

Economic Analysis

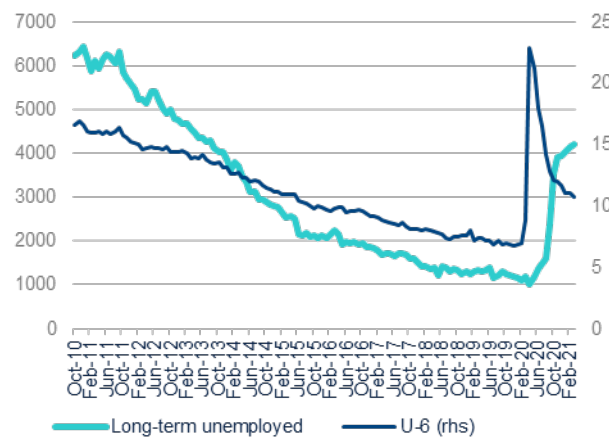
# Strong job creation backed by sound vaccination rates, reopenings and massive fiscal support

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March saw an addition of 916,000 jobs to nonfarm payroll; a significant increase compared to recent months and the largest since August 2020. The sudden boost reflected large contributions from leisure and hospitality, government, construction, education and healthcare services. The employment situation was also buttressed by upward revisions to January and February’s reports of 67,000 and 89,000 jobs, respectively. The unemployment rate edged down to 6%.

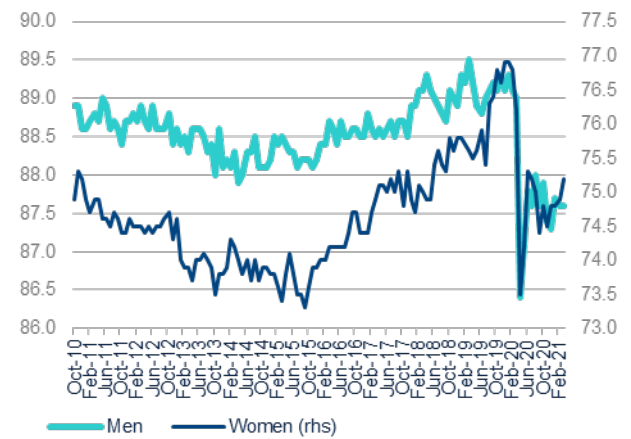
According to the establishment survey, the vast majority of sectors saw moderate employment growth and any decreases were comparably negligible. Almost 70% of the increase in total nonfarm payroll was shared between leisure and hospitality (280K), government (136K), construction (110K) and, education and health services (101K). These industries represent the confluence of several forces working in favor of job creation and retention: universal vaccine distribution; a flattening in Covid-19 cases; a recovery from extreme winter weather; the relaxation of restrictions in many places; and the American Rescue Plan Act.

Figure 1. **U-6 UNEMPLOYMENT AND LONG-TERM UNEMPLOYED (% AND K)**



Source: BBVA Research and BLS

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



Source: BBVA Research and BLS

The end of the third wave of Covid-19 cases in the U.S. and a universal vaccination campaign, which is projected to achieve something resembling herd immunity by mid-June, are being met by a surge in food and beverage and accommodation services. More schools are reopening across the country, while construction seems to be bouncing back from a loss in February caused by extreme winter weather across the country. Moreover, out of the \$1.9tn in

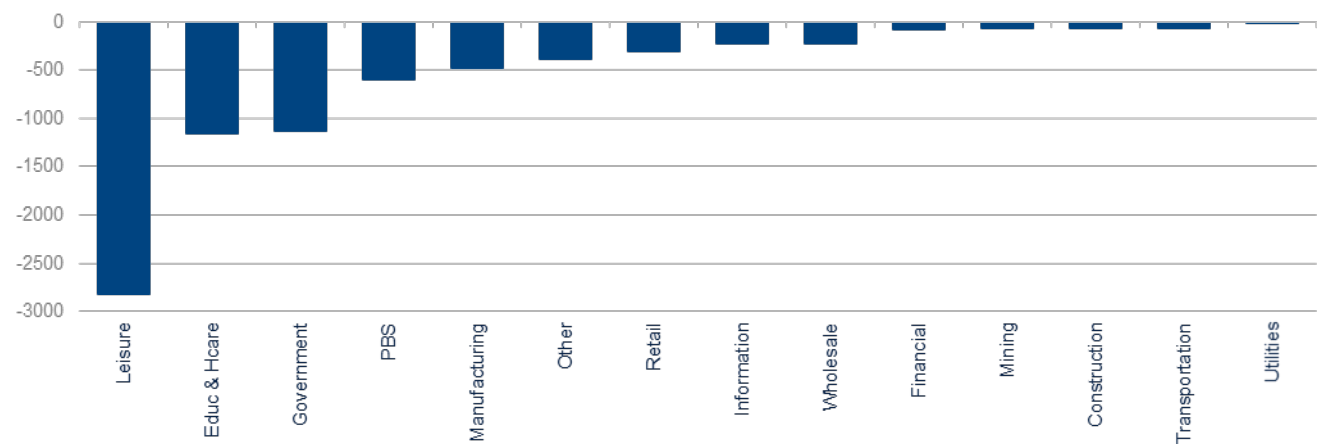
economic stimulus sorted out by the American Rescue Plan, \$28.6bn was set aside for supporting restaurants and bars' cash expenses, \$130bn was allocated to K-12 schools and an additional \$20bn for colleges and universities.

Meanwhile, the number of unemployed persons declined by 262,000 and the unemployment rate edged down 0.2pp to 6%. However, this is still 2.5pp higher than at the start of the pandemic. Furthermore, after adjusting for the large increase in people out of the labor force -5.3M since February 2020- and workers that were not at work but were misclassified as employed, the unemployment rate would have been 9.4%. Likewise, the alternative U-6 measure of labor utilization, which adds all marginally attached workers and those employed part time for economic reasons, was 10.7%. In addition, long-term unemployment increased by 70K to 4.2M and accounted for 43.4% of total, the highest share since September 2011.

Although the unemployment rate declined across all racial groups, except for Asians (6.0%) due to a large increase in their labor force participation, it remains elevated for other minorities at 9.6% for Blacks and 7.9% for Hispanics. For Whites, the rate of 5.4% was the lowest since the start of the crisis but remains 2.4pp higher than in February 2020. By age, all groups saw a moderate decrease in their unemployment rate in addition to increases in their labor force participation except for teenagers whose unemployment has edged down by 0.9pp for the second consecutive month but was moved by a similar decrease in participation.

The overall participation rate was little changed at 61.5% (up 0.1pp) while the employment to population ratio increased 0.2pp to 57.8%. However, these rates are still 1.8 and 3.3pp above pre-pandemic levels, respectively. The prime age (25-54 years) labor force participation increased slightly to 81.3% driven by more women entering the labor force. Meanwhile, although average hourly earnings declined 4 cents in March, as a result of the large jump in low-wage employment, the year-over-year gain was 4.2%. This was the lowest increase since April of last year and if these trends continue, wage growth will continue moderating.

Figure 3. **NONFARM PAYROLL, CUMMULATIVE CHANGE SINCE FEBRUARY 2020 (THOUSANDS)**



Source: BBVA Research and BLS

Considering there are still 8.4M fewer jobs than before the pandemic and that monthly nonfarm payrolls have averaged 539K in the last three months, it would take almost 16 more months to recover all the jobs lost. Likewise, the number of unemployed is still 4M higher than pre-pandemic and has declined by 342K per month in the last three months, implying that it would take almost 12 more months to return to pre-Covid levels. However, this could take even longer as more people return to the labor force.

## Bottom line

March's employment report showed vigorous results; however, the labor market is far from pre-pandemic levels. With vaccination rates in the order of 2 million people per day, and the impact of massive fiscal spending packages on aggregate demand, we expect significant employment growth going forward. However, it may take several quarters before achieving a full recovery. Of particular concern are the stubbornly high long-term unemployment rates, and the significant disparities among races, education and skill levels, age groups and genders. Tackling these issues is critical to achieve not only a sound but also a more equitable and sustained recovery. Although the latest employment report will be encouraging for Fed officials, the elevated gap from maximum employment along with moderate inflation implies that the Fed will continue communicating a cautious approach and signaling that liftoff remains far into the future.

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