Economic Analysis

# Solid employment figures show the recovery is on track

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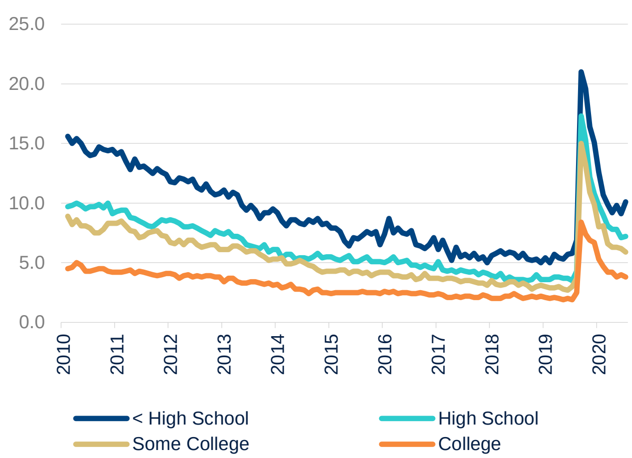
In February, the economy added 379,000 nonfarm payroll jobs, with strong gains in leisure and hospitality, and smaller increases in temporary help services, health care and social assistance, retail trade and manufacturing. In addition, December's data was revised down by 79,000 while January's was revised up by 117,000 implying a combined net gain of 38,000 for the two months.

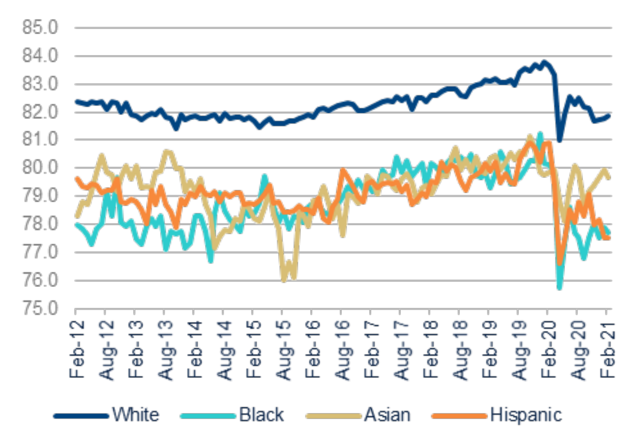
Meanwhile, the unemployment rate edged down 0.1pp to 6.2%, supported by solid drops in teenagers (-0.9pp) and Asians (-1.5pp). Whites (-0.1pp) and Hispanics (-0.1) experienced a modest decline while Blacks saw an increase of 0.7pp. Despite the ongoing improvement in the labor market, the unemployment rate and the number of people unemployed remained 2.7pp and 4.3 million higher than a year ago, respectively. In fact, the alternative unemployment rate U6, which adds all marginally attached workers plus total employed part-time for economic reasons remained unchanged at 11.1%. In addition, the number of people unemployed 27 weeks and over increased by 125K to 4.1 million.

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




Source: BBVA Research and BLS

Figure 2. **PRIME AGE PARTICIPATION** (%)

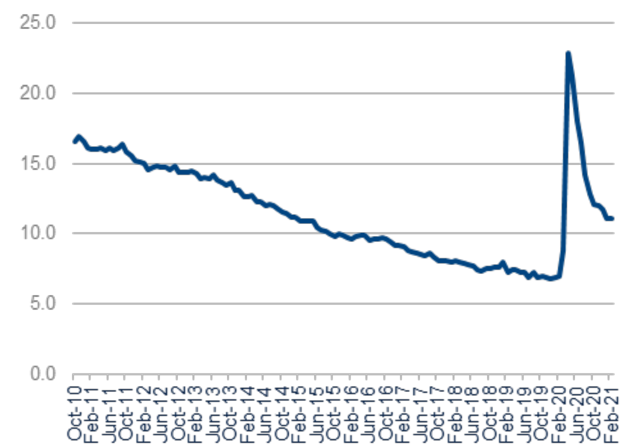



Source: BBVA Research and BLS

In addition, the number of people not in the labor force has remained flat for almost 6 months at almost 101 million and is still 5.5 million higher than 12 months ago. Moreover, the participation rate has remained practically unchanged for the past six months at 61.4%. The employment-to-population ratio ticked up 0.1pp to 57.6, which is only 0.2pp higher than last October's. Both measures remain significantly below their pre-pandemic rates of 63.3% and 61.1%, respectively. These trends could be seen as red flags if they reflect persistent structural headwinds from the pandemic, jeopardizing the prospects of an early Fed liftoff.

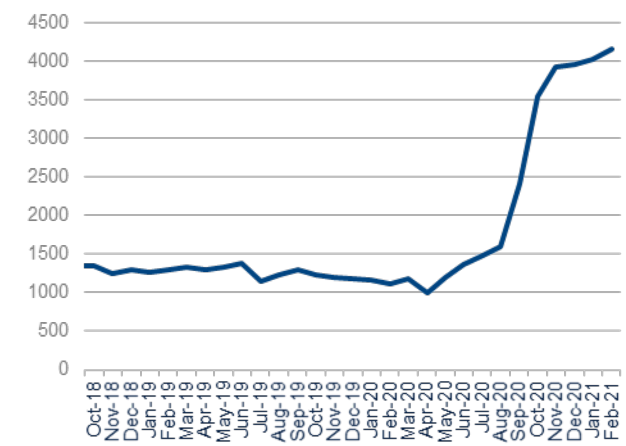
By industry, the largest gains were in accommodation and food services (322K), temporary help services (53K), healthcare and social assistance (46K), and retail trade (41K). These trends reflect the slowdown in new Covid-19 cases, progress in vaccination efforts, and the ongoing reopening and lifting of restrictions across several states. Nonetheless, nonfarm payroll in leisure and hospitality remains 3.5 million below a year ago, accounting for 43% of the total gap in private nonfarm payroll. In contrast, construction, mining and state and local government lost 61K, 8K and 83K jobs, respectively. These declines were partially due to the temporary disruptions that came after the severe winter storms that hit several parts of the country.

Figure 3. **U-6 UNEMPLOYMENT** (%)




Source: BBVA Research and BLS

Figure 4. **UNEMPLOYED 27+ WEEKS** (K)




Source: BBVA Research and BLS

## Bottom line

Today's employment report confirms that labor market conditions continue to improve as Covid-19 cases slow down, vaccination rates rise and restrictions are lifted in some parts of the country. However, the number of people that are unemployed relative to pre-pandemic levels remains elevated. This implies that the Fed will keep interest rates at the zero lower bound for a prolonged period and continue expanding its asset purchases for several more quarters. In fact, although the labor market could experience substantial growth in the months ahead, it could take a long time before it returns to pre-pandemic levels. For example, if the economy were to gain 300K to 600K jobs per month it would still take another 16 to 32 months (1.3 to 2.6 years) to achieve pre-pandemic levels. This outcome would not only be extremely painful for the 10 million people that are currently unemployed, but it will also have profound effects on the long-term prospects of the economy. To secure a faster recovery, policymakers should continue provisioning ample fiscal and monetary support as premature removal of either could derail the post-pandemic recovery and eliminate the opportunity to boost the economy's long-term potential.

## Disclaimer