

Date	Indicator	For	Estimate	Consensus*	Previous Period
5-Oct-2020	Markit US Services PMI	Sep F	54.5	54.6	54.6
5-Oct-2020	Markit US Composite PMI	Sep F	NA	NA	54.4
5-Oct-2020	ISM Services Index	Sep	56.3	56.3	56.9
6-Oct-2020	Trade Balance	Aug	-\$66.0b	-\$66.1b	-\$63.6b
6-Oct-2020	JOLTS Job Openings	Aug	NA	6500.0	6618.0
7-Oct-2020	Consumer Credit	Aug	\$13.000b	\$14.500b	\$12.250b
8-Oct-2020	Initial Jobless Claims	03-Oct	845k	NA	837k
9-Oct-2020	Wholesale Inventories MoM	Aug F	0.6%	NA	0.5%

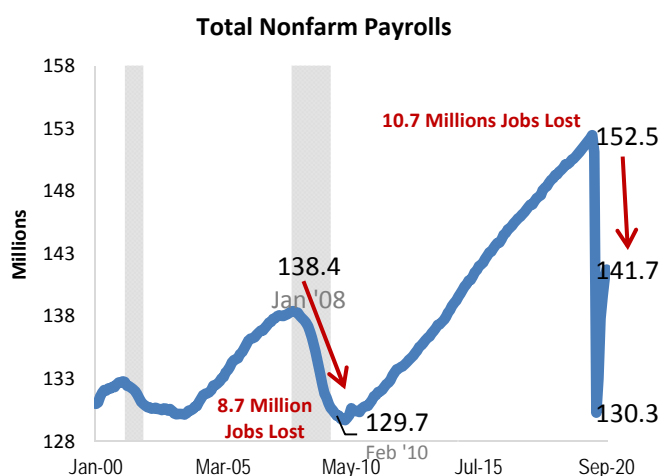
\*Consensus from Bloomberg

## September Employment Lands Short Of The Mark

The September jobs reports brought more troubling signs that the labor market rebound that began in earnest in May as furloughed workers returned to work and peaked in June with a one month 4.78 million job gain is rapidly petering out as winter approaches.

Nonfarm payrolls increased a less than forecast 661k in September down from 1,489k in August with U.S. employment still 10.74 million jobs below the February peak. During the Great Recession the U.S. economy lost only 8.7 million jobs over more than a 2 year period.

## Reopening Job Rebound Falls Short of the Mark

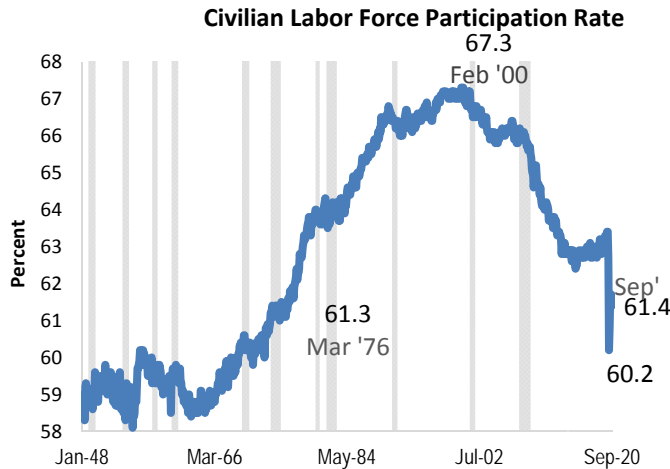


Source: U.S. Bureau of Labor Statistics

Most concerning to me is the large decline in the labor force participation rate in September to 61.4% from 61.7% in August, suggesting more working age people are just deciding to give up on work. You have to go back all the way to 1976 to find labor force participation rates at these low levels. The U.S. labor force has shrunk 2.4% from year ago levels.

The labor force participation rate plunged during the Great Recession and its aftermath and has never really recovered, only seeing a period of stabilization and improvement before taking another pandemic plunge. The U.S. labor force participation rate peaked at 67.3% back in March of 2000. While aging and exiting baby boomers are behind some this decline in the participation rate, no other labor market metric really captures the extent of the underlying weakness in the health of the U.S. labor market better than this one in my opinion.

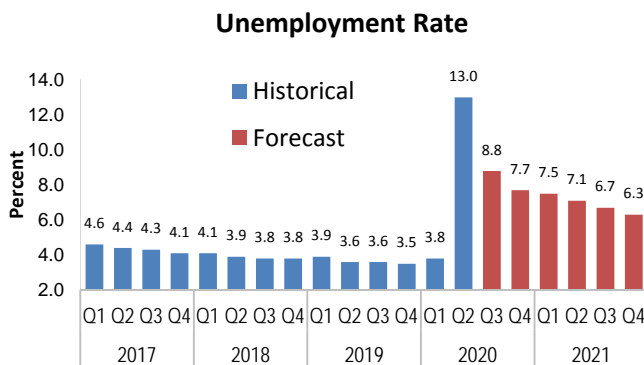
**Fewer Folks Choosing Work – Participation Rate Falters**



Source: U.S. Bureau of Labor Statistics

While the headline unemployment rate dropped somewhat more than forecast in September to 7.9% from 8.4% in August. This only modestly improves our forecast for the Q4 unemployment rate to an average 7.7% from 7.8% previously, and we made no downward revision to our unemployment rate forecasts for 2021. We still see the U.S. unemployment rate averaging 6.3% in the fourth quarter of next year as GDP growth in the United States downshifts into more of a U-shaped pattern from the V-shaped reopening rebound we have been in over the past five months.

**Labor Market Progress Expected to Downshift**



Source: US. Bureau of Labor Statistics; BOTW

Indeed the U.S. labor market recovery remains highly uneven with many groups and industries making little to no progress. In September the unemployment rate dropped for Whites and Asians, but were little changed for

teenagers, Blacks and Hispanics. The BLS also reported that due to survey misclassification errors of the unemployed, the true U.S. unemployment rate could be as high as 8.3% in September.

Moreover, the easy labor market gains are likely already behind us. In September alone, 1.5 million fewer folks saw themselves as temporarily unemployed. The temporary unemployed now number just 4.6 million, down from 18.1 million in April, and only 3.8 million above February’s level. Moreover, the level of long-term unemployment is rising. The long-term unemployed, those jobless for 27 weeks or more increased by 781,000 to 2.4 million last month. Reflecting the lingering weakness in the U.S. labor market, average hourly earnings growth slipped to just 0.1% in September down from 0.3% in August.

Of the 661k net new jobs re-created in September, nearly half were in the leisure and hospitality sector, though leisure and hospitality employment is still 3.8 million lower than in February. Outsized job gains were also seen in retail trade, and professional and business services last month. Manufacturers managed to add back a better than expected 66k jobs too. Government employment was the biggest drag on overall job growth last month, with government payrolls dropping by 216k, highlighting the need for additional fiscal support from Washington D.C. to limit the pandemic damage to state and local governments. State and local government education jobs fell 49k and 231k respectively, while Federal employment dropped by 34k as the number of temporary Census workers declined.

The September job growth and unemployment decline is welcome news, but U.S. labor market improvement is increasingly falling short of the mark and the game is not yet won. Like in football, the path ahead for the labor market will be more of a ground game rather than a passing game - a game of hard fought rushing inches rather than easily won passing yards.

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Key Economic and Interest Rate Forecasts

Economic Data	History						Forecast						Yr/Yr % chg or Annual Avg.			
	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4	2018	2019	2020	2021
Real GDP*	2.9	1.5	2.6	2.4	-5.0	-31.4	30.6	3.1	2.0	2.8	3.4	3.5	3.0	2.2	-3.5	3.6
Personal Consumption Expenditures*	1.8	3.7	2.7	1.6	-6.9	-33.2	38.0	4.8	2.0	3.1	2.8	2.7	2.7	2.4	-3.5	4.5
Non-residential Fixed Investment*	4.2	0.0	1.9	-0.3	-6.7	-27.2	21.7	3.4	1.4	2.4	3.2	3.1	6.9	2.9	-4.5	2.7
Private Housing Starts (000s units)	1,204	1,257	1,288	1,433	1,484	1,064	1,450	1,350	1,290	1,295	1,260	1,280	1,208	1,296	1,337	1,281
Vehicle Sales (mill. Units, annualized)	16.9	17.0	17.0	16.8	15.0	11.4	14.9	14.7	14.8	15.0	15.2	15.3	17.2	16.9	14.0	15.1
Industrial Production*	-1.9	-2.3	1.1	0.4	-6.8	-43.2	34.0	2.5	4.8	5.3	4.5	4.4	3.9	0.9	-7.6	4.0
Nonfarm Payroll Employment (mil.)	150.2	150.6	151.2	151.8	151.9	133.7	140.8	142.2	143.4	144.6	145.8	147.1	146.6	150.9	142.2	145.2
Unemployment rate	3.9	3.6	3.6	3.5	3.8	13.0	8.8	7.7	7.5	7.1	6.7	6.3	4.4	3.7	8.3	6.9
Consumer Price Index* (percent)	0.9	3.0	1.8	2.4	1.2	-3.5	3.4	1.6	1.4	1.4	1.4	1.4	2.4	1.8	1.0	1.4
"Core" CPI* (percent)	2.2	2.2	2.8	2.0	2.0	-1.6	2.0	2.0	1.3	1.4	1.4	1.5	2.1	2.2	1.4	1.4
PPI (finished goods)* (percent)	-2.7	4.7	-1.2	3.0	-3.4	-10.9	6.4	2.2	0.1	0.9	1.6	1.7	3.0	0.8	-1.4	1.0
Trade Weighted Dollar (Fed BOG, major)	114.5	115.4	116.5	116.4	117.9	122.2	118.1	116.5	116.0	115.8	115.7	115.5	91.1	115.7	118.7	115.8
Crude Oil Prices -WTI (\$ per barrel)	55	60	56	57	45	28	42	42	41	40	40	41	51	57	39	41

\*Quarterly Data Percent Change At Annual Rate; Annual Data Year-on-Year % Chg, or Annual Average.

Financial Data	History						Forecast						Annual Average			
	2019.1	2019.2	2019.3	2019.4	2020.1	2020.2	2020.3	2020.4	2021.1	2021.2	2021.3	2021.4	2018	2019	2020	2021
S & P 500	2,721	2,882	2,958	3,083	3,056	2,932							2,449	2,911		
Dow Jones Industrial Average	25,147	26,096	26,676	27,537	26,554	24,571							21,745	26,364		
Federal Funds Rate (effective)	2.40	2.40	2.20	1.65	1.23	0.06	0.13	0.13	0.13	0.13	0.13	0.13	1.00	2.16	0.39	0.13
Treasury-3 Month Bills (yield)	2.44	2.35	2.03	1.61	1.10	0.14	0.10	0.11	0.12	0.13	0.13	0.14	0.95	2.11	0.36	0.13
Treasury-2 Year Notes (yield)	2.49	2.13	1.69	1.59	1.08	0.19	0.15	0.16	0.18	0.20	0.21	0.23	1.40	1.97	0.39	0.20
Treasury-5 Year Notes (yield)	2.46	2.12	1.63	1.61	1.14	0.36	0.29	0.32	0.34	0.37	0.40	0.42	1.91	1.96	0.53	0.38
Treasury-10 Year Notes (yield)	2.65	2.34	1.80	1.79	1.37	0.69	0.65	0.72	0.75	0.78	0.85	0.90	2.33	2.15	0.85	0.82
Treasury-30 Year Notes (yield)	3.01	2.78	2.29	2.25	1.87	1.38	1.35	1.47	1.52	1.56	1.64	1.70	2.90	2.58	1.52	1.60
Prime Rate	5.50	5.50	5.31	4.83	4.43	3.25	3.25	3.25	3.25	3.25	3.25	3.25	4.10	5.29	3.54	3.25
Libor 3-Mo. U.S. Dollar	2.69	2.51	2.20	1.93	1.53	0.60	0.26	0.26	0.27	0.27	0.27	0.27	1.26	2.33	0.66	0.27
Mortgage-30 Year (yield)	4.37	4.01	3.66	3.70	3.52	3.24	2.96	2.97	3.05	3.05	3.05	3.10	3.99	3.94	3.17	3.06
BAA Corporate (yield)	4.97	4.60	4.03	3.91	3.91	3.91	3.30	3.45	3.65	3.78	4.05	4.10	4.44	4.38	3.64	3.89

Source: Bank of the West Economics, Bloomberg, Federal Reserve