

Labor Market Report

The labor market is set to fully recover, but it will take some time

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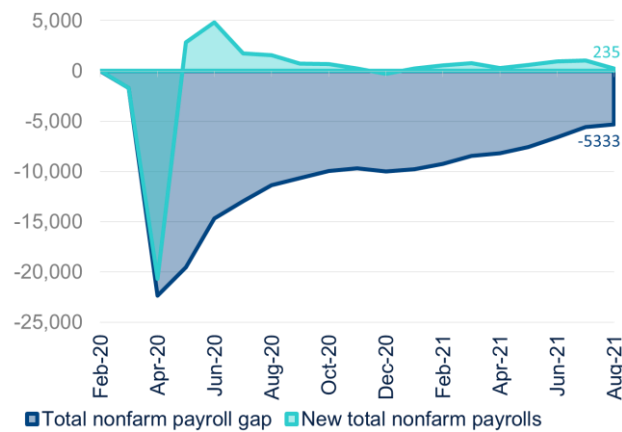
Job creation was a major disappointment in August...

The labor market hit the brakes in August, probably driven by both demand -businesses probably paused hiring on weaker demand- and supply factors -workers probably delayed their job search or withdrew from the labor market- as a consumption demand slowdown along with increasing health concerns, both associated with the Delta variant, impacted the labor market.

- August's disappointing job creation data, well-below expectations, contrasts with upward revisions to previous months' data. The downward surprise and the upward revisions together suggest that the surge in cases driven by the Delta variant is weighing on the economy and represents a bump in the road for the full recovery of the labor market
- Only 235K positions were added, following strong 1.1 million and 962K gains in July and June, respectively
- Nonfarm payroll employment is 3.5% below the pre-pandemic level, with private service-providing employment (3.6% below) somewhat weaker than the goods-producing (0.5% below)
- The manufacturing industry added 37K jobs in August (2.9% YoY), led by significant gains in motor vehicles and spare parts (24K and manufactured metal products (7K), suggesting that supply bottlenecks are easing, and firms are hiring more workers to meet the strong demand for its products
- The employment recovery in the leisure & hospitality sector stalled in August (no jobs were created), compared to an average monthly job creation pace of more than 350K a month since April

Job creation slowed dramatically in August; a significant gap remains to be closed...

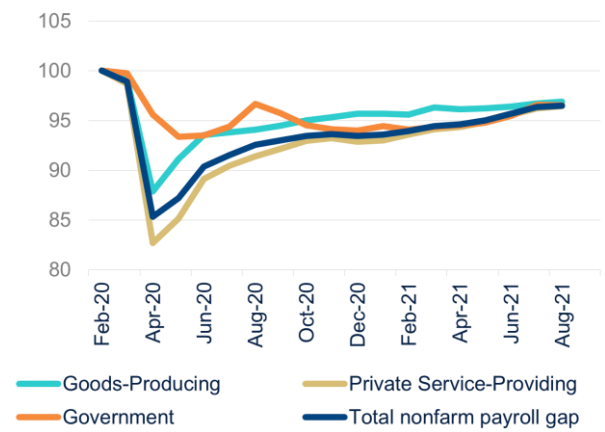
Figure 1. **TOTAL NONFARM PAYROLL EMPLOYMENT** (CUMULATIVE SINCE FEB-20 AND MONTHLY CHANGE, THOUSANDS, S.A.)



Source: BBVA Research / BLS and Haver Analytics

...to reach the pre-pandemic employment level; the services sector has the largest room to recover

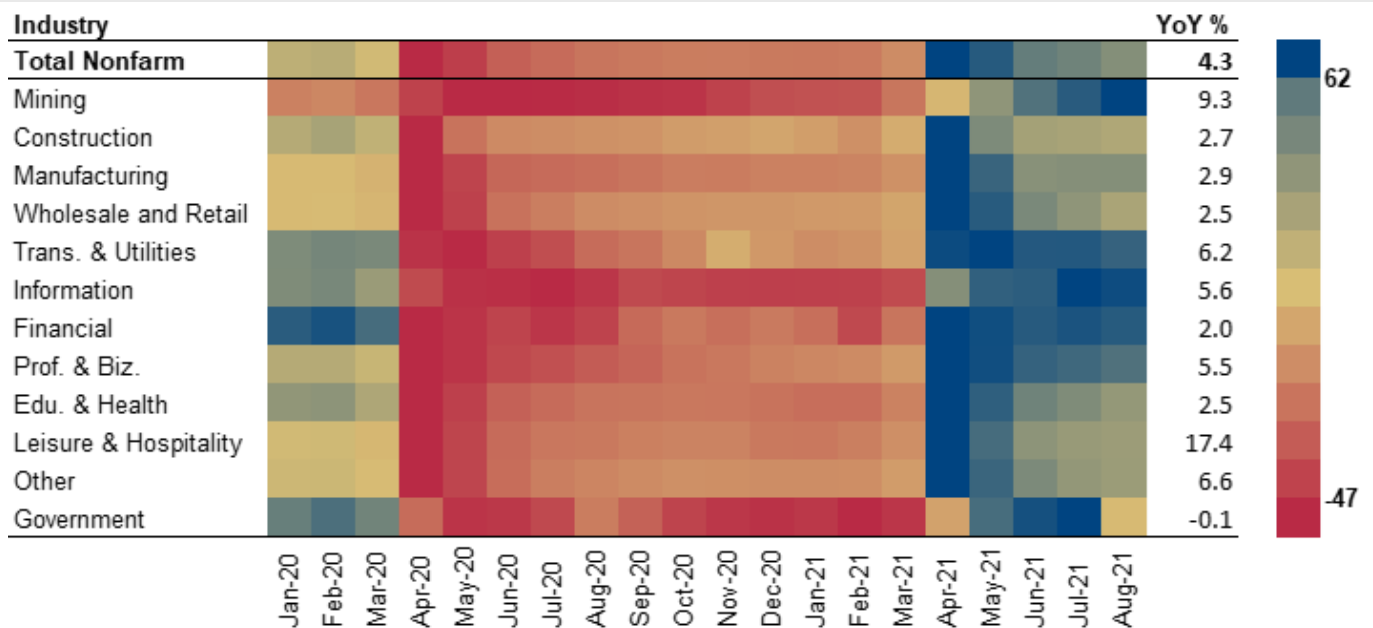
Figure 2. **TOTAL NONFARM PAYROLL EMPLOYMENT** (INDEX FEB-2020=100, S.A.)



Source: BBVA Research / BLS and Haver Analytics

The manufacturing industry has fully recovered and continues to show signs of strength as supply bottlenecks gradually ease; the service sector has not fully recovered yet, but is set to continue to strengthen

Figure 3. **TOTAL NONFARM PAYROLL BY INDUSTRY** (YoY % CHANGE, S.A.)



Source: BBVA Research / BLS and Haver Analytics

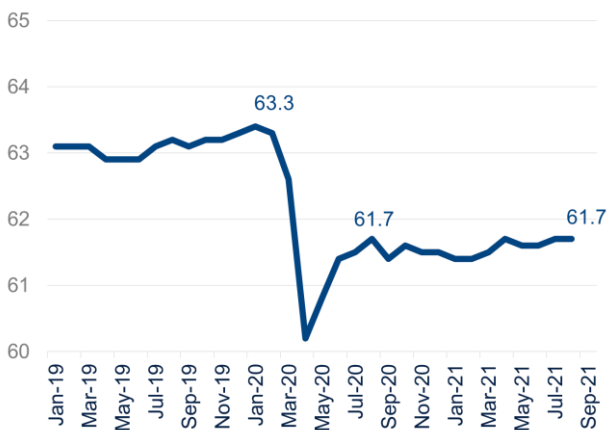
... there is still a way to go to fully recover and the road will likely remain bumpy in the short-term as the Delta COVID variant continues to negatively weigh on labor force participation and employment growth in the coming months...

The unemployment rate remains high and the mismatch between supply and demand in the labor market persists; yet, the expiration of unemployment benefits and/or boosts for more than 10 million workers will likely boost labor market participation and reduce the current mismatch.

- The labor force participation rate was unchanged compared to the previous month (at 61.7%); a significant gap still remains to be closed (1.6pp)
- With a significant decrease over the last two months, the unemployment rate has fallen to 5.2%; however, the share of unemployed workers remains above the full-employment pre-pandemic levels of February 2020 (3.5%)
- Among the major groups of workers, the unemployment rate decreased slightly; however, it increased for Blacks (0.6pp MoM) and remains the highest (8.8%) while that for whites is the lowest (4.5%)
- The manufacturing and construction sectors show strength, with unemployment rates now even lower than the pre-pandemic ones. The Leisure and Hospitality sector is still lagging and will possibly delay its recovery as the reopening momentum wears off and workers wary of the Delta risks choose to (temporarily) remain out of the labor market
- Yet, once the more significant effects of the rebound of the Delta variant gradually fade away, employment in the services sector will continue to strengthen as demand for workers remains historically high (see next section)
- Besides, the reopening of schools nationwide will eliminate the childcare needs for most and could also drive workers back to the labor market

Participation in the labor market has not fully recovered, but the expiration of unemployment benefits for 7.5 million...

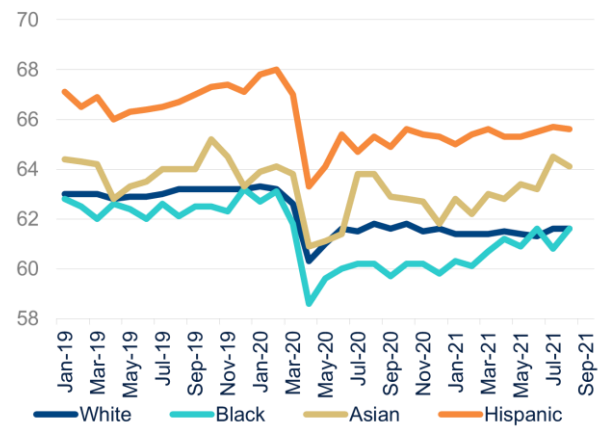
Figure 4. **LABOR FORCE PARTICIPATION RATE (%)**



Source: BBVA Research / BLS and Haver Analytics

... along with the cut in weekly boosts for another 3 million will likely boost participation in the coming months

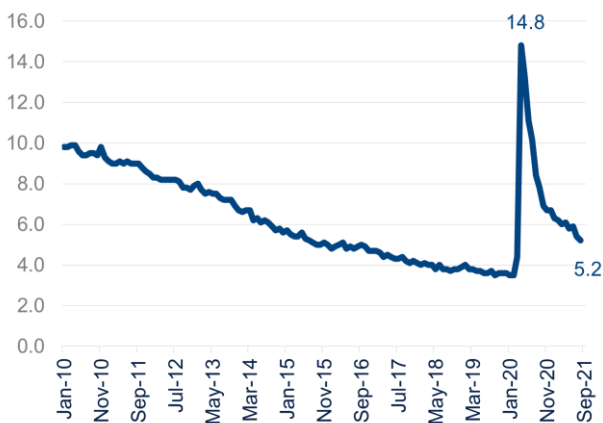
Figure 5. **LABOR FORCE PARTICIPATION RATE BY RACE (%)**



Source: BBVA Research / BLS and Haver Analytics

The Delta-led slowdown along with the resumption of health concerns could delay the further decline in the unemployment rate

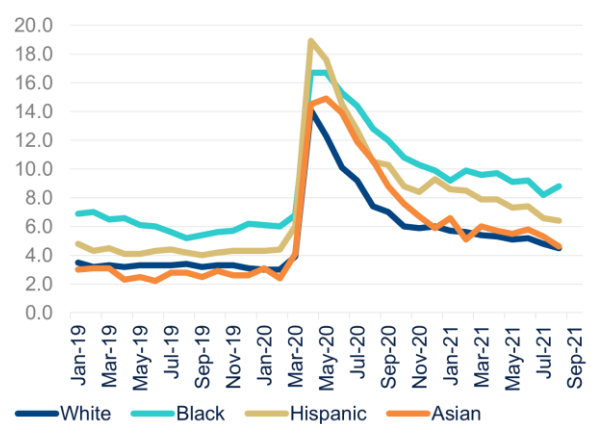
Figure 6. **UNEMPLOYMENT RATE (% S.A.)**



Source: BBVA Research / BLS and Haver Analytics

Moreover, the Fed is keeping an eye on differences between the main groups of workers and there is room for a broad-based recovery

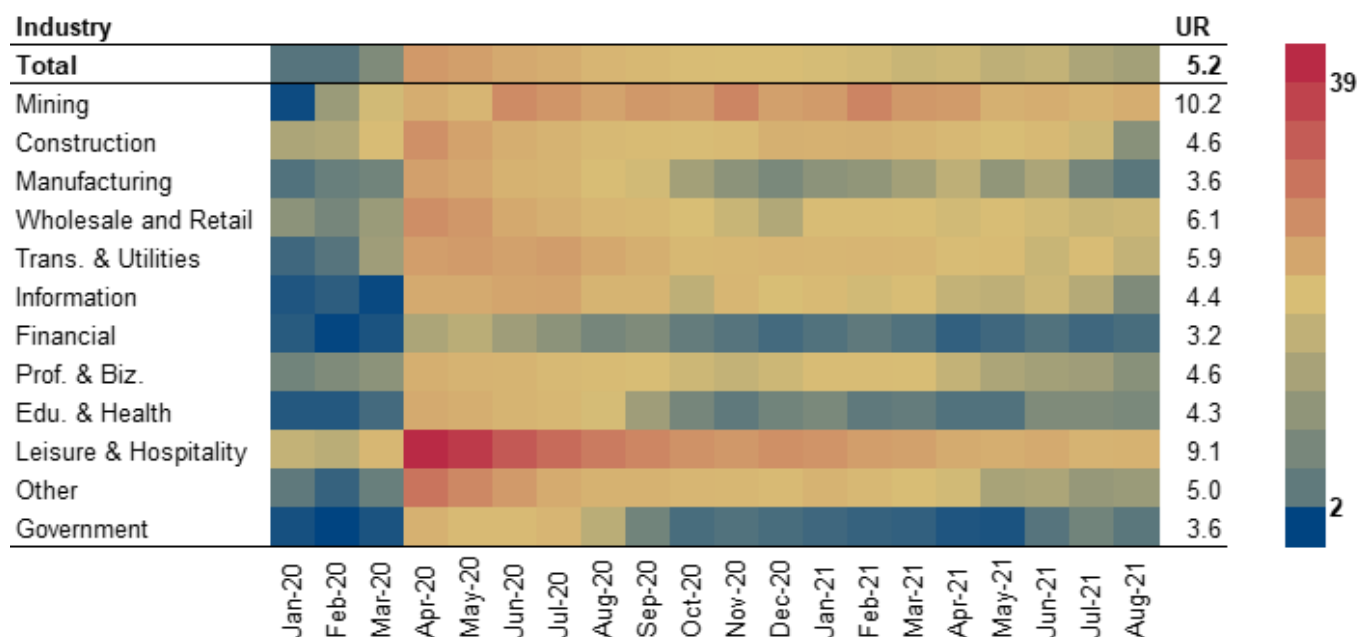
Figure 7. **UNEMPLOYMENT RATE BY RACE (% S.A.)**



Source: BBVA Research / BLS and Haver Analytics

Low unemployment rates in the manufacturing and construction sectors but still high in the leisure-related services sector; we must keep an eye on disruptions arising from either supply-chain bottlenecks or delta-led cautiousness

Figure 8. **UNEMPLOYMENT RATE BY INDUSTRY (%)**



Source: BBVA Research / BLS and Haver Analytics

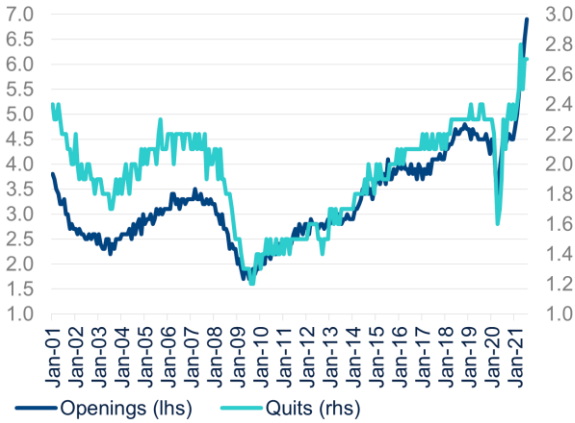
... but the labor market is set to strengthen (and fully recover) in coming months (and quarters) once the factors that have driven the temporary labor shortages gradually fade away.

The mismatch between supply and demand in the labor market (i.e., the likely temporary labor shortages) widened further in July as more workers seem to remain on the sidelines with heightened health risks associated with greater risks of infection with the Delta variant.

- It is too early to tell if the expiration of unemployment benefits will increase demand for jobs in the short-term (i.e., will reduce the current mismatch) as virus fears seem to be still the major factor, but once health-related concerns ease, the (likely) temporary labor shortages should gradually fade away
- The job openings rate hit a fresh record high in July (6.3%) while voluntary quits remained unchanged at 2.7% (close to the 2.8% record-high seen in April)
- Jobs to be filled in the leisure and hospitality sector, the more risky, reached a new record high of 10.7%
- Data from the National Federation of Independent Business Survey show that 32% of small firms were planning to hire workers in August (an all-time high) while 50% said that jobs were hard to fill (also a record high)

Job openings reach a fresh all-time high in July while voluntary quits remain close to it...

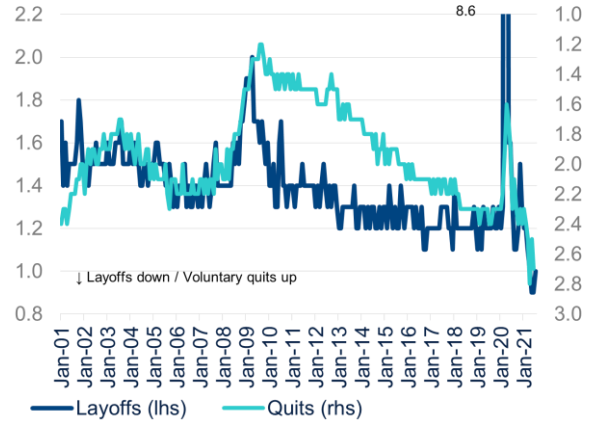
Figure 9. **JOB OPENINGS & QUILTS RATE (%)**



Source: BBVA Research / Haver Analytics

... and layoffs remained close to their all-time low

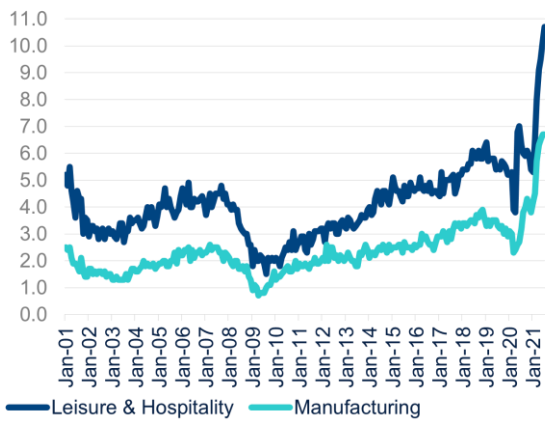
Figure 10. **JOB LAYOFFS & QUILTS RATE (%)**



Source: BBVA Research / Haver Analytics

Jobs to be filled in the hospitality and leisure sectors also reached a new record high in July

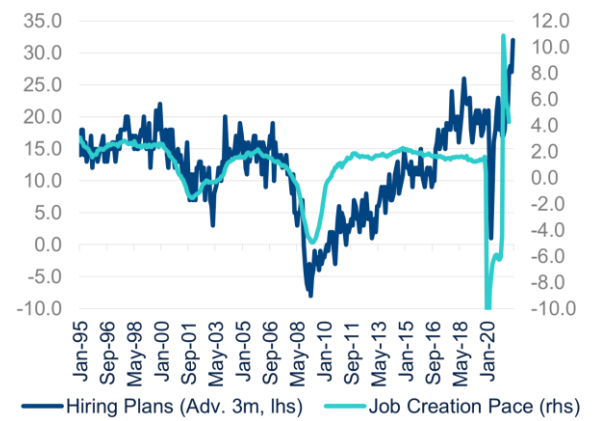
Figure 11. **JOB OPENINGS RATE (%)**



Source: BBVA Research / Haver Analytics

The job creation pace is set to remain strong with a historically high demand for workers...

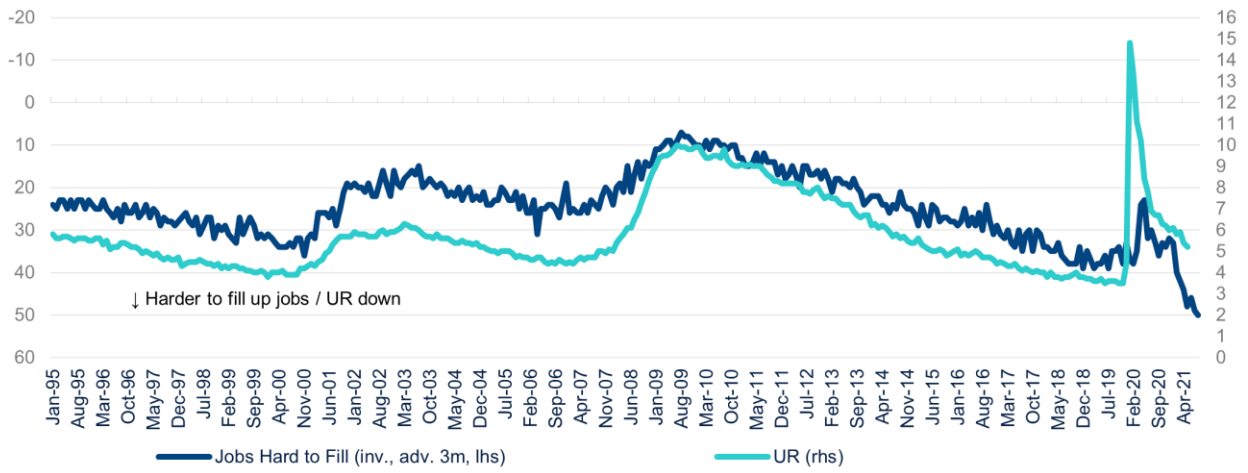
Figure 12. **NFIB HIRING PLANS & NONFARM PAYROLLS (% & YoY % CHANGE)**



Source: BBVA Research / Haver Analytics

... thus, the UR is set to decline further once a larger share of workers returns to the labor market

Figure 13. **NFIB JOBS HARD TO FILL & UNEMPLOYMENT RATE (%)**



Source: BBVA Research / Haver Analytics

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