HOW BAD WAS IT?

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All eyes were on Friday's jobs report to see just how bad it really was. And yes, indeed, it was bad…the worst report in our professional careers! Here are the highlights:

- OK, first up, nonfarm payrolls: the total decline was by a record 20.5 million workers; consensus had been for -22.0 million
- While job losses were widespread, as we've seen in prior data, the service sector was hit the hardest, with the payroll decline of about 17.2 million. Here's a breakdown of the key categories:
  - Leisure & hospitality down 7.7 million, representing about 38% of the decline in total payrolls
  - Education & health, professional & business services and retail trade were all down more than 2.0 million
  - Government payroll contracted by 980,000, a little more than 800,000 of which at the local level
- The unemployment rate skyrocketed to 14.7% vs. consensus of 16%. This was the largest month-over-month increase (10.3 percentage points) and the highest reading since 1948 (which is as far back as the data goes). During the Great Depression the peak was 25%.
- While April could represent the peak in payroll job losses, the jobless rate could move even higher in May before declining again
- Year-over-year average hourly earnings soared by 7.9%, with the lion's share of job losses occurring in lower-wage jobs
- The UST 10-Year yield has risen a couple of basis points (BPs); so, is this report "old news"?
- Looking ahead, the number of new weekly jobless claims remains historically high, but a faint silver lining is that they have now declined for five weeks in a row

Bottom line: The U.S. Treasury market, and by extension the Federal Reserve, knew this report would be awful, which, in my opinion, was fully reflected in the price/yield. Now the attention turns to what comes next. One could reason that these job numbers may represent the low point by certain measures. While we do not expect a sharp snap back in labor force activity anytime soon, it is reasonable to expect that the long, slow climb out of the crater may be the next step in this unprecedented process. In a recession, one typically sees the lion's share of declines in permanent jobs, but thus far it is the number of temporary layoffs that stands out. Unfortunately, a portion of these "temporary" layoffs could become permanent, but hopefully, the nature of these job losses and the aggressive fiscal policy measures up to this point (and perhaps more to come) can reverse the trend as businesses reopen.

Unless otherwise stated, data source is Bloomberg, as of May 8, 2020.

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Basis point : 1/100th of 1 percent.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Yield : The income return on an investment. Refers to the interest or dividends received from a security that is typically expressed annually as a percentage of the market or face value.

Fiscal Policy : Government spending policies that influence macroeconomic conditions. These policies affect tax rates, interest rates and government spending, in an effort to control the economy.