



Record June Jobs, But The Recession May Not Be Over

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IN THIS ISSUE:

1. Jobless Rate Fell to 11.1% & Record 4.8 Million Jobs in June
2. More & More Americans Losing Their Jobs Permanently
3. Payroll Protection Program Extended Another 5 Weeks
4. *Alpha Advantage Strategy* Having Best Year Ever in 2020

Overview

For the second month in a row, the Labor Department reported last week that the economy added a record number of new jobs in June, vastly outpacing forecasters' pre-report estimates. This far better than expected report is leading many economists to refigure their growth forecasts higher for the second half of this year.

However, it is important to note that the cutoff date for last month's job survey was June 12 –before several governors scaled-back or halted business reopenings due to the latest surge in COVID-19 cases. What happens with the coronavirus pandemic just ahead will largely determine if we are out of the latest recession or not. The last thing we want is another economic lockdown. Expect markets to be very jittery just ahead.

And finally, while the rising jobs numbers look promising, let us keep in mind the increases have been mostly caused by Americans returning to their old jobs. More importantly, under the surface of the June jobs report, the number of workers who have permanently lost their jobs continues to rise at an alarming rate. These figures argue that we're still in a recession.

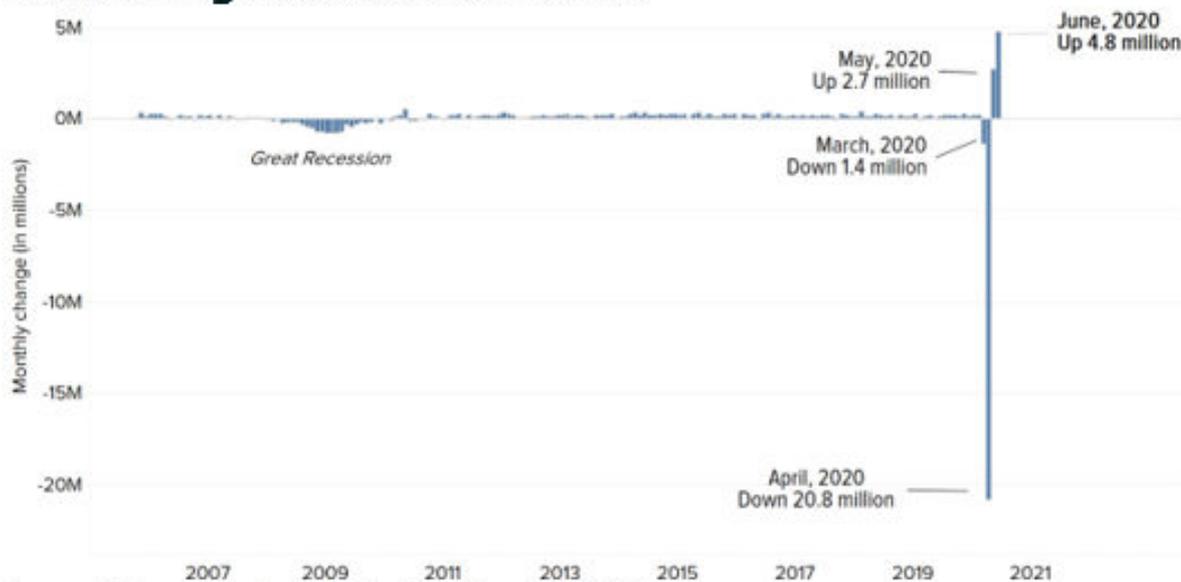
It's a lot to talk about, so let's get started.

Jobless Rate Fell to 11.1% & Record 4.8 Million Jobs in June

Last Thursday's unemployment report for June was quite the shocker. The Labor Department reported that the headline unemployment rate shrank to 11.1% in June from 13.3% in May and 14.7% in April. That was considerably better than economists' pre-report forecast of 12.4%, and despite the fact that significantly more workers were accurately counted as unemployed in June, compared with the last two jobs reports.

Even more surprising was the news that the US economy created a record **4.8 million** new jobs last month, nearly double the 2.7 million new jobs in May. That was also far above the pre-report consensus of 2.9 million new jobs for June.

Record High Job Gains in June



Source: Labor Department, Chart courtesy of CNBC

Still, the US labor market is operating with about 15 million fewer jobs than in February, the month before the pandemic struck. Moreover, the country has seen a new increase in coronavirus cases that has led some states and businesses to change course on reopenings. Several states, like Texas, have just closed certain businesses down for a second time.

There already are signs the economy could be affected by the latest virus surge that started in mid-June, after surveys were completed for the latest jobs report. Restaurant traffic in several large cities declined at the end of the month and credit card spending eased, according to several surveys.

US stocks rose just after last Thursday's unemployment report as the stronger than expected figures brought reassurance that the economy is turning around. Still, the jobless rate remains at historically high levels. Until March, before the pandemic drove the US into a deep recession, the unemployment rate was hovering around a 50-year low of 3.5%.

Hiring last month was supported by business reopenings and government aid. States across the US reopened restaurants, gyms, salons and other businesses that had been shut for several weeks or longer to contain the virus's spread.

Job gains in leisure and hospitality – a sector hard hit by the shutdowns – accounted for about 40% of June's employment growth. Restaurants and bars were the main driver. But those workers are particularly vulnerable to renewed layoffs because the recent rise in COVID-19 cases in several states is causing some governors to halt or roll back reopenings.

It will be important to monitor whether coronavirus cases continue to accelerate just ahead or peak and resume the downward trend, which will be the main determinant on job growth (or loss). Clearly, we do not want to see the economy shut down again.

Finally, The Congressional Budget Office, in new economic forecasts released Thursday, said it expected the unemployment rate to fall to **10.5%** by December, down from an earlier forecast of 11.5%. I was surprised the CBO jobless estimate by year-end wasn't considerably lower than 10.5%, but that forecast could easily change significantly (either way) depending on what happens with COVID-19.

More & More Americans Losing Their Jobs Permanently

While the continued drop in the official unemployment rate and the record boom in new jobs in June look promising, it's important to remember they're just a snapshot of what the economy looked like in mid-June. And a *LOT* has changed since then with COVID-19 infections spiking again in several states. That could have a seismic impact on several important sectors of the economy just ahead.

To understand why the number of permanent job losses continues to increase, we need to go back to a Labor Department (DOL) issue I first brought to your attention on **June 9**. That's when the DOL admitted it *did not* count millions of Americans who had been furloughed as being *unemployed*. Instead it classified them as "*employed but not at work*."

The DOL just assumed all or most of those workers would be returning to their jobs as soon as the COVID-19 pandemic

was under control. Yet as we all know, many of those former jobs are never coming back, and not counting them as unemployed was a “*misclassification error*,” the Labor Department admitted.

While the DOL has since said it is working on the problem, it has also admitted that the unemployment rate would have been considerably higher in April, May and June if it had counted most of the furloughed workers as unemployed. April’s jobless rate would have been 19.5% instead of the 14.7% reported; May’s jobless rate would have been 16.3% instead of 13.3%; and June would have been 12.0% instead of 11.1% reported last Friday.

The DOL says it is addressing the misclassification error by gradually decreasing the number of “*temporary*” job losses and increasing the number of job losses classified as “*permanent*.” That sounds well and good until you read in last Thursday’s unemployment report that the DOL still considers 78.6% of all jobs lost in the last four months are *temporary*.

[Redacted]

I don’t know about you, but I believe the DOL is still way too optimistic about the number of job losses that will be coming back. I believe the DOL will have to continue decreasing the number of temporary job losses and reclassify them as being permanent.

And the increase in permanent job losses could be significant, almost certainly if the current spike in COVID-19 infections continues to surge or even plateaus at the current level. In my view, this will determine whether we remain in a deep recession or begin to see a recovery.

Most forecasters seem to believe the last two better than expected jobs reports mean we’ve at least turned the corner on the recession if not recovered entirely. But if you look beneath the headline jobs numbers, you find we’re nowhere near out of this recession. I’ll keep you posted.

Payroll Protection Program Extended Another 5 Weeks

Small businesses continued to tap federal loans through the Paycheck Protection Program last month, enabling many to recall workers. The PPP, which provides small businesses with low interest, forgivable loans, was scheduled to expire last Tuesday. Yet on Saturday, President Trump signed new legislation extending the application period for the program until August 8.

[Redacted]

The extension was unexpectedly approved by unanimous consent in the Senate last Tuesday evening, and the House followed suit on Wednesday. The original PPP provided up to \$670 billion in loan money for small businesses, and as of last week only \$130 billion remained unallocated.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act added the Paycheck Protection Program to provide economic relief to small businesses nationwide adversely impacted by COVID-19. The PPP is administered by the Small Business Administration (SBA) with support from the Department of the Treasury.

Designed to provide quick access to loans from the SBA for companies with 500 or fewer employees, the PPP’s intention was to help with payroll and operating costs during short-term business disruption caused by the COVID-19 pandemic.

The PPP has provided significant financial incentives for small businesses to hold on to current employees and bring back workers who had been laid off or furloughed, even before their business was fully back up to speed.

While the latest five-week extension of the PPP loan application period will help more small businesses stay afloat for a while, I still believe (as discussed above) the number of permanent business closures will continue to rise. And it could rise significantly if the current surge in COVID-19 cases continues. Wish I had better news!

Wishing you profits,
Gary D. Halbert

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