

US jobs: Don't believe the hype

Another big upside surprise for payrolls of 4.8mn while the unemployment rate plunges to 11.1%. Great news, but it doesn't tell the whole story. 31.5mn people are claiming unemployment benefits and employment is still 15 million lower than February. Moreover, with states dialling back on re-openings the July jobs report could be far more sobering

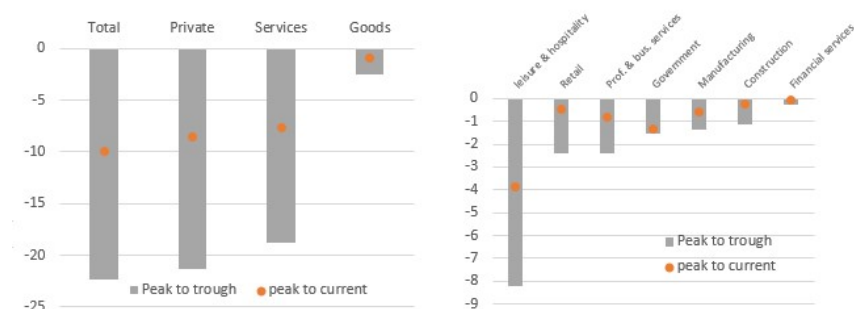


4.8mn June increase in US payrolls

Payrolls power on

The June jobs report showed payrolls rose 4.8mn, well above the 3.23mn consensus figure while May's payrolls gain was revised up to 2.699mn from 2.51mn. Fantastic. It shows how the re-openings have allowed businesses to get into gear and bring workers back. Leisure and hospitality was the biggest contributor, jumping 2.088mn, with retail up 740k, but there were gains everywhere including 903k for trade and transport and 568k for education and healthcare.

Payrolls change since 1940 and the level of employment 2000 onwards



Source: Macrobond, ING

Ignore the unemployment rate and wage data

The household survey shows the unemployment rate dropping further to 11.1% from 13.3%, having peaked at 14.7%. But that is not the true state of affairs and it isn't just down to confusion over how to fill out the response form. If you dig into the jobless claims report you find that the total number of people claiming unemployment benefits in all programs rose 916.7k in the week of 13 June (coincidentally the week of the June jobs report data collection), taking the total number of claimants to 31.49mn. This is nearly double the 17.75mn "officially" unemployed based in the jobs report. Remember you have to be actively looking for work to be classified as "officially" unemployed, but you don't need to do so in order to claim benefits right now – hence the 11.1% figure is grossly understating the true picture

Rounding out the numbers we have average hourly earnings falling 1.2% month on month, which again reflects the distortions when you don't mix-adjust the data. Millions of relatively low-paid people now earning a wage will automatically drag down the average hourly earnings rate so this number should be ignored – just like the unemployment rate.

July jobs jitters?

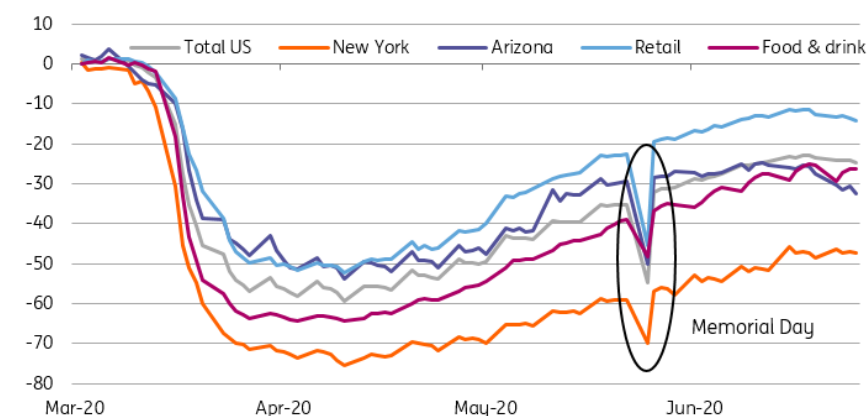
Even after today's strong payrolls growth we have to remember that total employment is still 14.66mn lower than it was in February. So far extended unemployment benefits, including the US\$600 per week Federal boost, are supporting incomes, but there are questions as to what happens after 31 July when this is currently scheduled to end?

Moreover, we are becoming nervous about the July jobs figure, which could disappoint markets. Today's initial claims (1.425mn versus 1.35mn consensus) and continuing claims (19.29mn versus 19mn consensus) are remaining sticky with the initial claims figure, even today with the re-openings, more than double the worst weekly reading of any period during the Global Financial Crisis.

Meanwhile, the Homebase data report suggests the small business sector has been shedding jobs since 18 June. One possible explanation is that many small businesses that took advantage of the loan forgiveness aspect of the Paycheck Protection Program have exhausted the money. In this regard, the National Federation of Independent Businesses reported 14% of members that took advantage of the scheme are expecting to fire staff in coming weeks given demand has not

returned to pre-Covid levels.

Homebase: Hourly employees that day vs. the median for that day of the week for the period Jan 4, 2020 – Jan 31, 2020 (% difference)



Source: Macrobond, ING

Structural issues suggest a long road to recovery

The bigger issue is that the spike in Covid-19 cases means several states are announcing renewed containment measures with others delaying their phased re-opening. Many businesses (leisure and hospitality in particular) may take the view that it simply isn't viable for them to stay open, which will only add to the problems in the jobs market.

Furthermore, given the downturn in global economic activity, many manufacturing and professional service firms may also not need as many staff as they face up to the new economic environment of weaker corporate profits and higher debt levels. This is before we consider the longer term structural issues facing specific sectors such as transport, retail, commercial real estate, hospitality. So, while today's jobs report gives a good headline, there are huge headwinds which mean a full recovery in the jobs market is a very long way off.

Author

James Knightley

Chief International Economist

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s).

as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.