Economic Analysis

Strong labor market report amidst rising uncertainty

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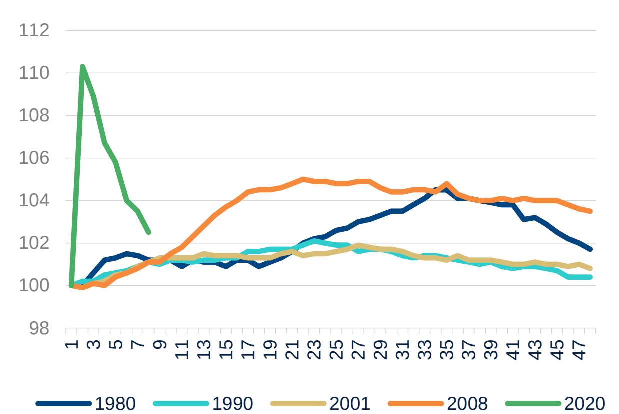
After showing signs of slowing in September, the unemployment rate plunged to 6.9% in October, down from 7.9%. This decline was driven by disproportionately higher job gains in the household employment survey, which increased by 2.2M or 1.5% MoM. This brought down the number of unemployed by 1.5M while also absorbing the significant rebound in the labor force, which grew by 700K. While the improvement in payrolls was strong at 638K, and consistent with our expectations for improvement in the employment (638k actual v 600K BBVA Baseline), the monthly change in nonfarm payrolls was 1/3rd the gains in employment estimated in the household survey, suggesting survey-related issues may still be influencing the post-pandemic estimate of the overall conditions in the labor market.

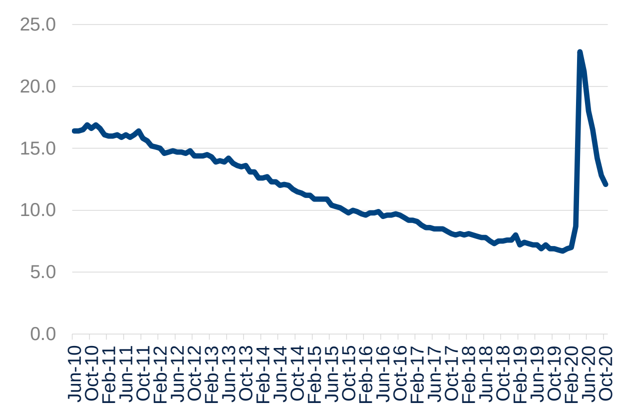
In any case, the improvements in the labor market continued to be broad-based. For example, the unemployment rate for Hispanics, Asians and Blacks was 8.8%, 7.6% and 10.8% down 10.1PP, 6.9PP and 5.9PP from the peaks in April. Moreover, the unemployment rate for women is now 6.5%, which is now 20bp below that of men. That being said, excluding Hispanics, the participation rate for most ethnicities has flattened out or declined, suggesting opportunities to re-enter the labor force are narrowing.

Figure 1. **UNEMPLOYMENT RATE (INDEX: RECESSION START=100)**



Source: BBVA Research & BLS

Figure 2. **U-6 UNEMPLOYMENT (%)**

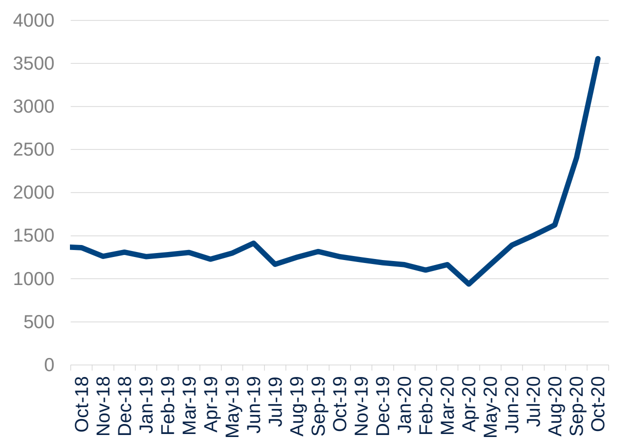


Source: BBVA Research & BLS

In fact, the number of permanent job losers remains 2.2M above the pre-pandemic levels at 3.6M while the number of individuals unemployed for more than 27 weeks grew by 1M. Moreover, 15.1M people reported that they have been unable to work because their employer closed or lost business due to the pandemic while 3.6M workers reported being prevented from looking for work because of the pandemic. The broader measure of unemployment, U-6, fell 70bp to 12.1%, but remains 5.4PP above year end 2019. Likewise, when taking into account the increase of 5M people that have stepped out of the labor force since February and the 0.6K people misclassified as employed in October but that should be counted as unemployed, the adjusted unemployment rate would be 10%. There is also 21.2% of employed persons still teleworking as a result of the pandemic, slightly down from 22.7% in September.

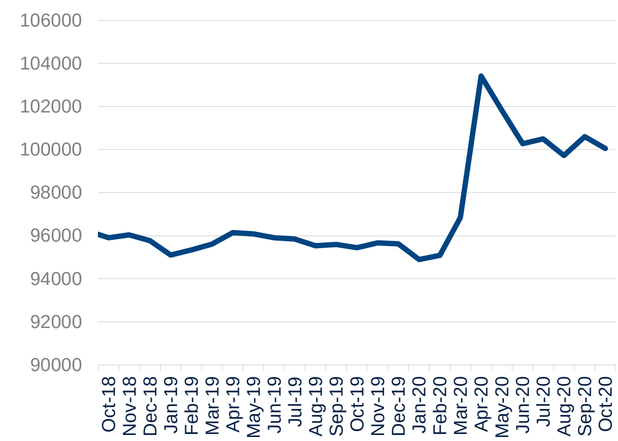
Industry-level job gains continue to be concentrated in the service sector with nonfarm payrolls increasing 271K in leisure and hospitality. Thus far, 58% of the jobs lost to the pandemic in leisure and hospitality have come back. However, employment remains 3.5M (-21%) below pre-pandemic levels. Other substantial gains occurred in professional business services (208K), retail trade (104K) and healthcare and social assistance (79K). Improvement in economic activity and housing demand have pushed up construction, transportation and warehousing, and manufacturing employment by 84K, 63K and 38K over-the-month, respectively.

Figure 3. **PERSONS UNEMPLOYED 27+ WEEKS (K)**



Source: BBVA Research & BLS

Figure 4 **PERSON NOT IN THE LABOR FORCE (K)**



Source: BBVA Research & BLS

After whipsawing in the immediate aftermath of the pandemic, growth in average hourly earnings has slowed, but remains positive, growing 0.1% in November. Growth in the number of hours worked has also stalled, but remains elevated in relation to the pre-pandemic level, suggesting many firms are maximizing existing resources given elevated uncertainties before committing to expand payrolls aggressively.

Taken together, today's employment report suggests that labor market conditions continue to improve, albeit at a slower pace. While our baseline assumes more modest gains in the labor market going forward, the larger-than-expected drop in the unemployment rate suggests that by the end of the year it could fall below our current baseline of 7.1%. That being said, the balance of risks is tilted to the downside with an alarmingly high number of new Covid-19 cases, lockdown measures being implemented abroad and with the massive amount of uncertainty associated with the 2020 election, which could remain unresolved for some time. As such, the rising case numbers will likely increase the propensities of individuals to distance regardless of whether there are compulsory lockdown measures and thus without additional fiscal support the risks of the labor market backsliding in the 4Q20 are growing.