

## U.S. Municipal Bond Market

# The New Surge Renders Thursday's June Jobs Numbers Meaningless, Almost Ensures Federal Relief in July

### Summary

- The June change in nonfarm payrolls and the new unemployment rate are meaningless. The new surge in infection and resultant policy adjustments are going to weigh heavily on near-term economic results. July numbers will be a better indicator.
- COVID-19 infections are surging. For the week of June 18, the number of weekly confirmed cases of COVID-19 in the U.S. set a record: 218,248. It is possible we see over 250,000 confirmed cases for the week of June 25.
- Florida, Texas, and California are among the states making re-closing policy adjustments in response to the surge in infections.
- We expect this infection wave is going to push Washington lawmakers to create another COVID-19 relief package sometime at the end of July.
- We expect that in the next few weeks the Dallas Fed's Mobility and Engagement Index data will worsen and economic activity to suffer.

### Thursday's Nonfarm Payroll & Unemployment Rate

The Bureau of Labor Statistics will release the June change in nonfarm payrolls and the new unemployment rate on Thursday July 2, just before a long Fourth of July holiday weekend. The consensus estimate is that the U.S. economy added 3 million jobs in June and that the unemployment rate is likely to fall to 12.4% from 13.3%. Both numbers show results moving in the right direction. Some may think the numbers are cause to celebrate before going into a weekend of fireworks and grilling (while social distancing). We have no reason to think the June jobs-related numbers won't be moving in the right direction.

However, the June labor market indicators reflect a reality that no longer exists. They should not be interpreted as data that reinforces any type of ongoing economic recovery. The June change in nonfarm payrolls and the new unemployment rate should be considered meaningless. The new surge in infection and resultant policy adjustments are going to weigh heavily on near-term economic performance. If Thursday's numbers serve any purpose at all, it is to remind us of what could have been if the nation more effectively managed its reopening process. July's nonfarm payroll numbers will be a better labor market indicator because they will include reactions to the recent swell of infection and policy adjustments.

### Closing Bars and Beaches

We wrote on Friday that the U.S. failed the first inning of the COVID-19 "stress-test." We identified that policy shifts are occurring but only on a state-by-state and sometimes local government-by-local government basis. On Friday, Florida and Texas announced the closing of bars. Some of the most popular beaches in Florida will be closed over the Fourth of July holiday. On Sunday, California Governor Gavin Newsom closed bars in L.A. and in other California counties. These closings and re-closings are not just limited to the Sun Belt hotspots. Allegheny County, Pennsylvania, (Pittsburgh) announced Sunday it was banning alcohol consumption in restaurants and that bars must close.

*Please see disclosure starting on page 4.*

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This is by no means meant to be an exhaustive list. And there are likely going to be additions by the time this report is published, as well as in coming days or even weeks.

### Record Surge of COVID-19 Infection

Why are these measures being taken? For the week of June 18, the number of weekly confirmed cases of COVID-19 set a record: 218,248. This surpassed the level we saw during the week of April 2, with 215,412 confirmed cases. Worse yet is that we have already seen daily confirmed cases ranging from 38k-45k over the last four days. It is possible we see over 250,000 confirmed cases for the week of June 25. It is not likely to slow anytime soon despite the above mentioned measures, according to health experts.

'A surge in coronavirus that has seen record numbers of new U.S. cases in recent days is likely to continue for weeks after states moved too soon to reopen their economies, two of the country's leading public health experts (Tom Frieden, director of the Centers for Disease Control, and Scott Gottlieb, the former head of the U.S. Food and Drug Administration),' said Sunday.<sup>1</sup>

### Economic and Political Implications

There are going to be significant economic and political implications as a result of the surge and the resultant state and local government policy shifts.

#### Economic Implications – Labor Market Gains Stall at Best, Acceleration of Job Loss Possible

It does not really matter whether one refers to this this new data as the end of the first wave, or a second wave. The fact is that numbers are surging, and policy makers are beginning to act in ways that are going to control the spread. There will be a mostly negative economic impact. We just do not know the magnitude of that impact. A "V" shaped economic recovery can now most assuredly be written off, for those few who still believed it was possible. And this surge reinforces the idea that we are likely going to be experiencing regional stops and starts as lawmakers try to keep the virus at bay and protect citizens' health (especially those most vulnerable), while also being mindful of the economic implications.

The labor market results in July and going forward are likely to be discouraging. We are likely to see the jobs gains in the most infected areas stall, in a best case scenario. It is possible that we could see employers—including state and local governments—shed even more jobs. So, not only are jobs not likely to roar back (as we are expected to see on Thursday, reinforcing why Thursday's number is meaningless), we could expect to see job losses going forward, unfortunately. For now, job loss is likely to be contained to the states with higher rates of infection. But, as other states—like those in the northeast—continue to open, it is possible they experience increases in infection as well. The negative impact to economic activity may not be as bad, and the impact to the labor market may not be as severe as what we are seeing in now, if the northeastern states can manage the process effectively.

#### Political Implications – Almost Ensures Another Round of COVID-19 Relief in July

We expect this infection surge is going to push Washington lawmakers to create another COVID-19 relief package sometime at the end of July. While before we thought another relief package would be created by the end of July, now we think it is not only very possible but almost certain. The focus of the relief will most likely be:

- Individual unemployment benefits<sup>2</sup>
- Aid for state and local governments and other municipal entities<sup>3</sup>
- Liability protection for businesses<sup>4</sup>
- Expanded small business relief<sup>5</sup>

In total, the relief package will likely need to amount to between \$1 and \$2 trillion dollars. We think that between \$500 billion and \$1 trillion of that could be in the aid

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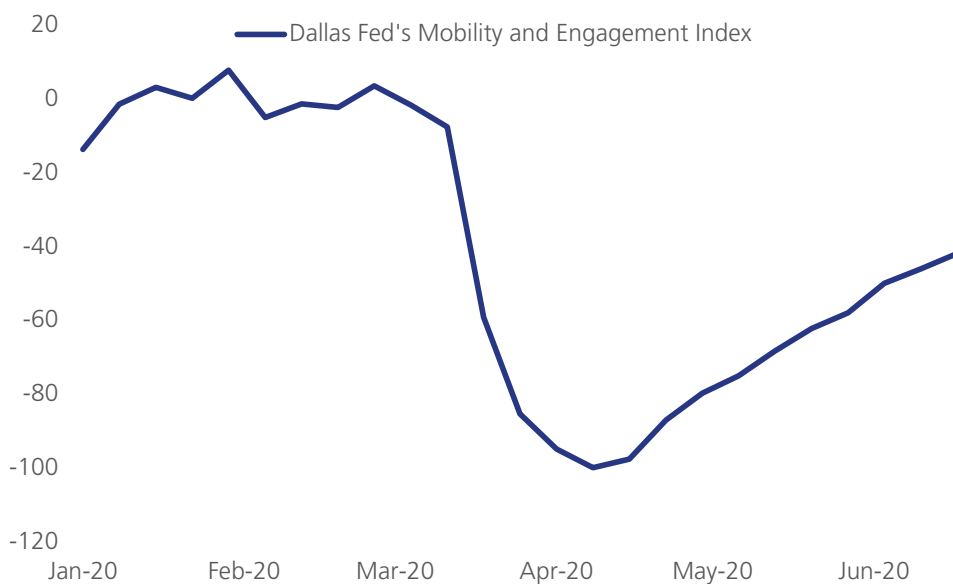
for state and local governments and other municipal entities category. This would be a boost for most municipal bond market-related credits, but we need to see the details to assess the full effect. We also expect this will not be the last relief package if the infection experience falls then rises and lawmakers must continue to re-open and then re-close—especially if this occurs multiple times in the coming months.

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### What to Watch for Going Forward – Infections and Social Distancing, Mobility Index

Going forward, it will be important to watch how the virus spreads. It is also going to be imperative to watch lawmaker policy responses, because those changes will have the greatest impact on economic and labor market conditions. Over the next few weeks and months, it is going to be vital to observe how policy changes and consumer social distancing behavior evolves. On June 9, we published [The Decline of Social Distancing and its Economic Impact](#), citing the Dallas Fed's Mobility and Engagement Index (MEI) as an excellent indicator to watch. We expect that in the next few weeks the MEI data will worsen and economic activity to suffer.

### The Mobility and Engagement Index is Going to Worsen in Coming Weeks



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Source: SafeGraph, Homebase, Federal Reserve Bank of Dallas, and HilltopSecurities.

<sup>1</sup> Donnan, Shawn; [U.S. virus surge likely to continue for weeks, experts say](#); Bloomberg; June 28, 2020.

<sup>2</sup> Please see: [Editorials from across the country call on Congress to extend unemployment insurance](#); Ways and Means Committee Chairman Richard Neal; Accessed on June 28th at 11:36pm.

<sup>3</sup> Please see: Kozlik, Tom; [Economic recovery proposal, state and local relief key component](#); HilltopSecurities; June 17, 2020.

<sup>4</sup> Swanson, Ana & Alan Rappeport; [Businesses want virus legal protection. Workers are worried](#); New York Times; June 12, 2020.

<sup>5</sup> Warmbrodt, Zachary; [Debate rages over new lifeline for small business as loan program ends](#); Politico; June 18, 2020.

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- [COVID-19 is a National Stress Test; Surprise Record Infections, Policy Shifts Occurring](#), June 26, 2020
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