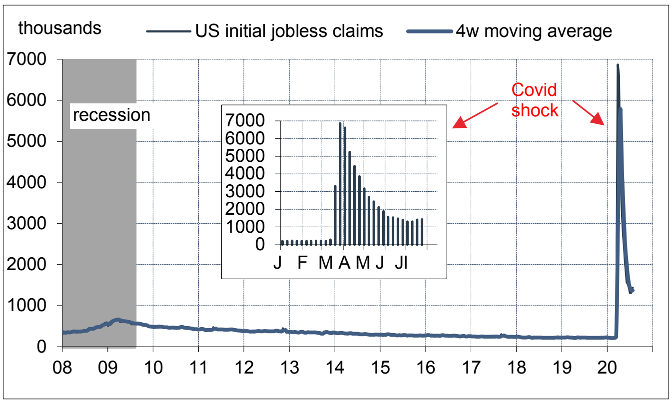
Monetary and fiscal policy

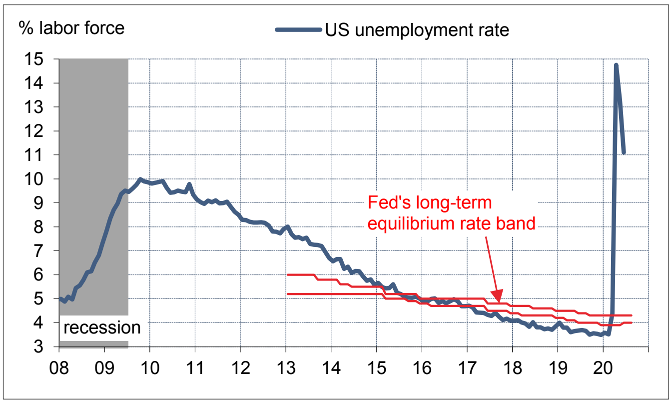
- The FOMC meeting on **29 July** did not result in any new announcement, but did reaffirm that the Fed was prepared to use its entire range of tools to support the economy. At the subsequent press conference, Jerome Powell reiterated his concerns, noting that the recovery pace had dropped since the previous meeting on 10 June. Emergency lending facilities were extended by three months until end-2020, and the dollar swap lines until end-March 2021. The Fed funds rate is firmly anchored at zero for the foreseeable future, and asset purchases are extended at their recent pace.
- On **28 July**, the Republicans presented their proposal for a new stimulus package (the HEALS Act), but some sticking points with the White House persist. The most controversial aspect is household aid. The GOP proposes a new $ 1200 cheque (plus $500 for each child in the household), as well as to lower the unemployment insurance supplement from $ 600 per week to $ 200 per week in the next two months - the time to implement a system offering a 70% wage replacement rate (the current median replacement rate is estimated at 134%). The proposition also includes an extension of the Paycheck Protection Program and tax credits for businesses that keep their employees. The cost of the plan is said to be around $1.1tn. Negotiations have opened with the Democrats, who are demanding in particular more generous support for households and aid for states. The House, which has a Democrat majority, proposed a $ 3tn HEROES Act.

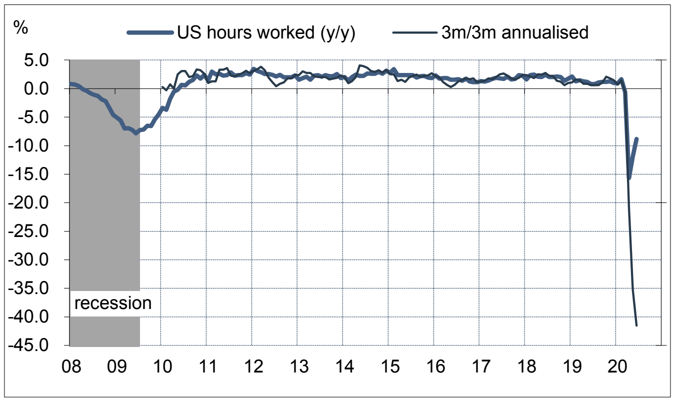
The week ahead

- This is the last *Focus US* before the summer break. The pandemic and the development of fiscal policy will remain the two key points of focus in the coming weeks. Aside from that, the main data to follow will be: the ISM-manufacturing (**3 August**), the ISM non-manufacturing (**5 August**), the employment report (**7 August**, see p. 1), inflation (**12 August**), retail sales and industrial production (**14 August**), the minutes of the FOMC meeting (**19 August**) and preliminary estimates of the August PMI surveys (**21 August**). We will use this data in particular to estimate the cost of a second wave of the pandemic.

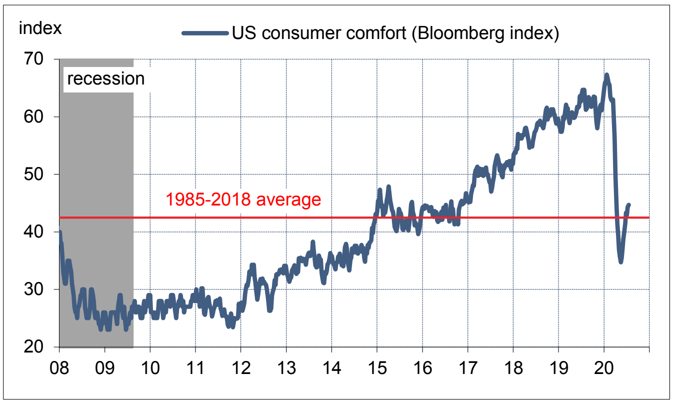
Appendix 1 - Labour market

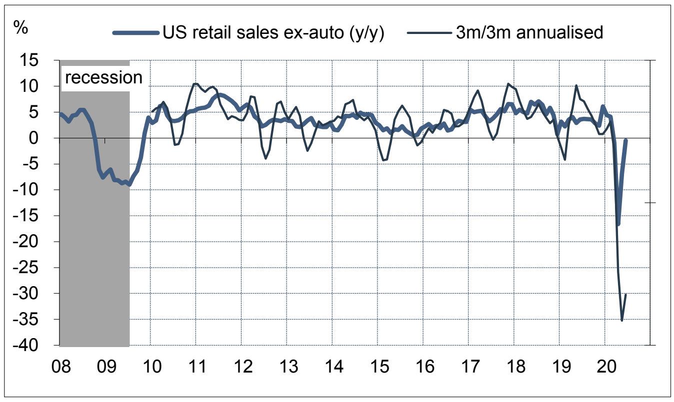


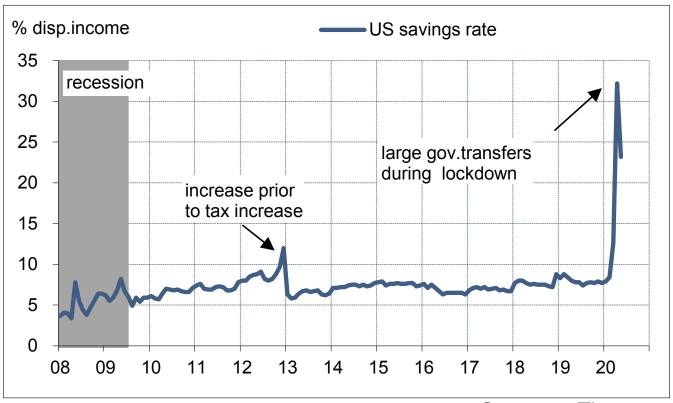


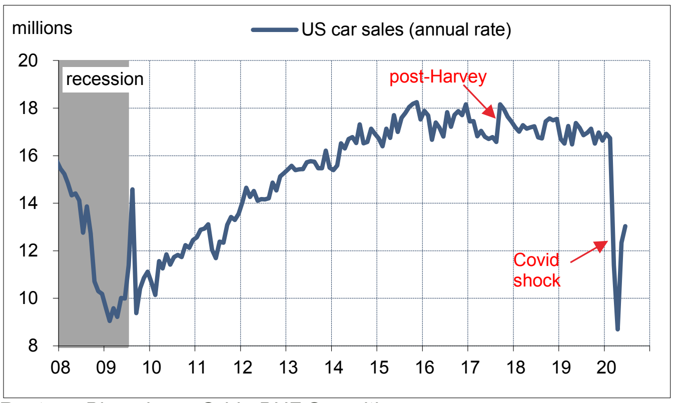


Appendix 2 - Consumer



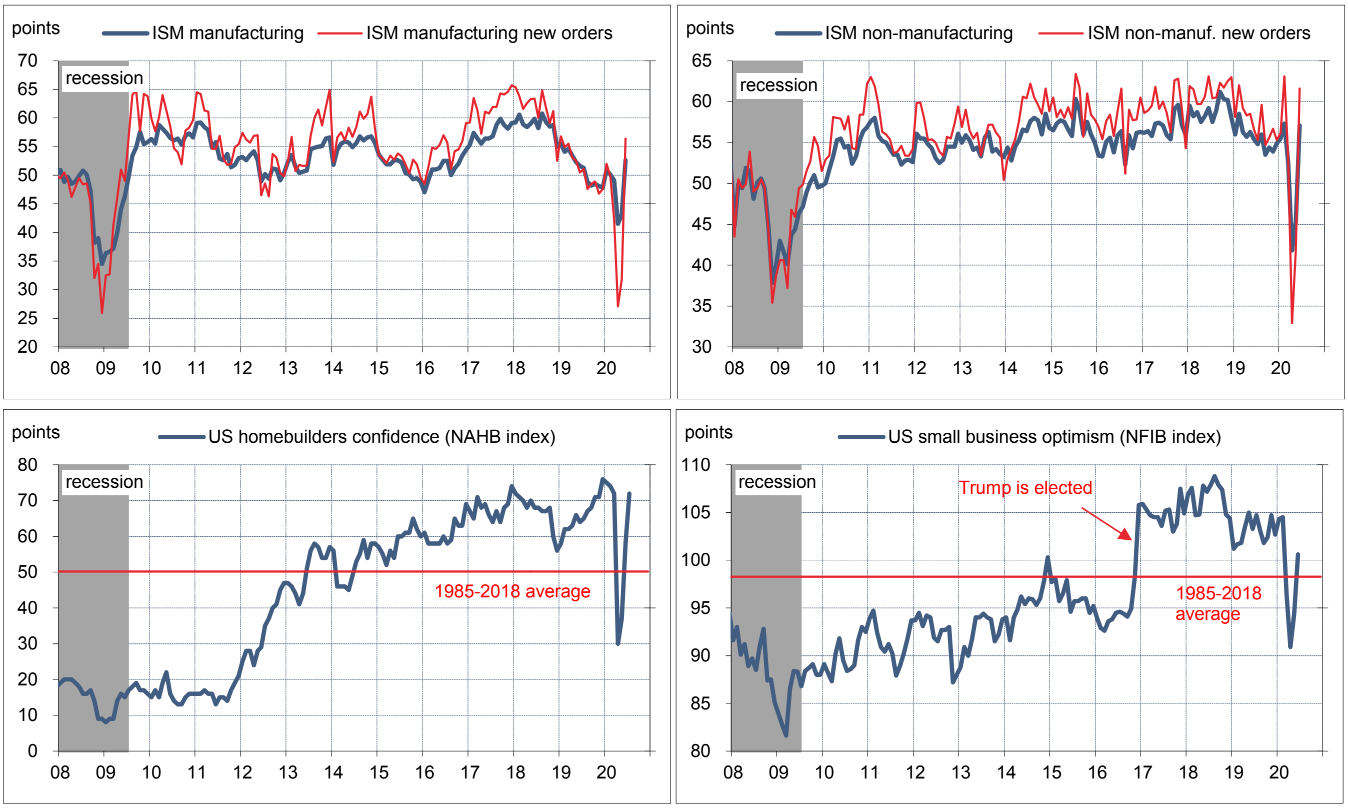




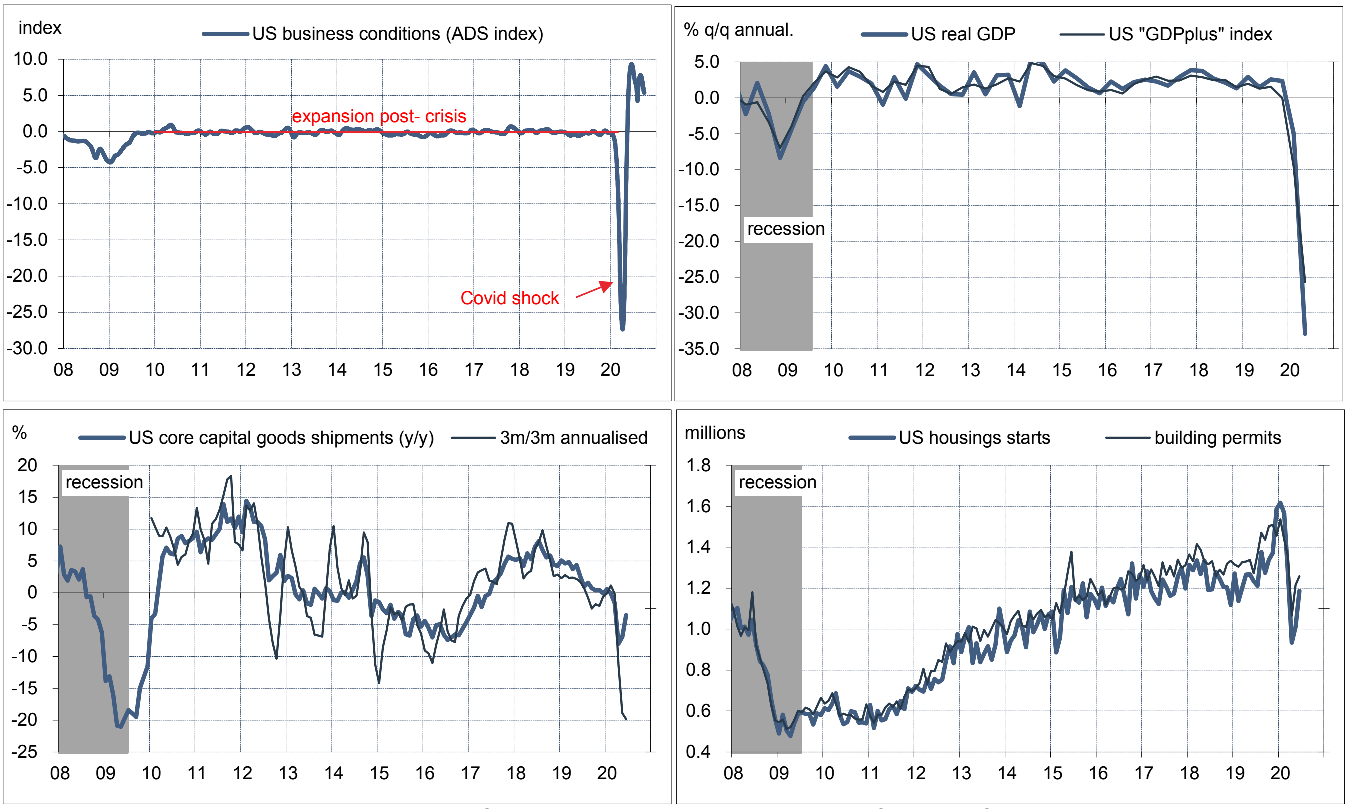


Sources : Thomson Reuters, Bloomberg, Oddo BHF Securities

Appendix 3 - Business climate

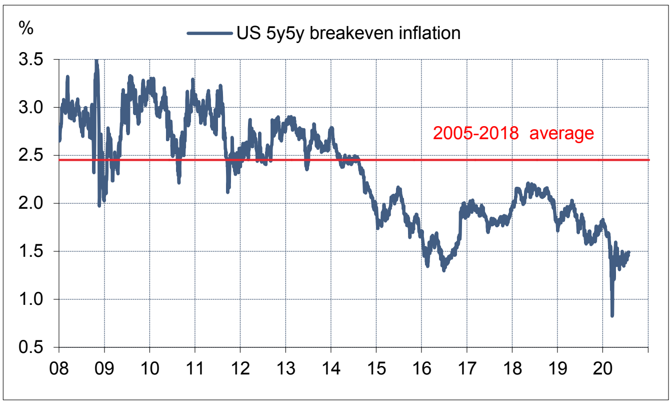


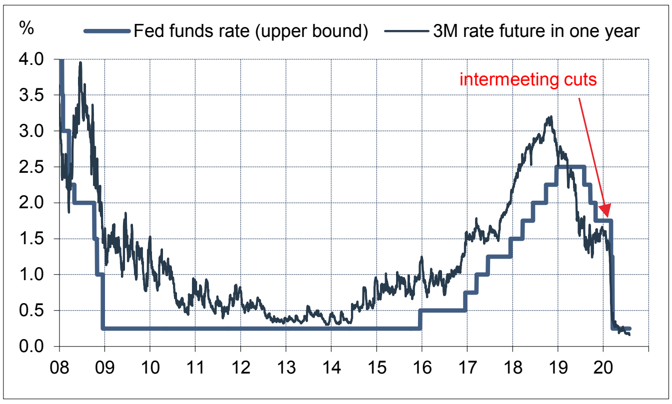
Appendix 4 - Conditions of economic activity

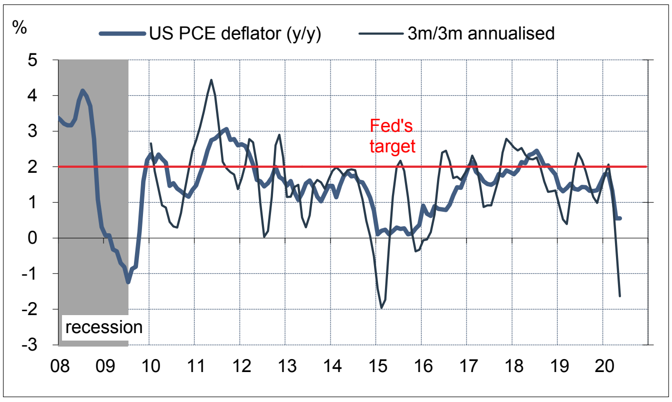


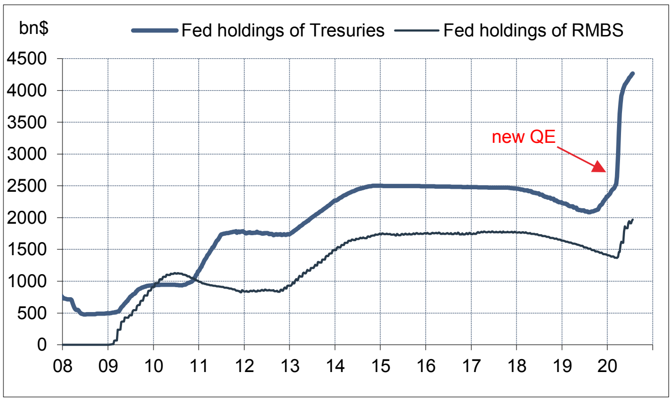
Sources : Thomson Reuters, Bloomberg, Oddo BHF Securities

Appendix 5 - Inflation and monetary policy

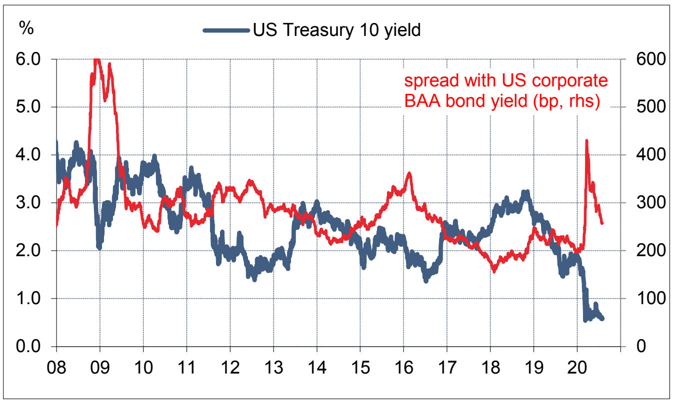


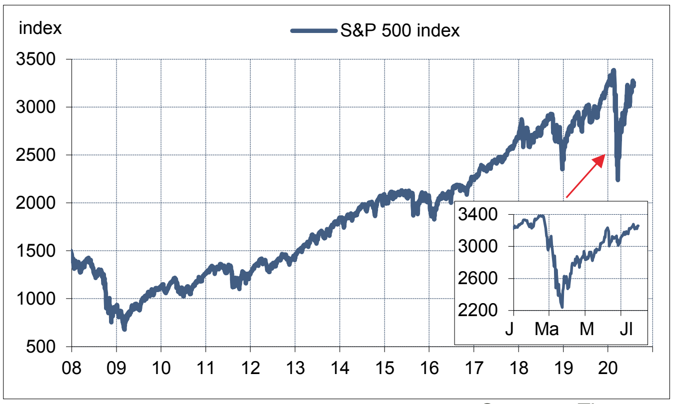


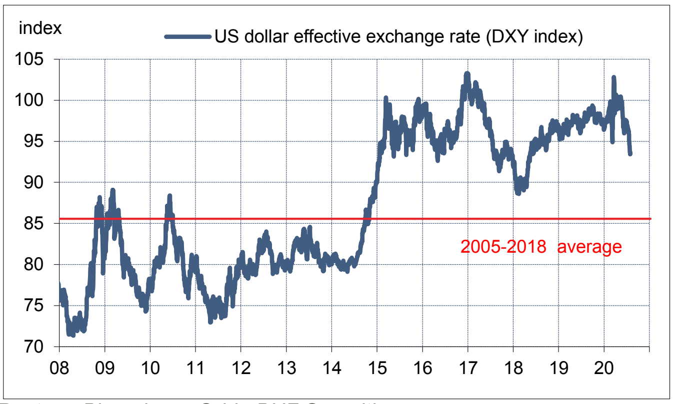




Appendix 6 - Financial markets







Sources : Thomson Reuters, Bloomberg, Oddo BHF Securities

Disclaimer:

Disclaimers for Distribution by ODDO BHF SCA to Non-United States Investors:

This publication is produced by ODDO BHF Corporates & Markets, a division of ODDO BHF SCA ("ODDO"), which is licensed by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and regulated by the Autorité des Marchés Financiers ("AMF").

This document, when distributed outside of the U.S., is intended exclusively for non-U.S. customers of ODDO and cannot be divulged to a third-party without prior written consent of ODDO. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This document has been developed by our economists. It does not constitute a financial analysis and has not been developed in accordance with legal requirements designed to promote the independence of investment research. Accordingly, there are no prohibitions on personal dealing ahead of its dissemination. "Chinese walls" (information barriers) have been implemented to avert the unauthorized dissemination of confidential information and to prevent and manage situations of conflict of interest.

At the time of publication of this document, ODDO and/or one of its subsidiaries may have a conflict of interest with the issuer(s) mentioned. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. Past performances offer no guarantee as to future performances. All opinions expressed in the present document reflect the current context which is subject to change without notice. The statements, assumptions and forecasts contained in this document reflect the judgment of its author(s), unless otherwise specified, and do not reflect the judgment of any other person or of ODDO. This document does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this document is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

This document is for institutional investors only. It may not contain information necessary for others to make investment decisions. Consult your financial adviser or an investment professional if you are not an institutional investor.

Disclaimers for Distribution by ODDO BHF New York Corporation to United States Investors:

Please refer to the most recent research reports on the subject companies for complete information and relevant disclosures.

This document is produced by ODDO BHF Corporates & Markets, a division of ODDO BHF SCA ("ODDO"). It is distributed to U.S. investors exclusively by ODDO BHF New York Corporation ("ONY"), MEMBER: FINRA/SIPC, and is intended exclusively for U.S. institutional customers of ONY and cannot be divulged to a third-party without prior written consent of ONY. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This document is being furnished to you for informational purposes only and should not be relied upon as sufficient to form a basis for any investment decision.

At the time of publication of this document, ODDO, and/or one of its subsidiaries may have investment banking and other business relationships with any of the companies in this report. While all reasonable effort has been made to ensure that the information contained is not untrue or misleading at the time of publication, no representation is made as to its accuracy or completeness and it should not be relied upon as such. However, ODDO has no obligation to update or amend any information contained in this publication. Past performance offers no guarantee as to future performance. All opinions expressed in the present document reflect the current context which is subject to change without notice. This document does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of particular clients. Clients should consider whether any advice or recommendation in this document is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice.

This document is not a research report as defined in FINRA Rule 2241(a)(11) because the material in it is limited to one or more of the exclusions of the definition of research report in Rule 2241(a)(11)(A). This document is for institutional investors only. Consult your financial adviser or an investment professional if you are not sure you are an institutional investor.

Disclosures Required by United States Laws and Regulations:

Rule 15a-6 Disclosure: Under Rule 15a-6(a), any transactions conducted by ODDO, and/or one of its subsidiaries with U.S. persons in the securities described in this document must be effected through ONY.

Contact Information of firm distributing investment recommendations to U.S. investors: ODDO BHF New York Corporation, MEMBER: FINRA/SIPC, is a wholly owned subsidiary of ODDO BHF SCA; Philippe Bouclainville, President (pbouclainville@oddony.com) 150 East 52nd Street New York, NY 10022 212-481-4002.

Statement of conflict of interests of all companies mentioned in this document may be consulted on Oddo & Cie's .