'Jaw-dropping' May job gains surprise economists, point to unsteady road back

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By Evan Fallor
Market Intelligence

The gain of millions of U.S. jobs in the midst of a pandemic sent a powerful message about the resilience of the U.S. economy, but economists citing possible data discrepancies and an abundance of government assistance urged caution, saying the economy is not yet on a certain path to pre-coronavirus levels.

The U.S. added 2.5 million jobs in May — an all-time monthly record — lowering the country's unemployment rate to 13.3% from 14.7%, the Bureau of Labor Statistics said June 5. The numbers came in well below the expectations of economists, who had projected an unemployment rate of roughly 20% and 7.73 million job losses, according to the Econoday consensus.

Economists interviewed for this article expressed shock at the numbers.

"This was an undeniably a jaw-dropping positive surprise," said Tim Quinlan, managing director and senior economist for Wells Fargo Economics.

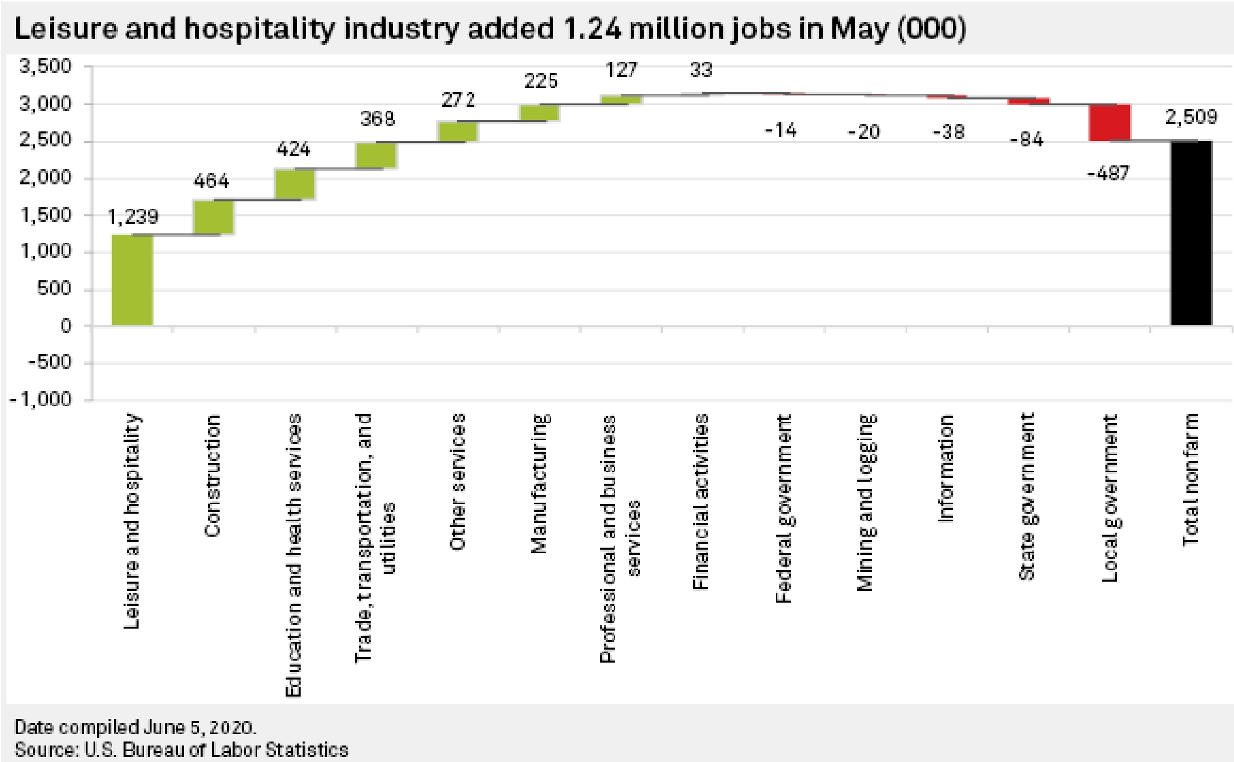
Still, Quinlan said net revisions by BLS that brought down the prior two months' figures by 642,000 jobs takes the "shine off the apple a bit." The April figure, by far the largest employment loss on record, was downgraded by 150,000 to show a loss of 20.7 million jobs, while March's job loss was revised to 1.4 million from 881,000.

"We would need to have blowout reports like this back-to-back for seven straight months to get back to where we were in March," Quinlan said. "It's a great report, but it's not the all-clear. We're not out of this thing yet."

Data discrepancies

Some economists, including S&P Global Ratings Senior Economist Satyam Panday and Chief U.S. Economist Beth Ann Bovino, cautioned that the unprecedented nature of the pandemic make the jobs numbers harder to interpret than normal.

Bovino pointed to the BLS' note in its report that an unusually large number of people were classified as employed but absent from work and said that many of these workers could be misclassified. If all of these workers were to be reclassed as unemployed, the official jobless rate would be about 16.3%.



May's added jobs also appear to be at odds with unemployment insurance claims figures that remain at pre-pandemic record levels. Nearly 1.9 million Americans filed new claims for unemployment insurance the week of May 30, bringing the total to more than 42 million since the pandemic began.

"It's hard to really point to what's going on here," Panday said in an interview. "Maybe it's a sampling issue across states or mistakes in continuing-claims data or some lags in data."

The longer view

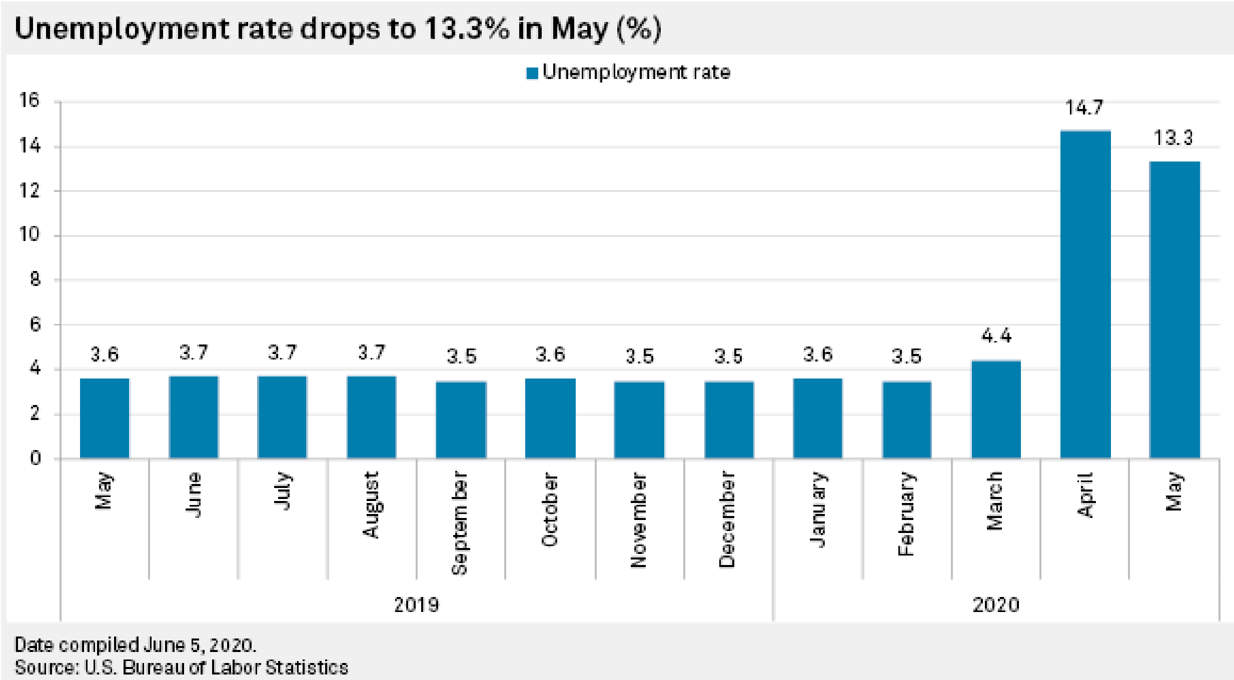
Rajeev Dhawan, director of the economic forecasting center at Georgia State University, attributed the surprising figures to the success of the Small Business Administration's Paycheck Protection Program, which began providing incentive loans in mid-April for small businesses to keep workers on payroll. Despite the boost that provided to leisure, hospitality and restaurants, he cautioned that this is not a sustainable rebound in economic activity.

"This is an artificial construct that reduced the damage," Dhawan said. "This does not mean that next month we will keep adding people at the same rate in these arenas."

Dhawan expects a pop-up in health care and manufacturing jobs in the June report as medical offices reopen and major auto plants begin to come back online.

Economists are hesitant to draw too many conclusions about the second half of the year from one month's report.

"We shouldn't make it a bigger issue," Panday said. He warned that the jobs recovery could slow in the fall because of capacity constraints in sectors including leisure and hospitality, which may still be allowed to operate only at diminished capacity.



U.S. unemployment was at a 50-year low of 3.5% in February and even remained at 4.4% in March before the most crippling economic effects of the coronavirus took hold in the U.S., showing how far the labor market has yet to come to return to its smooth-running performance of the past two years.

"It's still too early to tell [when pre-pandemic employment levels may return]. The data is likely to be very noisy, particularly since a lot of these jobs may well have gone for good, which means I have my doubts," Michael Hewson, chief market analyst for CMC Markets, said in an interview. "This is also a single data number. Let's see if we get a similar number next month."

The jobs report likely showed measurement issues more than actual recovery, said Michael Hicks, an economics professor at Ball State University. Even if the job numbers are right, it will take three to five years of "aggressive" job growth to return to February 2020 levels, Hicks said in an interview.

"This is still the worst downturn since the Great Depression, and we are in the early stages of damage," Hicks said. He and other economists agreed that

The encouraging May report comes after "phase one" reopening efforts had begun in many states amid ended lockdowns. Analysts are in agreement that a sustained recovery will depend on the development and distribution of a vaccine and confidence of consumers to patronize businesses.

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