Economic Analysis

Labor market conditions remain upbeat in September

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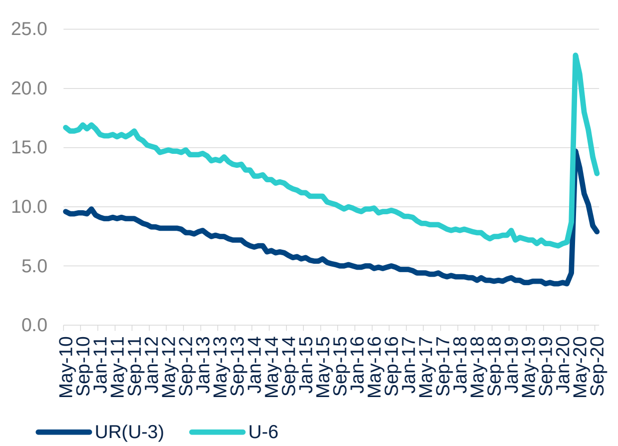
With health related outcomes improving and economic activity normalizing, the labor market continued to show signs of improvement with 661K jobs added over-the-month in September, and upward revisions of +27K and +118K in July and August, respectively. However, the data remain consistent with a general slowdown, given that nonfarm payrolls increased a revised 1.5M in August. This is also evident after taking into account the sharp volatility in government jobs. In fact, nonfarm private payroll increased by 877K in September after gaining 1,022K in August.

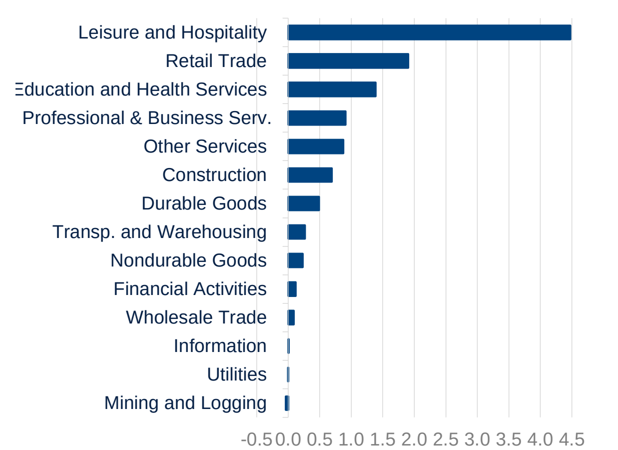
That said, the unemployment rate continues to recover at a historic pace, reaching 7.9%, down from 14.7% from in April. Nonetheless, this reflected an increase of 879K in the number of people out of the labor force, which stands 5.5M above February's. In September, around 4.5M people not in the labor force were prevented from looking for work due to the pandemic, while 19.4M people were unable to work because their employer closed or lost business due to the pandemic. Meanwhile, the number of people misclassified as "employed but not at work" and that should have been classified as "unemployed on temporary layoff" dipped below 800K. Taking these factors into consideration reveals an unemployment rate closer to 11.4%. In fact, the U6 unemployment rate, which considers total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons stood at 12.8%.

Figure 1. **UNEMPLOYMENT RATE** (%)



Source: BBVA Research & BLS

Figure 2. **NONFARM PAYROLL GAINS SINCE APRIL** (K)



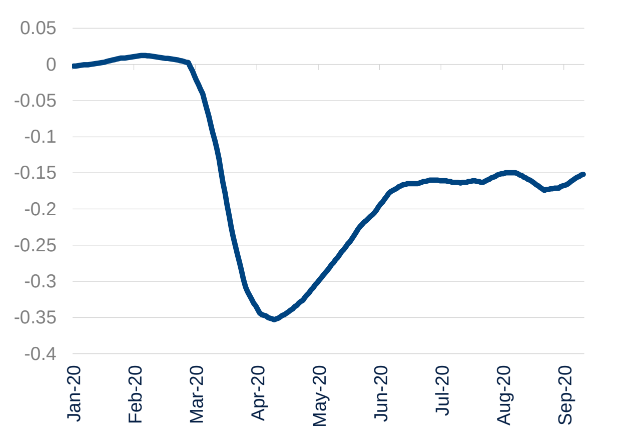
Source: BBVA Research & BLS

In terms of industry employment, payrolls remain below pre-pandemic levels, and in September, job gains continued to be concentrated in leisure and hospitality, healthcare and social assistance and retail trade, with monthly gains of 318K, 108K and 142K, respectively. Professional business services (89K), transportation and warehousing (74K), and manufacturing (66K) showed strong gains as demand-side conditions improved and as the supply-side worked to recover output lost during the shutdowns. The mining sector also appeared to stem the bleeding, adding 1K jobs over the month, after shedding 97K jobs or 14.6% of the workforce since February. Meanwhile, the education sector subtracted 349K jobs in September, (280K in state and local government and -69K in the private sector), reflecting problems reopening schools around the country. Meanwhile, as a result of the pandemic, 22.7% of people teleworked in September, slightly lower than the 24.3% in August.

Although the gap between high-skilled and high-income workers and low income workers remains, there has been a significant improvement in the unemployment rate for individuals with less than a high school diploma, which dropped 2pp to 10.6%. In addition, the unemployment rate for Asian and Blacks dipped 1.8pp and 0.9pp to 8.9% and 12.1%, respectively.

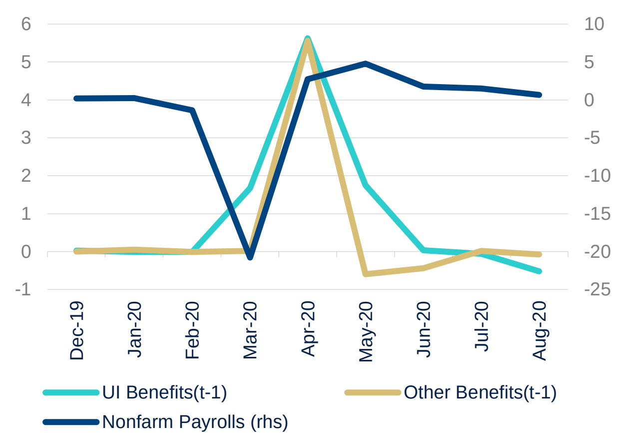
That being said, the unemployment rate for single women with children or relatives to take care of stood at 10%, a marginal 0.4pp drop from August and only 3.1pp below June's rate, reflecting the difficulties related to school reopening. Moreover, high-frequency estimates of employment for low-income workers is still 15% below January whereas high-income employment levels remain at or slightly below the January levels. In addition, the participation rate for Asians (-1.0pp), Blacks (-0.6pp), Hispanics (-0.7pp) and women (-0.5pp) fell more than the other workers on a seasonally adjusted basis. Surprisingly, participation rates for individuals with an advanced degree fell precipitously, possibly signaling that the lack of available school or child care alternatives are forcing working families with higher education to have one member leave the labor force to assist with child care or caregiving. In addition, individuals that have sufficient savings could choose to stay out of the labor force if they are concerned about the risks of infection. If these trends persist, there could be a significant impact on productivity growth during the normalization process.

Figure 3. **LOW-INCOME EMPLOYMENT**
(INDEX, JAN=0)



Source: BBVA Research & Opportunity Insights

Figure 4 **EMPLOYMENT GROWTH AND TRANSFER PAYMENTS**
(MILLIONS MOM & MOM%)



Source: BBVA Research, BLS & BEA

In terms of wages, total nonfarm average hourly earnings and hourly earnings for production and supervisory employees was little changed over-the-month, despite signs of tightening in the labor market; although the BLS conceded that fluctuations in employment in lower-paid industries has impacted the estimates. That being said, average hourly earnings are up 4.7% year-over-year.

Up to this point, the pace of improvement in the labor market has been unprecedented. For example, during the global financial crisis (GFC) it took over eight years to achieve similar gains in terms of reduction in unemployment. Nonetheless, we anticipate the current pace of improvement to continue to slow (Employment: trends, outlook and challenges). While the nature of this crisis and the intensity of the stoppage in economic activity during the pandemic make it difficult to draw direct comparisons between these two business cycles it is clear that fiscal policy, unlike 2008, has been highly effective in quickly normalizing economic conditions. In fact, it appears the $3.3Tn in transfers helped normalize demand-side conditions with durable goods consumption far outpacing the pre-crisis trend and services, which continue to face pandemic-related headwinds, recovering over half of the forgone consumption lost during the peak of the pandemic.

However, with unemployment benefits becoming less generous, PPP uptake declining and the impact from the direct transfer to individuals winding down it seems the momentum generated by the fiscal response may be fading. Moreover, the uneven impact of the pandemic on lower-skilled, younger, female and minority workers could have long-lasting economic and social consequences. Not surprisingly, policymakers continue debating the next phase of fiscal stimulus while the Fed has committed to keep interest rates close to zero well after inflation has returned to the 2% target to try to achieve broad-based and inclusive maximum employment. Even under the current pace of improvement in labor markets this still implies that rates will remain low for several more years.