

# U.S. Data Review

- Employment: virus-related softness
- ISM nonmfg: still above 50, but supported by supplier deliveries

## Michael Moran

Daiwa Capital Markets America  
212-612-6392  
michael.moran@us.daiwacm.com

## March Employment

Nonfarm payrolls fell 701,000 in March and results in the prior two months were revised lower by 57,000. The results were softer than the expected decrease of 100,000, but the expectation was meaningless in the current month because of the marked uncertainty generated by the coronavirus. The range of observations in the survey of analysts (-4.0 million to +100,000) attests to the degree of uncertainty involved.

The consensus estimate and published tally were light relative to the surge in unemployment claims seen recently (nearly 10 million in the final two weeks of March), but the payroll figures are for the pay period containing the 12th of the month, and the surge in unemployment claims occurred after the survey period. The payroll figures indicate that layoffs actually started earlier than suggested by unemployment claims. Many of those who filed for benefits in the final two weeks of March were apparently furloughed earlier.

The corona virus affected the collection of data by the Bureau of Labor Statistics, as the response rate for the payroll survey was only 66 percent, nine percentage points lower than other recent surveys. The response rate for the household survey used to calculate the unemployment rate was 73 percent, 10 percentage points below normal. In addition, in-person interviews were suspended this month, which could diminish the accuracy of responses to the household survey. Considering these developments, revisions could be large.

The payroll weakness was broadly based in March, but the leisure and hospitality industry stood out with cuts of 459,000. Most of the decline (417,000) occurred at food service and drinking places (i.e. restaurants and bars), but accommodations (i.e. hotels) also contributed with cuts of 29,000. Interestingly, the health-care category registered job losses of 61,000. This result is surprising at first blush, but the decline was concentrated in the offices of doctors and dentists, who have seen a reduction in patient flow because of sheltering in place. Elsewhere, a few industries registered small increases in employment, but most cut payrolls.

## Employment Report

|                       | Nonfarm<br>Payrolls*<br>(Chg., Thousands) | Private-<br>Sector<br>Payrolls<br>(Chg., Thousands) | Unemp.<br>Rate<br>(Percent) | Broad<br>Unemp.<br>Rate | Household<br>Emp.<br>(Chg., Thousands) | Labor<br>Force | Emp.-<br>Ratio<br>(Pct.) | Median<br>Duration of<br>Unemp.<br>(Weeks) | Part-Time<br>Econ.<br>Reasons<br>(Thou.) | Avg.<br>Hourly<br>Earnings<br>% Chg. | Avg.<br>Workweek<br>(Hours) |      |
|-----------------------|---|---|-----------------------------|-------------------------|--|----------------|--------------------------|--|--|--------------------------------------|-----------------------------|------|
| <b>Annual Average</b> |   |   |                             |                         |  |                |                          |  |  |                                      |                             |      |
| 2017                  | 176                                       | 170   | 4.3                         | 8.5                     | 147                                    | 69             | 60.1                     | 10.1                                       | 5,254                                    | 0.2                                  | 34.4                        |      |
| 2018                  | 193                                       | 183   | 3.9                         | 7.7                     | 237                                    | 214            | 60.4                     | 9.3  | 4,779                                    | 0.3                                  | 34.5                        |      |
| 2019                  | 178                                       | 162   | 3.7                         | 7.1                     | 165                                    | 120            | 60.8                     | 9.2  | 4,407                                    | 0.2                                  | 34.4                        |      |
| <b>Qtrly. Average</b> |   |   |                             |                         |  |                |                          |  |  |                                      |                             |      |
| 19-Q2                 | 159                                       | 151   | 3.6                         | 7.2                     | 136                                    | 66             | 60.6                     | 9.3  | 4,477                                    | 0.2                                  | 34.4                        |      |
| 19-Q3                 | 203                                       | 171   | 3.6                         | 7.0                     | 383                                    | 306            | 60.9                     | 9.1  | 4,230                                    | 0.2                                  | 34.4                        |      |
| 19-Q4                 | 210                                       | 200   | 3.5                         | 6.8                     | 168                                    | 168            | 61.0                     | 9.1  | 4,278                                    | 0.2                                  | 34.3                        |      |
| 20-Q1                 | -71                                       | -97   | 3.8                         | 7.5                     | -1010                                  | -548           | 60.8                     | 8.5  | 4,755                                    | 0.3                                  | 34.3                        |      |
| <b>2019 Monthly</b>   |   |   |                             |                         |  |                |                          |  |  |                                      |                             |      |
| Oct.                  | 185                                       | 190   | 3.6                         | 6.9                     | 246                                    | 350            | 61.0                     | 9.2  | 4,397                                    | 0.3                                  | 34.4                        |      |
| Nov.                  | 261                                       | 247   | 3.5                         | 6.8                     | -8                                     | -54            | 61.0                     | 9.2  | 4,288                                    | 0.4                                  | 34.3                        |      |
| Dec.                  | 184                                       | 164   | 3.5                         | 6.7                     | 267                                    | 209            | 61.0                     | 9.0  | 4,148                                    | 0.1                                  | 34.3                        |      |
| <b>2020 Monthly</b>   |   |   |                             |                         |  |                |                          |  |  |                                      |                             |      |
| Jan.                  | 214                                       | (273)   | 179                         | 3.6                     | 6.9                                    | -89            | 50                       | 61.2                                       | 9.3                                      | 4,182                                | 0.2                         | 34.3 |
| Feb.                  | 275                                       | (273)   | 242                         | 3.5                     | 7.0                                    | 45             | -60                      | 61.1                                       | 9.1                                      | 4,318                                | 0.3                         | 34.4 |
| Mar.                  | -701                                      | -713  | 4.4                         | 8.7                     | -2987                                  | -1633          | 60.0                     | 7.0  | 5,765                                    | 0.4                                  | 34.2                        |      |

\* Preliminary readings on nonfarm payrolls are shown in parenthesis.

Source: Bureau of Labor Statistics via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

The unemployment rate jumped 0.9 percentage point to 4.4 percent, a sharper change than any seen during the Great Recession (max change at that time was 0.5 percentage point for three consecutive months, December 2008 to February 2009). The jump matched the increase in January 1975 and it was exceeded by only two observations decades ago (1.0 percentage point in December 1953 and 1.3 percentage points in October 1949). The Bureau of Labor Statistics indicated the many individuals furloughed because of the virus might have been misclassified as employed, which restrained the increase in reported joblessness.

The broad unemployment rate surged 1.7 percentage points to 8.7 percent. The shift reflected increases in both the traditional jobless rate and the number of individuals working part time because of reductions in hours. The cut in hours also was evident in the average workweek, which fell 0.2 hour to 34.2 hours. The combination of lower employment and shorter workweeks led to a drop of 1.1 percent in the index of production time, a measure that correlates well with output (i.e. GDP). Although this index was down sharply in March, it rose slightly on average in the first quarter (0.5 percent, annual rate), suggesting a less-than-dreadful GDP figure for Q1.

Average hourly earnings rose 0.4 percent, an apparently favorable development for workers. However, the increase most likely reflected a shift in the composition of employment rather than higher wage rates. Workers in the hospitality sector generally earn below-average wages, and this sector registered disproportional job cuts in March. With these individuals no longer employed, average hourly earnings would naturally increase. (As the name indicates, it's an average; if low observations drop out of the calculation, the average will increase.)

## ISM Nonmanufacturing Index

The ISM nonmanufacturing index fell 4.8 percentage points to 52.5 percent, a much better performance than the expected drop of 14.3 percentage points to 43.0 percent. The surprisingly favorable results, however, were influenced by an increase of 9.7 percentage points in the supplier delivery component to 62.1 percent. Increases in this measure usually reflect slow delivery times because of strong demand, but in this instance disruptions to supply chains were probably the source of delays in delivery.

Other elements of the report were softer than the headline figure, but still better than expected. An average of new orders, business activity, and employment posted a drop of 9.5 percentage points to 49.3 percent. The new orders component posted the largest decline (off 10.2 percentage points, but it stayed above 50 percent (52.9 percent). The declines in both business activity and employment were a bit lighter than that for new orders, but both of these components moved below 50 percent

### ISM Nonmanufacturing – Monthly Indexes

|                              | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 |
|------------------------------|--------|--------|--------|--------|--------|
| <b>ISM Nonmfg. Composite</b> | 53.9   | 54.9   | 55.5   | 57.3   | 52.5   |
| <b>Business activity</b>     | 52.3   | 57.0   | 60.9   | 57.8   | 48.0   |
| <b>New orders</b>            | 56.7   | 55.3   | 56.2   | 63.1   | 52.9   |
| <b>Employment</b>            | 54.9   | 54.8   | 53.1   | 55.6   | 47.0   |
| <b>Supplier deliveries*</b>  | 51.5   | 52.5   | 51.7   | 52.4   | 62.1   |
| <b>Prices</b>                | 58.8   | 59.3   | 55.5   | 50.8   | 50.0   |

\* The supplier deliveries index is not seasonally adjusted. The index differs from the other components of the composite measure (business activity, new orders, employment) in interpretation. An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.

Source: Institute for Supply Management via Haver Analytics