

Economic Analysis

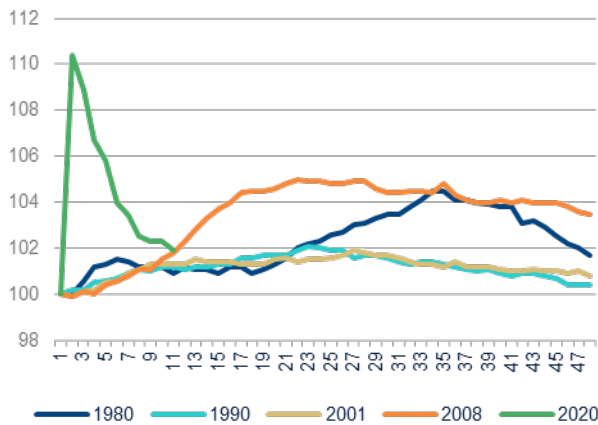
# Tepid Employment Report Underscores Need For Additional Stimulus

Nathaniel Karp / Boyd Nash-Stacey / Marcial Nava  
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January’s labor market report continued to show strains from the resurgence in Covid-19 cases, with nonfarm payrolls relatively unchanged at 46K. Widespread declines in most sectors offset strength in temporary help services, professional and scientific services, and the mining sector. In addition, distorted seasonal factors likely contributed to specious gains in education, both public and private, underpinning a broadly inauspicious report. Furthermore, November and December payroll numbers were revised down a combined 159K.

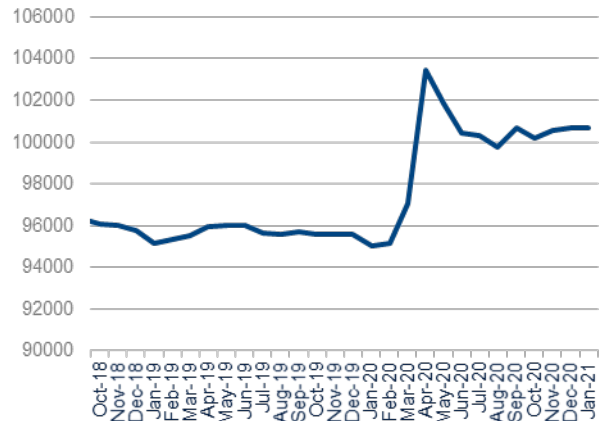
The modest increase in nonfarm payroll reflected a gain of 81K in temporary help services and 43K in government, which were partially offset by declines across most industries including leisure and hospitality (-61K), healthcare and social assistance (-41K), retail trade (-38K), transportation and warehousing (-28K), and manufacturing (-10K). Between December and January, job losses in leisure and hospitality totaled -597K.

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



Source: BBVA Research and BLS

Figure 2. **PERSON NOT IN THE LABOR FORCE (K)**



Source: BBVA Research and BLS

Despite the tepid hiring conditions, the unemployment rate fell 40bp to 6.3%, with the number of unemployed dropping by 600K. Nonetheless, accounting for misclassified workers who were recorded as employed but not at work, the unemployment rate would have been between 6.9% and 7.3%. In addition, outflows from the labor force rather than employment gains explained around two-thirds of the drop. Relative to January 2020, the number of unemployed and not in the labor force is 4.3M and 5.6M higher, respectively, whereas total employment is 8.6M lower. Moreover, 2.7M people remain on temporary layoff while 3.5M remain permanent job losers. The transition between temporary and

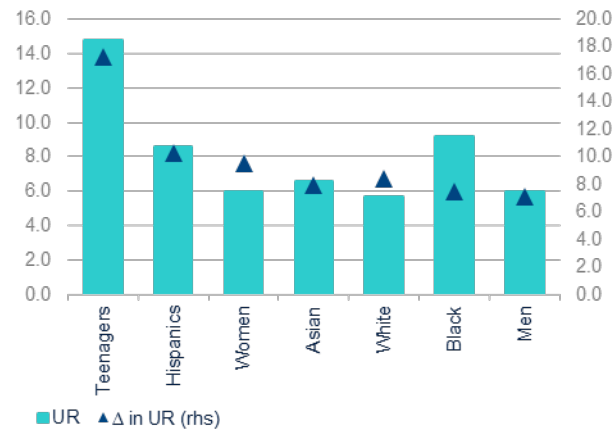
permanent job losers also shows broader weakness, with the number of short-term unemployed individuals dropping to 2.3M while the number of long-term unemployed held steady at 4.0M, accounting for almost 40% of the total.

Regarding the gender gap, the early divergence between male and female workers at the onset of the pandemic brought about by the demands placed on female caregivers has normalized, with male and female workers facing 6.0% unemployment rates. However, the unemployment rate for teenagers (14.8%), Blacks (9.2%), Hispanics (8.6%) and Asians (6.6%) remains well above average. Prime-age Hispanic labor force participation rates also continued to plunge, unlike their demographic cohorts, falling 1.5PP since the pandemic peak in October.

While the labor force fell the most since September and employment was subpar, the employment-to-population ratio and labor force participation rate held steady due to annual statistical adjustments to population, which reduced the noninstitutional population by 379K.

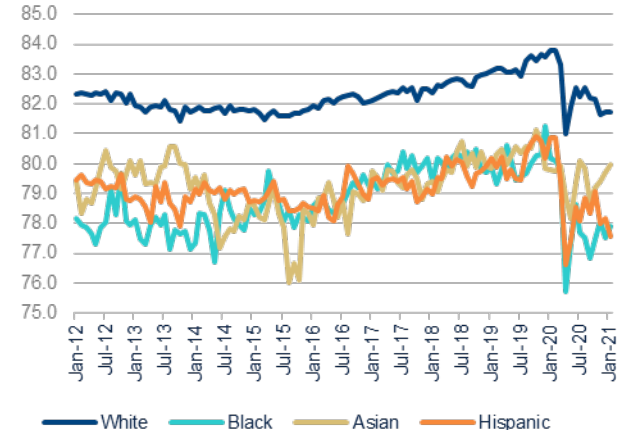
Teleworking also remained a prominent feature of the labor force, with 23.2% (34.8M) reporting pandemic-induced remote work. In addition, 14.8M people also said that they were unable to work or worked fewer hours due to the pandemic; 4.7M were counted as not in the labor force given that the pandemic has prevented them from looking for work.

Figure 3. **UNEMPLOYMENT RATE**  
(% & PP)



Source: BBVA Research and BLS

Figure 4. **PRIME AGE PARTICIPATION**  
(%)



Source: BBVA Research and BLS

January's employment report confirms that without policymakers taking action, economic activity would very likely have stalled or even contracted in 1Q21. Weak labor market conditions at the start of the year suggest the need for accelerating vaccination efforts so that industries that rely more on physical interaction can return to business quickly and safely. It also highlights the need for more fiscal action. Even so, a return to pre-pandemic labor market conditions could take years, implying that the Fed will continue expanding its balance sheet and keep interest rates on hold for an extended period.

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