CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on October 2, 2020

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U.S. nonfarm payrolls were lower than expected, up 661,000 in September versus expectations of 859,000. However, payrolls for July and August were revised up by a total of 145,000. On a trailing 3-month basis, payrolls have increased an average of about 1,304,000 per month. While these gains are impressive relative to long-term historical trends, the US labor market is a long way from recovering the payrolls lost in the early stage of the pandemic. The unemployment rate declined to 7.9% in September (versus expectations of 8.2%) from 8.4% in August. The decline in the unemployment rate was better than expected, however, it was partially driven by a decline in the labor participation rate to 61.4% in September from 61.7% in August. The labor participation rate improved modestly after plunging to 60.2% in April, but remains near the lowest levels since the 1970's. Nearly 4.5 million people have dropped out of the labor force since January, and 12.6 million people in the labor force were unemployed in September, according to the U.S. Bureau of Labor Statistics household survey. Workers who classified themselves as employed but absent from work in the September survey understated the unemployment rate by about 0.4%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, remained high but eased to 12.8% in September from 14.2% in August.

The pace of job growth is slowing, and Congress remains at an impasse with regard to additional fiscal stimulus. It has been about six months since the latest round of fiscal relief was approved by Congress in late March. We believe today's jobs report may provide additional motivation for both political parties to negotiate a deal on a Phase 4 stimulus plan, but the chances of getting something done before the election have dimmed. House Democrats passed a $2.2 trillion relief bill yesterday (down from the $3.5 trillion relief bill they passed in May), but the bill has virtually no chance of moving forward in the GOP-controlled Senate. Treasury Secretary Mnuchin has proposed a $1.6 trillion bill, which is higher than earlier proposals, but the two parties remain divided just as the House is scheduled to take a monthlong recess for much of October.

Today's headlines are dominated by news that President Trump and the First Lady have tested positive for Covid-19. We had already expected the financial markets to be choppy heading into the election, and concern regarding the President's health and an uncertain outlook for the rest of the campaign is likely to fuel increased volatility in the coming weeks. Notably, today's employment report is the last look at job growth before the US Presidential election.

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