

Economic Analysis

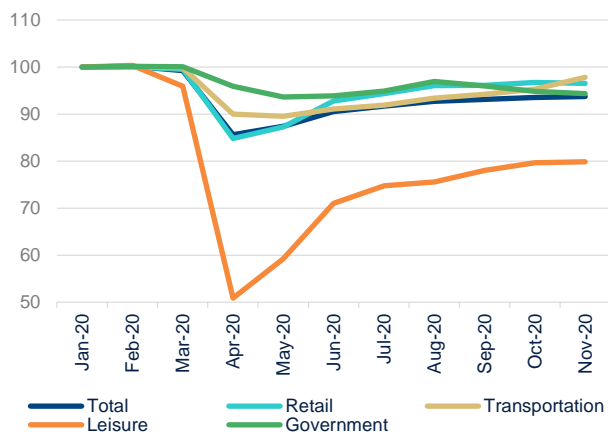
The labor market loses momentum, confirming the need for additional stimulus

Nathaniel Karp / Marcial Nava
December 4, 2020

According to the Bureau of Labor Statistics, nonfarm payrolls rose by 245K in November, down from 610K in October and significantly lower than market expectations (432K). Meanwhile, the unemployment rate edged down to 6.7% from 6.9% in the previous month. Thus far, the economy has recovered 56% of the jobs lost since the start of the pandemic (12.3M out of 22.2M), while the number of unemployed at 10.7M remains 1.9 times above pre-pandemic levels.

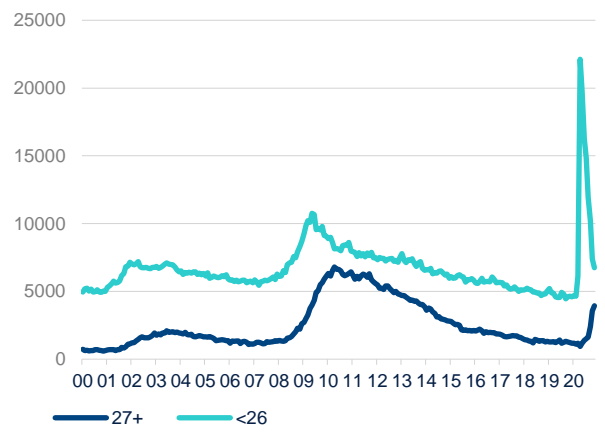
The sharp slowdown in nonfarm payrolls responded to three main factors. First, a decline of 99K jobs in government employment, resulting from fewer temporary census workers (-93K) and local educational services (-21K). Second, a decline of 35K jobs in retail trade, which posted the first drop in eight months, reflecting renewed pressures for general merchandise stores, electronics and appliance stores, sporting goods stores, and health and personal care stores. Competition from on-line retail and the spike in new Covid-19 cases contributed to these declines. Third, an overall weakness in sectors that had been supporting the recovery such as professional business services and leisure & hospitality. The former increased by 60K after a gain of 231K in October, while the latter gained 31K following a 270K increase in the previous month.

Figure 1. **NONFARM PAYROLL, SELECTED INDUSTRIES (JAN-2020=100)**



Source: BBVA Research and BLS

Figure 2. **DURATION OF UNEMPLOYMENT (MILLIONS AND WEEKS)**



Source: BBVA Research and BLS

Meanwhile, education and health services (+54K), manufacturing (+27K) and construction (+27K) continued to gain jobs at a decent pace. In contrast, transportation and warehousing posted a 145K increase, the biggest monthly gain since September 1997, supported by 82K more jobs in couriers and messengers. The latter was almost equivalent to the total gains between March and October and reflects the massive shift to on-line consumption caused by the pandemic.

Despite a 326K drop in the number of unemployed, the unemployment rate only edged down to 6.7% from 6.9% as the labor force declined by 400K. In addition, both the participation rate (61.5%) and the employment to population ratio (57.3%) were lower than in the previous month. Meanwhile, the U6 unemployment rate, which adds marginally attached and part-time workers for economic reasons, dropped 0.1pp to 12% and remains 5pp above February's level. Moreover, the number of long-term unemployment (27 weeks or longer) continued to increase reaching almost 4M and accounted for 37% of total (the highest since December 2013), while the unemployment rate for people aged 16 to 19, and 55 & over went up modestly.

November's employment figures suggest that the labor market is losing momentum as the pandemic worsens, and fiscal support wanes down. Meanwhile, the ongoing increase in permanent unemployment reveals the damaging long-lasting effects of the pandemic. This highlights the need for Congress to take action to avoid further deterioration and help the economy reach a self-sustaining recovery. In addition, today's report will also add pressure on Fed officials to take more decisive actions on their asset purchase program at the next FOMC meeting on December 15-16.

Disclaimer

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.