

## U.S. Municipal Bond Market

# In a K-Shaped Recovery, Governments and Non-Profits Could Be Among Those That Fade

### Summary

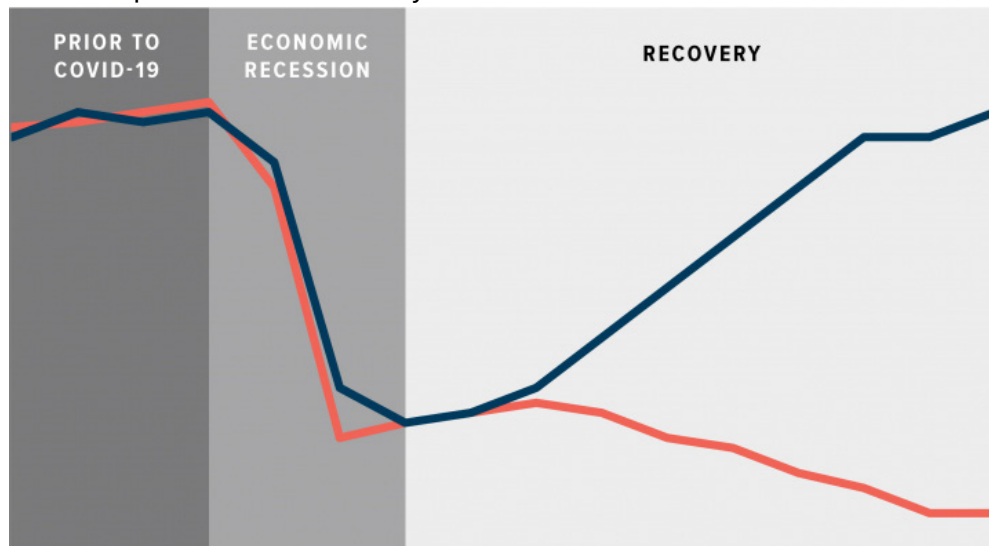
- A new letter is now being used to describe the formation new economic data is beginning to create. It is the letter "K."
- Nonfarm payrolls rose by 1.4 million and the unemployment rate fell to 8.4% in August, but the results are not as good as they may seem, especially for governments.
- Non-profits and governments could be among the "have-nots" in the K-shaped recovery.
- A recent study forecast that in a most-pessimistic case, as many as 38% non-profit organizations could close as a result of the pandemic. This compares to normal (non-pandemic) circumstances where as many as 4% could close.
- Budget demands for state and local governments are going to continue to rise in coming months and years.

### The K-Shaped U.S. Economic Recovery

It was weeks if not months ago when most disposed of the idea that the U.S. economy would experience a "V" shaped economic recovery. This realization left many searching for an alternative description. Some thought a "W" shape might be a more appropriate and others were even thinking a Nike-like "Swoosh" would more properly describe what the coming economic expansion would resemble.

A new letter is now being used to describe the formation the new economic data is beginning to form. It is the letter "K."

### The K-Shaped Economic Recovery



Source: [U.S. Chamber of Commerce](#) and HilltopSecurities.

The letter "K" has a line that is trending upward at 45 degrees and it represents the parts of the economy that are, for lack of a more descriptive word, "flying"

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just six months after the COVID-19 pandemic began. This includes large technology companies, software services, online retailers, technology-enabled entertainment companies, and health-care and biotech-related firms. These are among the “haves” in the K-shaped economic recovery.

*The jobs data released today was slightly better than expected ... But, it masks some important truths of what is happening underneath the high-level numbers being talked about.*

The letter “K” also has a line that is trending down at a 45-degree angle. The group that is unfortunately following this path are industries like travel, airlines, in-person entertainment, and hospitality services. Within the public finance sector, we would also include sub-sectors such as transportation and higher education among those following this part of the “K” downward. And as of now there is no sign that the downward path is close to reversing. Those which find themselves plunging down the “K” are among the “have-nots.”

The U.S. Chamber of Commerce this week published a summary of their view of the economic recovery in [The K-Shaped Recovery and the Cost of Inaction](#). It included details from both the business and government sectors.

### Today’s Nonfarm Payroll Data

The jobs data released today was slightly better than expected. Nonfarm payrolls rose by 1.4 million and the unemployment rate fell to 8.4%. This result may be “better than expected.” But, it masks some important truths of what is happening underneath the high-level numbers being talked about.

While almost 50% of those who lost their jobs since the beginning of the pandemic regained them, there is still softness and uncertainty in the labor market. Seventeen percent of the jobs included were temporary Census workers. Permanent job losses rose to 3.4 million and this shows not all those who were laid off are getting their jobs back.

*Examining the numbers behind the numbers in the government jobs category illustrates the misleading nature of looking at the top-line number.*

### Government Jobs

Examining the numbers behind the numbers in the government jobs category illustrates the misleading nature of looking at the top-line number. The August jobs reports shows that government employment increased by 344,000 in August. The problem is that almost three quarters of these government jobs were the above-mentioned temporary federal government census positions. Local government employment did rise by 95,000 in August. But, government employment remains 831,000 below its February level—a sizeable disparity. And this shows that governments are among those following the portion of the “K” that is falling.

### Times are Tough for Non-Profit Organizations, Could Get Tougher

Also among the have-nots in a K-shaped recovery could be U.S. non-profit organizations. [A recent financial analysis of U.S. non-profits](#) found that under typical (non-pandemic) circumstances it would be common for 4% of non-profits to close.

If you include the fiscal stress from the pandemic the results change. In the most optimistic case, the analysis found that 7% of non-profits closed. In the most pessimistic case, they saw a scenario where as many as 38%, or 119,517, non-profit organizations closed.

### State and Local Governments

Budget demands for state and local governments are going to continue to rise in coming months. Schools are going to need more aid if there is a chance to allow them to learn in person or virtually this and next year. The Association of School Business Officials projects that it could [cost school districts \\$1.7 million on average to reopen during the COVID-19 pandemic](#).

At a time when revenues are down compared to recent years it will be very difficult for non-profits and governments to grapple with this new COVID-19 reality. There is a new letter to describe the recovery scenario in the new COVID-19 reality, and it is “K.”

*Schools are going to need more aid if there is a chance to allow them to learn in person or virtually this and next year.*

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