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Workers Returned at a Record Pace, but Unemployment Remains at Depression Era Levels

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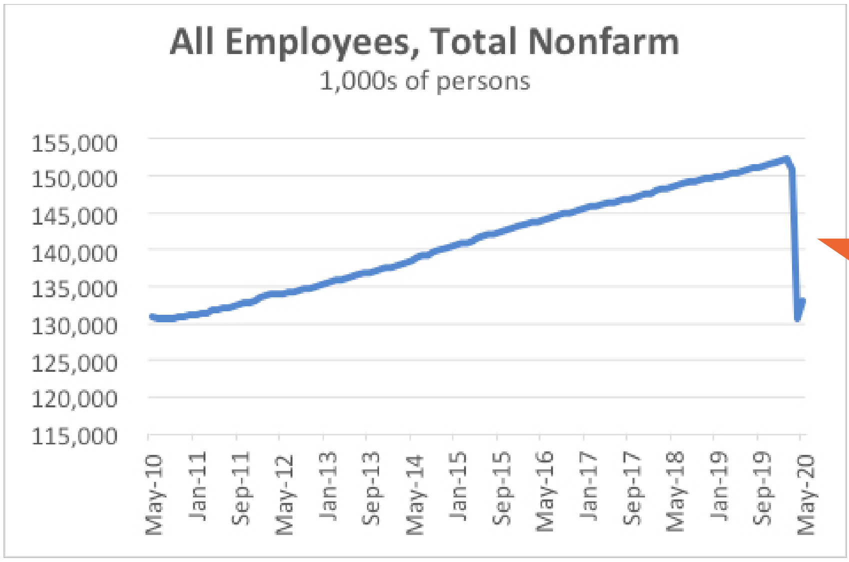
KEY POINTS

- In May, the U.S. economy added jobs at a record pace of 2.3 million, signaling a possible bottom for the recession.
- The majority of jobs went to workers returning from temporary layoffs, indicating that the Payroll Protection Program (PPP) is working.
- Continued social distancing, a possible second wave of COVID, and social unrest, combined with the potential winding down of Government aid at the end of July, have increased downside risks.

STRONG HEADLINE NUMBERS

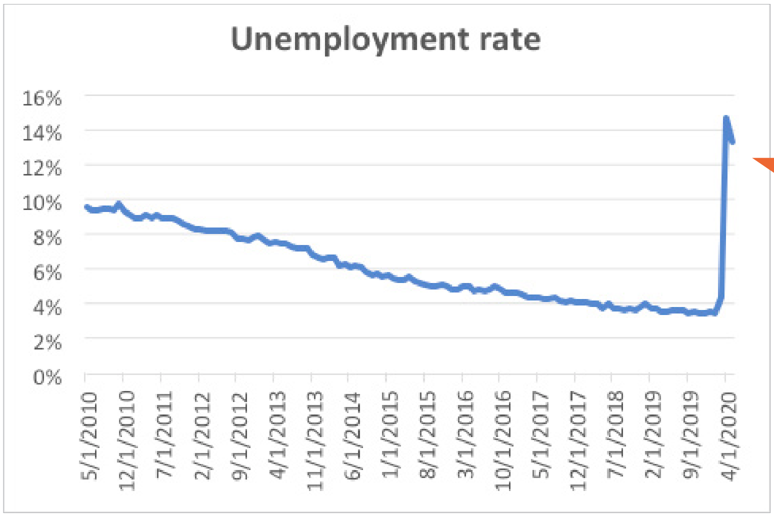
Equity prices rallied and bond yields rose as the May jobs report outperformed economists' forecasts. In fact, 2.5 million jobs were added, compared to an expected loss of 7.4 million jobs. The addition of 2.5 million jobs was the largest on record, which may indicate that we are approaching the bottom of the COVID recession. Despite the record climb in jobs, over 20 million Americans remain unemployed. By comparison, during the Great Recession, the economy lost 9 million jobs. Total employment did not return to pre-recession levels until 2014.



Payroll employment rose by 2.5 million in May, but 20 million people remain unemployed.

DO NOT CONFUSE LEVELS AND CHANGE

The depth of the economic collapse in March and April was unprecedented in post-World War II America, with close to 15% of the work force losing their jobs. Due to the base effect, along with an extreme decline in economic activity, we should also see more record-breaking numbers on the upside, even as the economy remains in serious condition.



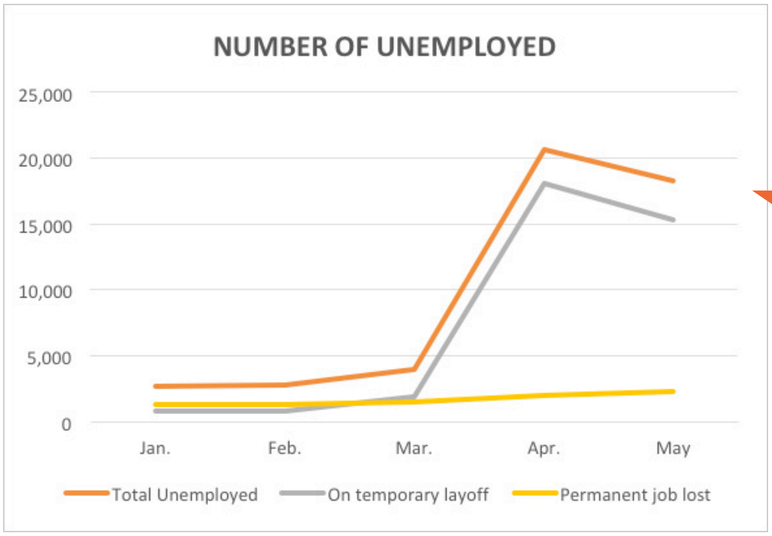
The unemployment rate fell from 14.7% in April to 13.3% in May, but remains at a level unseen since the Great Depression.

TIME IS ON MY SIDE

73% of unemployed workers reflects temporary layoffs. The number of workers on temporary layoff increased from 801 thousand in February to 1.848 million in March. In April, 18.063 million, and now stands at 15.343 million.

The rehiring of 2.7 million workers reflects the partial reopening in several states, and success of the Payroll Protection Program (PPP) in keeping workers tied to their employers. Over the same period, permanent job loss rose by over 1 million and now stands at 2.3 million, the highest level since 2015.

More than 80% of the people who lost jobs during the pandemic expect the loss to be temporary. The question is, how many jobs will return and when?



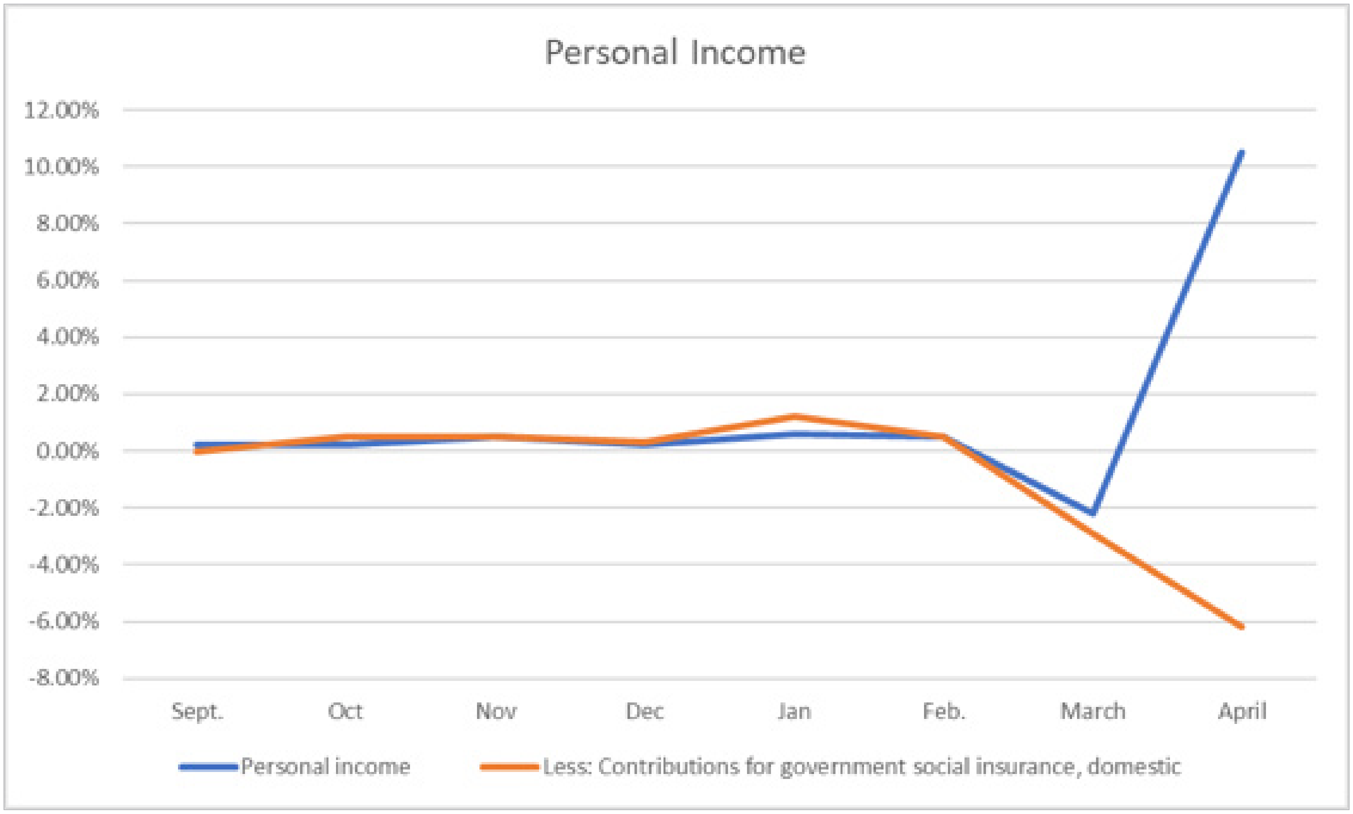
The economy added 2.5 million jobs in May (Household Survey). Over 100% of these jobs were workers returning from temporary layoffs. Permanent job losses continued to climb, increasing by 78% since January.

LET'S LEND IT, SPEND IT, SEND IT ROLLING ALONG!

The May spurt in job creation was good news, but it will take nine more months of similar growth to get employment back to pre-COVID levels. However, that level of growth may be difficult to achieve.

Demand in the current quarter is being supported by federal aid programs that exceed $3 trillion. In April, government transfers accounted for all of the gain in personal income. Absent these payments, personal income would have fallen over 6%.

All of the $1,200 tax rebate checks were to be mailed by the end of May. Enhanced unemployment payments will cease at the end of July. Without renewal of these programs, personal income would likely fall and job creation would slow as consumers are forced to cut back on spending.



THE END OF THE BEGINNING

We likely saw the bottom of the recession in May. Future growth, however, is dependent on continued fiscal aid and accommodative monetary policies. To succeed in reopening the economy, testing and contact tracing will need to control the spread of coronavirus. A second wave of infections would result in the economy returning to square one.