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ECONOMIC COMMENTARY *from the Investment Advisory Group*

One Last Treat: Private Job Gains Surprisingly Strong in October

Executive Summary: US employers added 638,000 jobs in October, which was coupled with a dramatic full percentage point decline in the unemployment rate to 6.9%. We maintain our view that a self-reinforcing upswing is underway. The economy has recovered more than half (54%) of the 22.2 million jobs lost during March and April in six months. Despite the strong improvement, the size of the monthly jobs gains have predictably moderated after the huge initial snapback in the first few months. We anticipate that the repair process will continue to transition and reflect the unevenness of the overall recovery.

Longer-Term Trend

US nonfarm payrolls rose by 638,000 in October, handily beating the consensus estimate of 580,000. However, private payrolls gained a strong 906,000 in October, less than 10% of which was seasonal hiring by retailers or temporary help services.

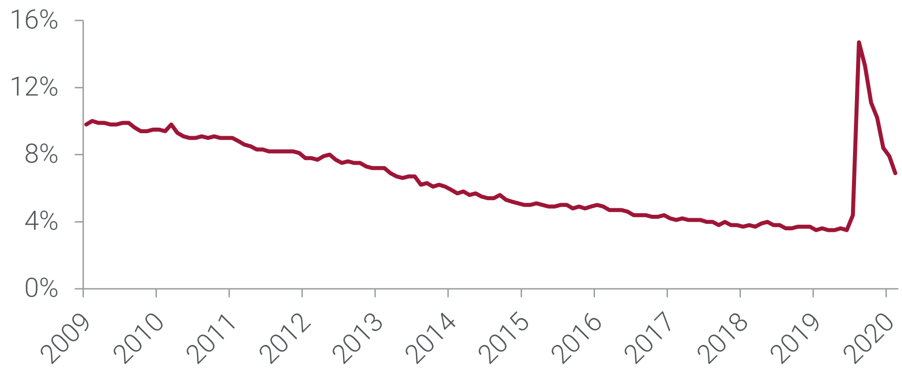
Revisions to the prior months added a modest 15,000 more workers to the previously reported totals. The August tally was revised up by 4,000 to 1,493,000 from 1,489,000, while the September figure was revised up by 11,000 to 672,000 from 661,000.

However, the number of people categorized as “on temporary layoff” fell by 1.4 million to 3.2 million, which is down considerably from the high of 18.1 million in April. Still, we anticipate that most of these jobs will be permanently lost within the next few months.

Labor Force and Unemployment

The unemployment rate declined a full percentage point to 6.9% from 7.9% in September and the April peak of 14.7%. The all-in unemployment rate (U-6) fell 0.7 percentage points to 12.1% from 12.8%. The labor force continued to fluctuate, gaining an outsized 724,000 workers in October after losing 695,000 in September; the total workforce rose to 160.9 million. The labor force participation rate rose to 61.7% from 61.4% in September.

Unemployment Rate at 6.9% in October

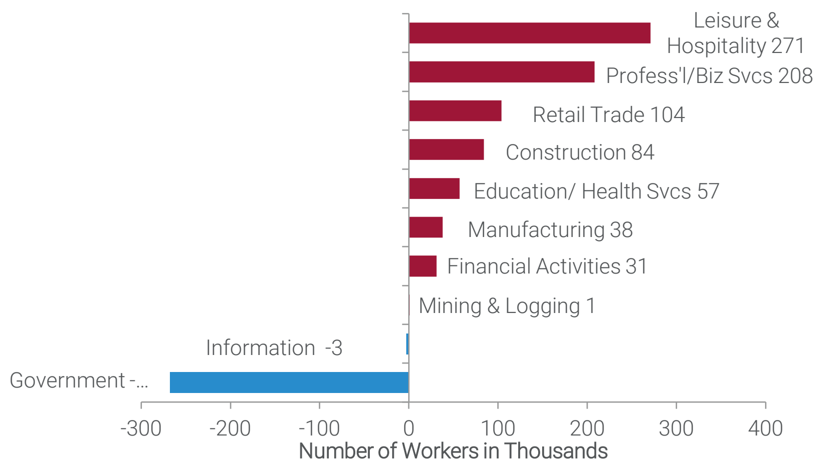


Data Source: SunTrust IAG, Bloomberg, Bureau of Labor Statistics. Unemployed workers as a percentage of the civilian labor force.

Industry Trends

Service-providing industries added 783,000 workers, while goods producers added 123,000 workers, which was the largest increase in four months. Two segments, government and information, shed jobs during the month.

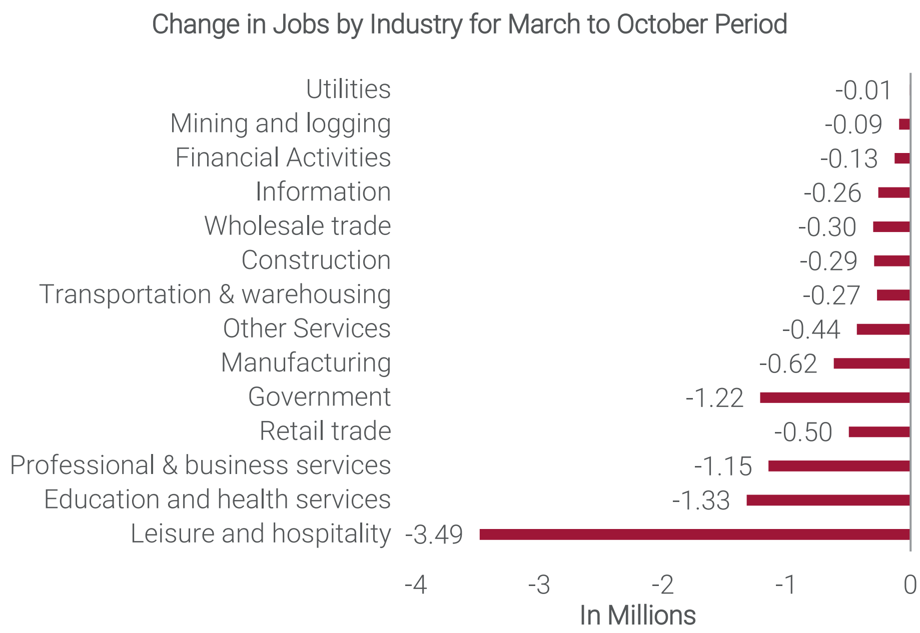
Monthly Change by Major Industry Group



Data Source: SunTrust IAG, Bureau of Economics Analysis

The government segment lost 268,000 workers, although 147,000, or 55% of the total, were temporary Census 2020 workers. Aside from those, the federal government hired 9,000 workers. However, there were 126,000 fewer educational positions at the state and local level. Lastly, there are approximately 100,000 temporary Census workers remaining by our count, which will be shed in the next couple of months.

The leisure & hospitality segment, which took the brunt of the job losses during the pandemic, added 271,000 workers. More than 70% of the gains were attributable to food service and drinking places, which hired 192,200, while the hotels and accommodations sub-industry increased 34,200. Yet, the leisure and hospitality segment still has 3.5 million fewer workers than in February.



Data Source: SunTrust IAG, Bureau of Economics Analysis.

Our Take: Labor and Overall Outlook Update

As we have repeatedly highlighted, the unevenness of the recovery—both by industry and geography—is very apparent within the jobs report. Additionally, the undercurrent of continued job losses due to bankruptcies and corporate restructurings has continued.

Government support programs—like the Paycheck Protection Program (PPP) within the CARES Act, along with Small Business Administration loans and other support programs—have helped blunt some of the downside, but there are plenty of examples of ongoing issues. For instance, Illinois has been backsliding as initial jobless claims have quadrupled in the past two months to more than 76,000 new claims per week. This coincides with sizable increases in Kansas, Ohio, Virginia, Wisconsin and Pennsylvania in recent weeks.

That said, overall initial claims have generally improved, including in California, New York, Texas, Florida and Georgia, which are the largest states in terms of initial jobless claims. We suspect that some of the October job gains and improvements in initial claims were related to the ramp up in holiday spending. Based on overall retail sales trends, holiday spending should increase further in November, which should lead to more hiring.

We are hopeful that additional COVID relief (fiscal support) is in the offing upon the conclusion of the general election. Both sides have stated a renewed desire to deliver an agreement in the coming months. On the margin, not getting another round of government support is a negative from an economic standpoint, but it's certainly not fatal for the US economy. However, it does mean that some people and businesses will continue to struggle financially, which will likely translate into a further deterioration in credit quality and the continued undercurrent of job losses in the near term.

Some of the issues relate to the path of the virus. Infection rates have increased with cooler weather pushing people back inside. Unfortunately, in the absence of a vaccine or dramatically increased testing frequency, the virus will continue to weigh on the level of activities generally.

Nevertheless, like most recoveries, the repair process will be measured in quarters and years, especially on the employment front. We believe the US is in the early innings of this process and are encouraged by the progress made in the past six months.

Bottom Line

We maintain our view that a self-reinforcing upswing is underway. Yet, the size of the monthly jobs gains have predictably moderated after a huge initial snapback in the first few months. Many activities and industries remain impacted by the phased reopenings within the US as well as globally. We anticipate that the repair process will continue to transition and reflect the unevenness of the overall recovery.

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