The Job Market Outlook

February 8, 2021

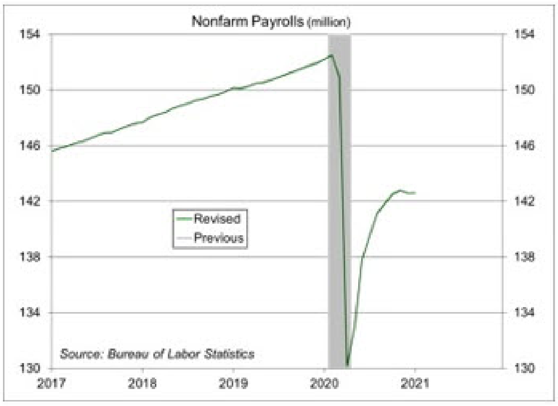
by Scott Brown

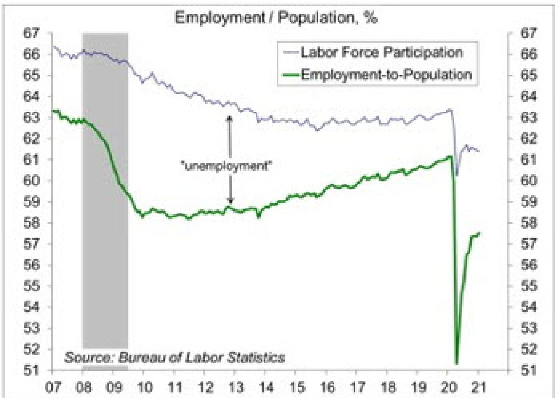
of Raymond James

Chief Economist Scott Brown discusses current economic conditions.

The U.S. economy lost 2.77 million jobs in the initial estimate for January, which is on par with what we saw a year ago (-2.79 million). Seasonally adjusted, this was recorded as a 49,000 gain (with private-sector payrolls up just 6,000). Still, accounting for the seasonal noise, the recent data indicated that the job market has cooled off significantly following a sharp rebound in the late spring and summer (payrolls averaged a 29,000 monthly gain over the three months ending in January). The slowdown reflects the pandemic surge (and efforts to contain it). The bigger test for the job market occurs from February to June, when payrolls normally ramp higher. The pandemic is likely to restrain job growth in the near term, but we ought to see stronger gains once vaccines become more widely distributed.

Heading into the January Employment Report, seasonal adjustment was expected to be a factor. The end of the holiday shopping season contributes to job losses each January. In addition, some firms will wait until after the holidays to trim their workforce, while winter weather is a dampening factor in some industries (such as construction and travel). With reduced hiring in November and December, there should have been fewer layoffs in January. However, December job gains in retail were revised higher in this report. Courier (package delivery) jobs fell by 300,100 this January (vs. -141,400 a year ago). Construction shed 254,000 (vs. -207,000 a year ago). On a seasonally adjusted basis, restaurants and bars shed 19,400 jobs, following a 402,200 decline in December (revised lower), reflecting pandemic restrictions.





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The unemployment rate fell to 6.3% in January (from 6.7% in December, but up from 3.5% a year ago). The decline was concentrated among teenagers, young adults, and older workers (each had seen an increase in unemployment in December), which suggests some issues with the seasonal adjustment. The unemployment rate for prime-age workers (aged 25-54) held steady at 5.8%. The unemployment rate understates the degree of weakness in the job market, as nearly four million workers exited the labor force between February and December last year (and are no longer officially counted as "unemployed." If the size of the labor force has remained at the February 2020 level, the unemployment rate would be closer to 9%.

Nonfarm payrolls are now 9.6 million (-6.3%) lower than a year ago. If we were to regain these jobs over the next year (as a hypothetical exercise), that would mean averaging 800,000 jobs per month for 12 months. That's a high hurdle.

Pandemic job losses were concentrated in lower-paying service industries. These aren't big spenders and white collar workers have been more able to work from home, so the impact on consumer spending was more limited than if job losses were evenly distributed across the income spectrum. Still, people and families are suffering and further fiscal support will be needed.

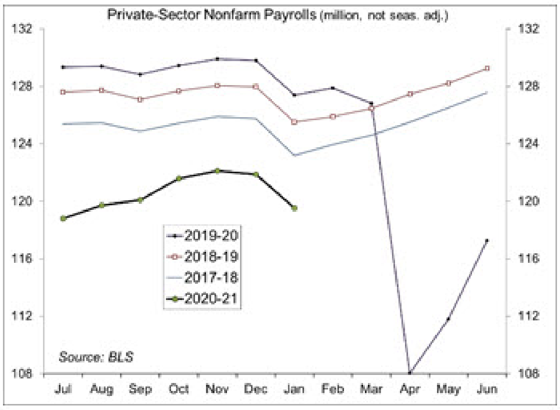
The Biden administration appears to have learned from the Obama administration. Democrats in Washington aren't waiting around to reach a broad consensus. If they are successful and a support package arrives sooner, the economic outlook will improve. However, we still need to get the pandemic behind us.

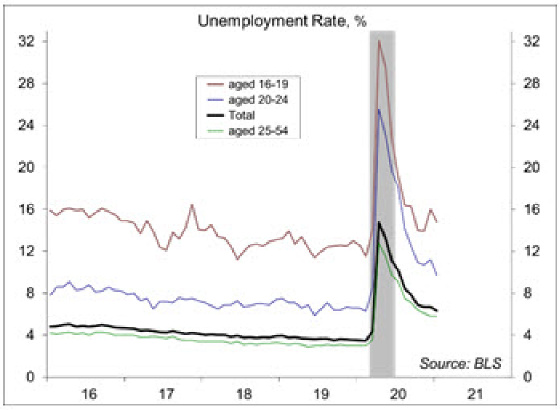
Recent Economic Data

The ISM Manufacturing Index slipped to 58.7 in January, vs. 60.5 in December, with slower growth in new orders and production (although still strong). The ISM Services Index edged up to 58.7 in January, vs. 57.7 in December, reflecting growth in new orders and employment. Both reports noted pandemic-related supply chain issues, leading to increased supplier delivery times and greater input cost pressures (likely transitory).

The Employment Report was mixed. Nonfarm payrolls rose by 49,000 in the initial estimate for January (down

2.77 million before seasonal adjustment) and a +29,000 average over the last three months.





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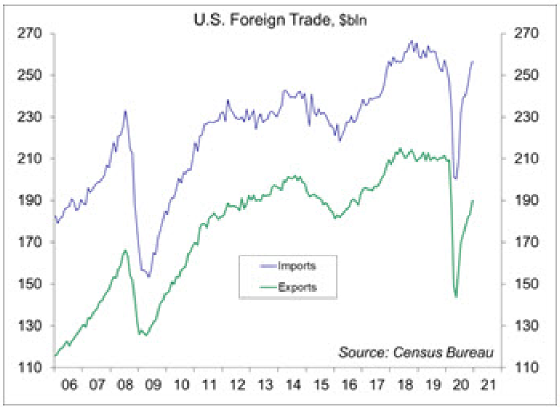
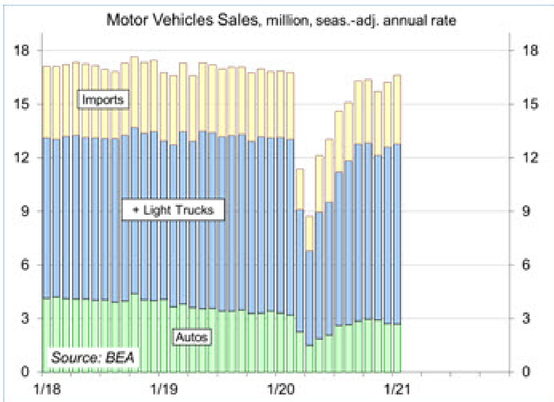
The unemployment rate fell to 6.3% in January, vs. 6.7% in December, reflecting lower rates for teenagers, young adults, and older workers (each had risen in December).

The U.S. Trade Deficit narrowed to \$66.6 billion in December (about what was assumed in the advance GDP report for 4Q21), vs. a record \$69.0 billion in November. Imports fell less than exports during last year's lockdown and have rebounded quicker than exports in recent months.





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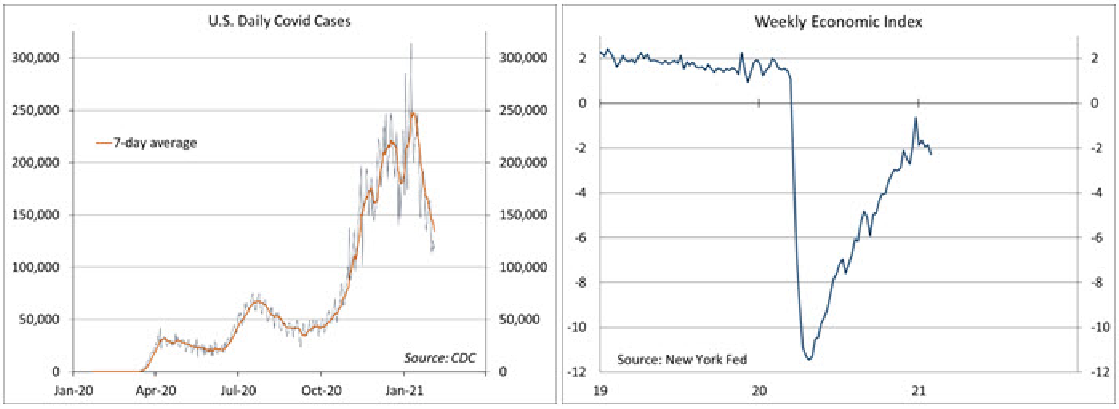
Unit motor vehicle sales rose to a 16.6 million seasonally adjusted annual rate in January, vs. 16.2 million in December and 16.9 million a year ago.

Gauging the Recovery

The number of new daily COVID-19 cases has continued to decline, but remain elevated. Increased social distancing, whether state mandated or voluntary self-preservation, should slow the pace (and the economy) in the near term. The number of U.S. deaths from the coronavirus now exceeds 450,000.



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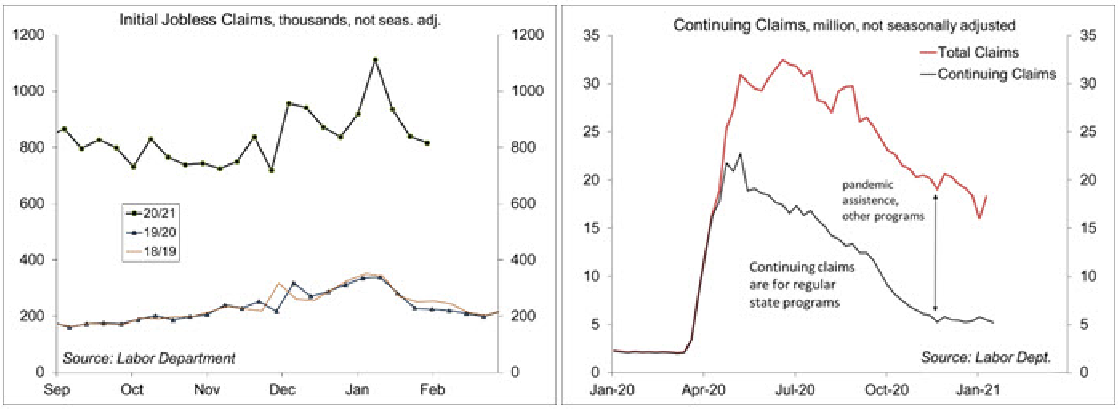
The New York Fed's Weekly Economic Index fell to -2.27% for the week ending January 30, down from -1.86% a week earlier (revised from -2.28%) and a low of -11.45% at the end of April. The WEI is scaled to four- quarter GDP growth (for example, if the WEI reads -2% and the current level of the WEI persists for an entire quarter, we would expect, on average, GDP that quarter to be 2% lower than a year previously).

Jobless claims fell to 779,000 in the week ending January 30 (816,247 before seasonal adjustment), still very high by historical standards.



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The University of Michigan's Consumer Sentiment Index edged down to 79.2 in the mid-month assessment for January (the survey covered January 2-13, vs. 79.2 in mid-January and 80.7 in December. The report noted "only relatively small variations since the pandemic started." Despite the narrow range, there's a lot of politics under the surface. For Democrats, expectations jumped to 91.8 in January from 68.6 in October. For Republicans, expectations plunged to 51.4 in January from 96.4 in October. Independents were in the middle.

The opinions offered by Dr. Brown are provided as of the date above and subject to change. For more information about this report – to discuss how this outlook may affect your personal situation and/or to learn how this insight may be incorporated into your investment strategy – please contact your financial advisor or use the convenient Office Locator to find our office(s) nearest you today.