

## U.S. Municipal Bond Market Renewed State and Local Government Job Pain, More Expected

### Summary

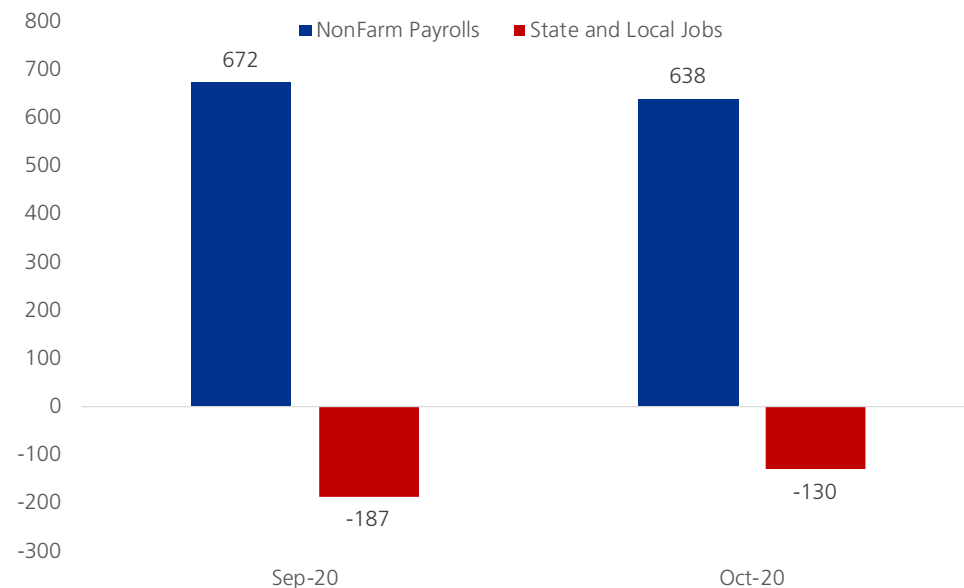
- Overall nonfarm payroll data slightly surprised to the upside last week, marking the sixth consecutive month of job gains.
- State and local governments have only added back jobs in three of the last six months. In the last two months (September/October), state and local governments have shed a total of 317k positions.
- We expect that additional state and local government job losses will mount without a very clear indication from the federal government that relief is on the way.

### State and Local Job Cuts Continue, More Expected Without Federal Relief

Economic data released last week showed that nonfarm payrolls grew by 638k in October, a higher than consensus result (please also see Employment Picture Brightens in October from Nov 6, 2020.) This was the sixth straight month of positive gains in nonfarm payrolls since the containment policies in response to COVID-19 gutted the U.S. labor market in the beginning of 2020.

Many industries, even restaurants and some service sectors hardest hit by the spring and summer containment policies have seen consistent gains. Activity in the state and local government labor market has been quite different. State and local governments have only added back jobs in three of the last six months. In the last two months (September/October), state and local governments have shed a total of 317k positions.

### State & Local Governments Shed 317k Jobs in September/October 2020 - Overall Nonfarm Payrolls Gained



Source: Bureau of Labor Statistics and HilltopSecurities.

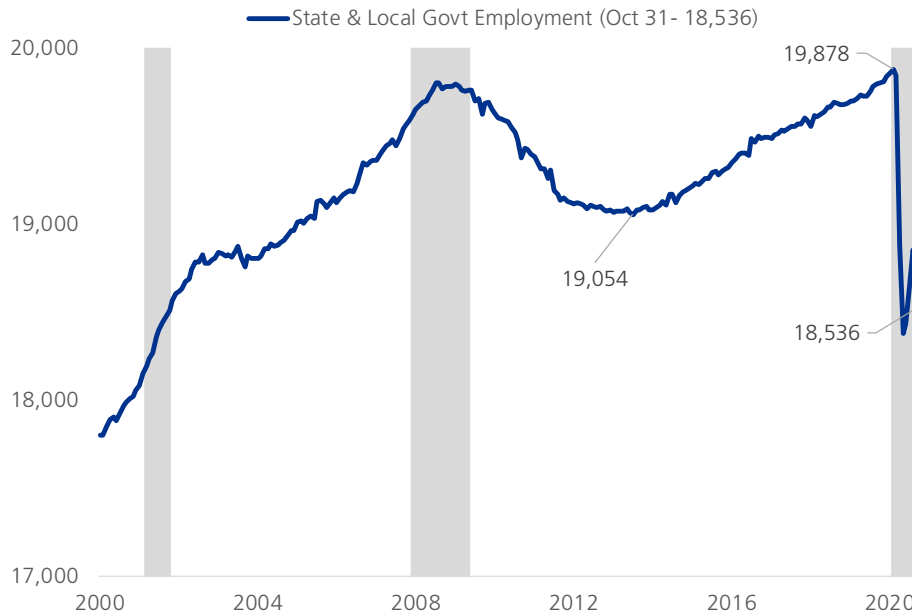
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Total state and local government job levels are dropping closer to the April 2020 lows with these most recent losses reported by the Bureau of Labor Statistics.

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### State & Local Government Jobs Nearing April 2020 Low



Source: Bureau of Labor Statistics and HilltopSecurities.

### Municipal Employment Vulnerable to Near-Term Job Cuts

Many state and local governments will be preparing mid-year budget adjustments that are likely to become real in the next few months. Indications have been building since the spring. The National League of Cities (NLC) warned of the potential for severe cuts in [Essential Municipal Employees Vulnerable to Severe Cuts](#) back in May. In a [June survey of 1,100 municipalities](#), the NLC found 32% of cities will have to furlough or lay off employees and 65% of cities were being forced to delay or cancel infrastructure projects.

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### Divided Government Means No Concrete Prospect of Federal Aid

While a divided government may be bullish for the equity market, it is not so positive for the prospects of municipal budget relief. Even though there have been whispers of the need for a fifth phase of relief since the election, not much has concretely changed to favor relief prospects. In fact, it could be said that the Senate (and House) may dig their heels in further in order to make a statement to support their message for the Georgia run-off elections and for the 2022 mid-terms.

In [States and Localities Shouldn't Count on More Federal Aid](#), Alan Greenblatt writes, "State and local officials continue to sound the alarm about budgets." The prospect of no federal relief is beginning to become real for public finance entities and municipal service providers. For example, [the city of Pittsburgh will cut over 630 positions, without federal aid. The Massachusetts Bay Transportation Authority expects to cut 15% of bus service, 30% of subway service and 35% of commuter rail service.](#) These service cuts will result in job losses, but the exact amounts have not yet been tabulated.

We expect that additional state and local government job losses will mount without a very clear indication from the federal government that relief is on the way.

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