Economic Analysis

Modest job gains in April suggest a full-speed recovery is still elusive

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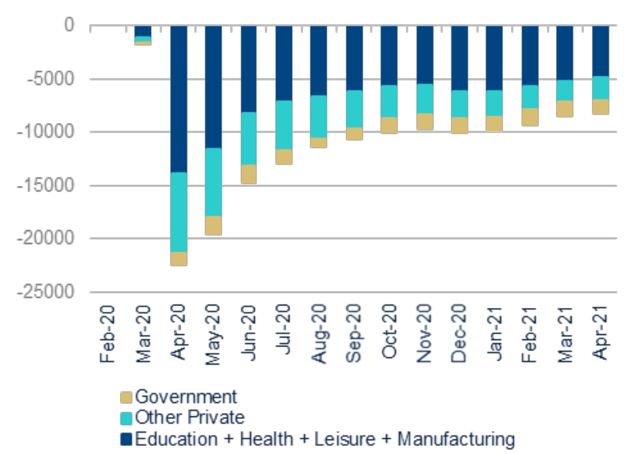
In April, the economy added 266,000 nonfarm jobs, far lower than consensus forecasts of around 1 million and March's gain of 770,000. This slowdown reflected solid performance in sectors that have been more heavily impacted by the pandemic, such as leisure and hospitality (+331K), other services (+44K), and government (+48K), which were offset by job losses in sectors that recovered earlier, like temporary help services (-111K), couriers and messengers (-77K), and food and beverage stores (-49K). Other sectors that were performing relatively well in previous months such as construction (0K), manufacturing (-18K), retail trade (-15K), mining (3K) and health care (+19K), experienced a mix of modest declines and gains, mainly reflecting supply chain and sourcing constraints. Overall, total employment is around 10.2 million jobs below where it would have been in the absence of the pandemic.

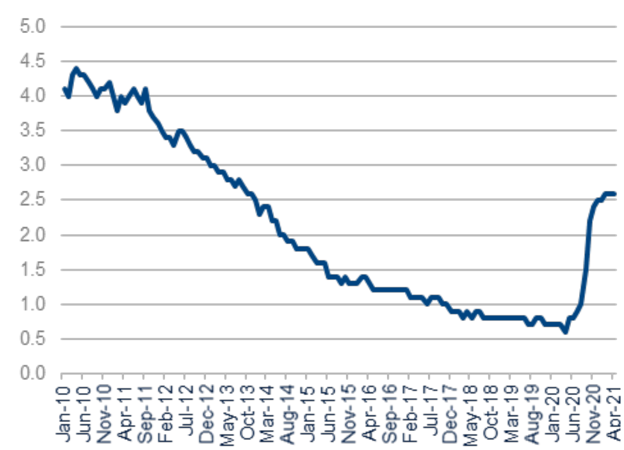
The unemployment rate surprised to the upside, edging up 0.1pp to 6.1% against a consensus estimate of 5.8%, reflecting an increase of 102K in the number of unemployed persons. Despite the first increase in the unemployment rate in 12 months, the number of people not in the labor force declined by 330K, and the flow from not in the labor force to employment increased by 251K. Nonetheless, relative to February 2020, the number of people not in the labor force remains 4.9 million higher. The broader unemployment rate U6, which adds marginally attached workers and part-time workers for economic reasons, declined to 10.4% from 10.7% in the previous month; however, it remains 3.4pp higher than February 2020. Long-term unemployment declined by 35K, but has remained practically unchanged at around 4.2 million for the past three months; the rate has stayed flat at 2.6% for three consecutive months.

Figure 1. **NONFARM PAYROLL: DIFFERENCE FROM PRE-PANDEMIC PEAK** (THOUSANDS)



Source: BBVA Research, BLS and Haver Analytics

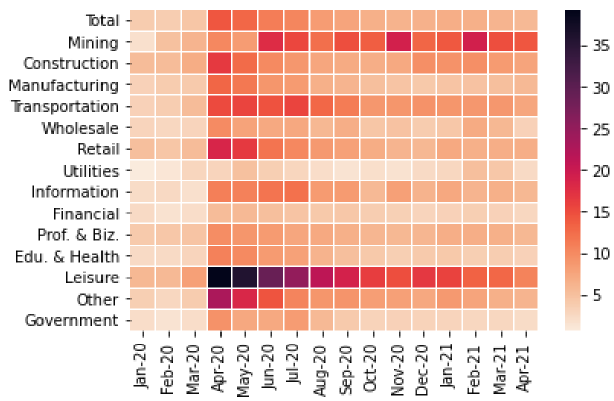
Figure 2. **LONG-TERM UNEMPLOYMENT RATE** (SA, %, 27 WEEKS & OVER)



Source: BBVA Research, BLS and Haver Analytics

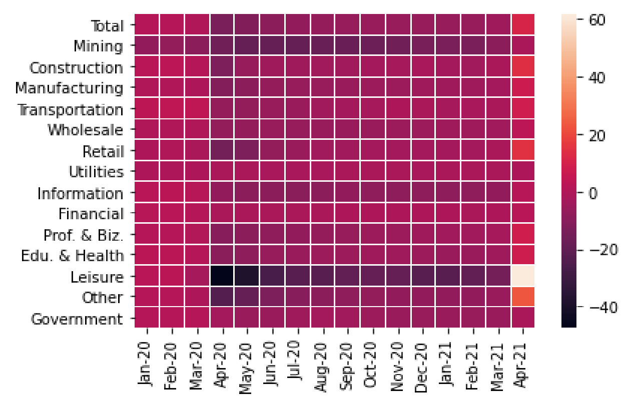
The upward pressures to the unemployment rate were mainly driven by a 1.1pp increase for workers with less than high school (9.3%) and 0.2pp for those with high school but no college (6.9%). For workers with some college or associate degree and bachelor's degree or higher, the unemployment rate edged down 0.1pp and 0.2pp to 5.8% and 3.5%, respectively. In contrast, the unemployment rate declined 0.7pp for teenagers and 0.1pp for women, but it edged up 0.3pp for men. Consequently, these trends did not necessarily translate into improved conditions for all minorities. In fact, while the unemployment rate for Asians (5.7%) declined 0.3pp, it increased 0.1pp for Blacks (9.7%) and remained unchanged for Hispanics (7.9%). For Whites, the unemployment rate dropped 0.1pp to 5.3%

Figure 3. **UNEMPLOYMENT RATE BY INDUSTRY (NSA, %)**



Source: BBVA Research, BLS and Haver Analytics

Figure 4. **NONFARM PAYROLL BY INDUSTRY (YOY % CHANGE, SA)**



Source: BBVA Research, BLS and Haver Analytics

Other labor market indicators suggest that despite a slower pace of job creation, conditions continued to improve albeit modestly. For example, the participation rate increased to 61.7% from 61.5%, while the employment to population ratio edged up 0.1pp to 57.9%. In addition, notwithstanding the large gains in lower-wage payroll, average hourly earnings gained 0.7% -following a drop of 0.1%-, while average weekly hours increased 0.3%. Moreover, the number of people unable to work because their employer closed or lost business due to the pandemic declined to 9.4 million from 11.4 million, while the number of people working part-time for economic reasons declined by 583K. The number of people not in the labor force that were prevented from looking for work due to the pandemic also declined by 0.9 million.

Bottom line

Ongoing job creation in hard-hit sectors and improvement in labor force participation highlights the positive impact of vaccination and reopening. However, job losses in some other sectors suggest that a high-speed recovery is still elusive even as real GDP returns to pre-pandemic levels in 2Q21. A stubbornly high long-term unemployment rate and number of people out of the labor force could make a fast labor market recovery more difficult to achieve and long-term scarring more likely. This highlights the need for ongoing but effective fiscal and monetary policy support and doubling vaccination efforts to reach herd immunity and full reopening, particularly in the services sector. Therefore, it is still too early to declare victory and we maintain our baseline scenario for the Fed to remain cautious, start tapering in 2022, and liftoff in 2023.

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