

U.S. Municipal Bond Market

Jobs Added, Unemployment Rate Down, Government Jobs Gutted

A Surprise in May Nonfarm Payroll Data and Unemployment; Government Jobs Lower

There was an important surprise to the upside today. This is not only significant from a data perspective but also offers a psychological boost at a time when it is surely needed.

U.S. Department of Labor numbers released this morning showed nonfarm payrolls unexpectedly rose by 2.5 million in the month of May. The survey expectation for today was a 7.5 million loss, so the positive result was a welcomed surprise. Figures rose in almost every sector across the board, reinforcing the argument that an economic rebound could be just around the corner, if not already occurring. We hope this type of job market performance is something that can be repeated as we continue to see cities and states reopen.

Not so fast—the most notable sector with continued job losses in May was government employment, whose losses were concentrated in the state and local government sectors. More on the importance of this dynamic below.

The unemployment rate also surprisingly fell to 13.3%, which is lower than the survey expectation of 19.0%. Unemployment during the Great Depression peaked at 25.6% in May 1933. Hopefully this month's result means we will no longer be hearing that comparison.

Sector-by-Sector Look at May Jobs Report

The leisure and hospitality industry, food services, and drinking places sector is rebounding. This sector added 1.4 million jobs in May after losing a little over 6 million in April and May.

Construction sector employment was up by 464k, cutting in half the 995k jobs lost in April.

Education and health services added back 424k jobs in May, after shedding 2.6 million positions in the previous month.

Jobs in the retail trade sector also rose in May, adding 368k jobs. Retail trade was one of the hardest hit sectors after dropping 2.3 million jobs in April.

Government Employment Losses

Government jobs continued on a downward trajectory, losing 585k in May. State and local government fell by almost 1 million jobs in April.¹ State government shed 84k jobs in May, and local government lost 487k in May and 797k jobs in April. Many of the local government job losses were a result of school closures.

State and Local Government Jobs Gutted

We have seen significant social distancing measures undertaken in the U.S. to minimize the spread of COVID-19. As a result, we have already seen more state and

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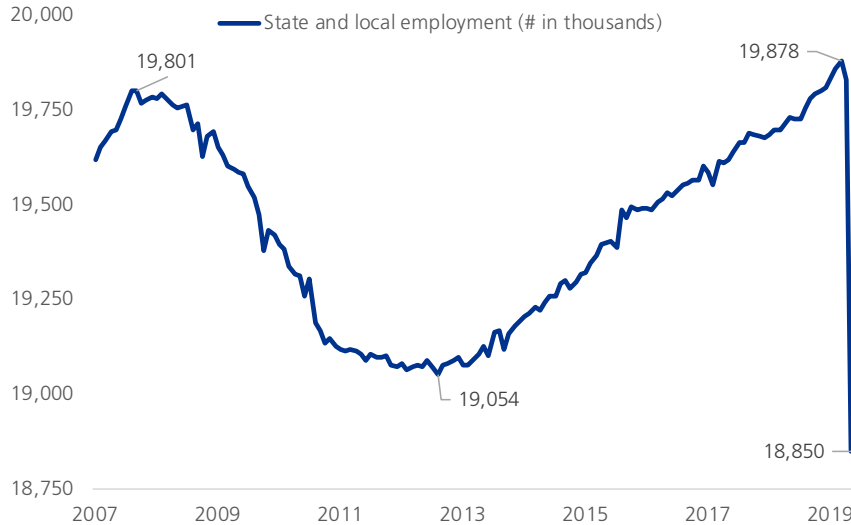
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local government job losses through April (does not include May) than we did in the entire wake of the Great Recession. The Great Recession reached a bottom of 19.054 million in July 2013 after state and local employment fell by almost 800,000. So far, we have seen state and locals lose over 1 million jobs in only a matter of months. It has been an astounding time.

We have already seen more state and local government job losses through April (does not include May) than we did in the entire wake of the Great Recession.

April 2020 State and Local Government Job Losses Larger than Great Recession



Source: Bureau of Labor Statistics, Economic Policy Institute, and HilltopSecurities.

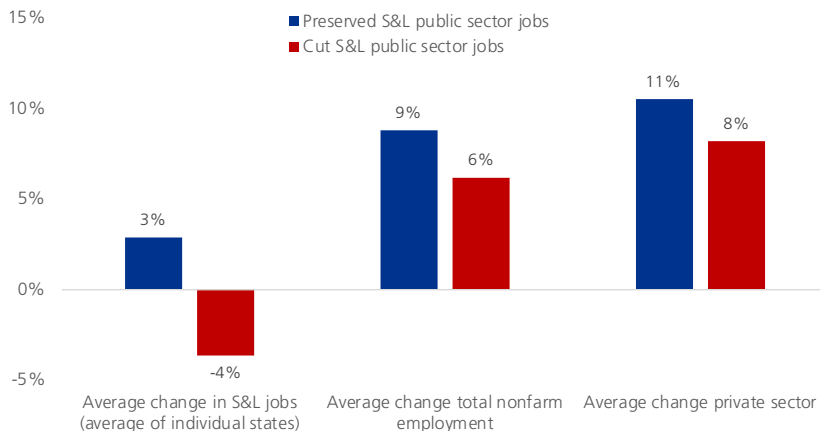
Impact of State and Local Job Losses

State and local governments are on the front lines of the fight to contain the spread of the coronavirus and helping to protect at-risk groups from exposure. This is a time when government resources are most needed, but these entities have been forced to slash budgets and employment. This is a significant barrier to service delivery. In the near- and the medium-term, we expect these job losses will accelerate the decline of state and local government credit quality. Additionally, these job losses have the potential to act as an anchor, potentially slow the financial comeback, and act as a drag on economic growth. When the Economic Policy Institute looked at job losses during the Great Recession they found 1) states that cut their public sector workforce had deeper job losses overall and 2) states that cut their public-sector workforce had slower recoveries.²

The state and local government job losses have the potential to act as an anchor, potentially slow the financial comeback, and act as a drag on economic growth.

States that Cut Their Public Sector Workforce had Slower Recoveries

Change in state and local govt. employment (June 2009-June 2015)



Source: Bureau of Labor Statistics, Economic Policy Institute, and HilltopSecurities.

When the Economic Policy Institute looked at job losses during the Great Recession they found 1) states that cut their public sector workforce had deeper job losses overall and in the private sector 2) states that cut their public-sector workforce had slower recoveries.

This experience strongly supports the argument for state and government federal aid. We wrote yesterday aid is not likely on the way until July at the earliest.³ This potential delay is not only a delay to state and local credit quality, but also to the economic recovery.

The government sector job losses and especially the continued job losses for state and local government should, if anything, reinforce the need for state and local government relief.

What Does the Unexpected Jobs Result Mean for State and Local Aid?

Just yesterday, we wrote a consensus was building among Washington, D.C. lawmakers about the need to aid state and local governments. What does the May jobs report mean for potential state and local government relief? Could this better-than-expected number hurt the chances of relief?

On the surface, it could mean that some believe it is not necessary. But, the job losses in the government sector and especially the continued job losses for state and local government should, if anything, reinforce the need for state and local government relief. Perhaps this data will allow lawmakers to target aid, relief, and then potential stimulus for sectors that most need it in order to complement a recovery.

¹ [The Employment Situation – April 2020](#); U.S. Department of Labor; Released May 8, 2020.

² [Cooper, David; Without federal aid, many state and local governments could make the same cuts that hampered the last economic recovery](#); May 27, 2020.

³ Please see [Kozlik, Tom; State and Local Relief Not Likely Until July; Delayed by Demonstrations, Other Agenda Items; HilltopSecurities](#); June 4, 2020.

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