

U.S. Municipal Bond Market

Deep Cuts Remain; State and Local Govt. Jobs Down Over 1.3 Million

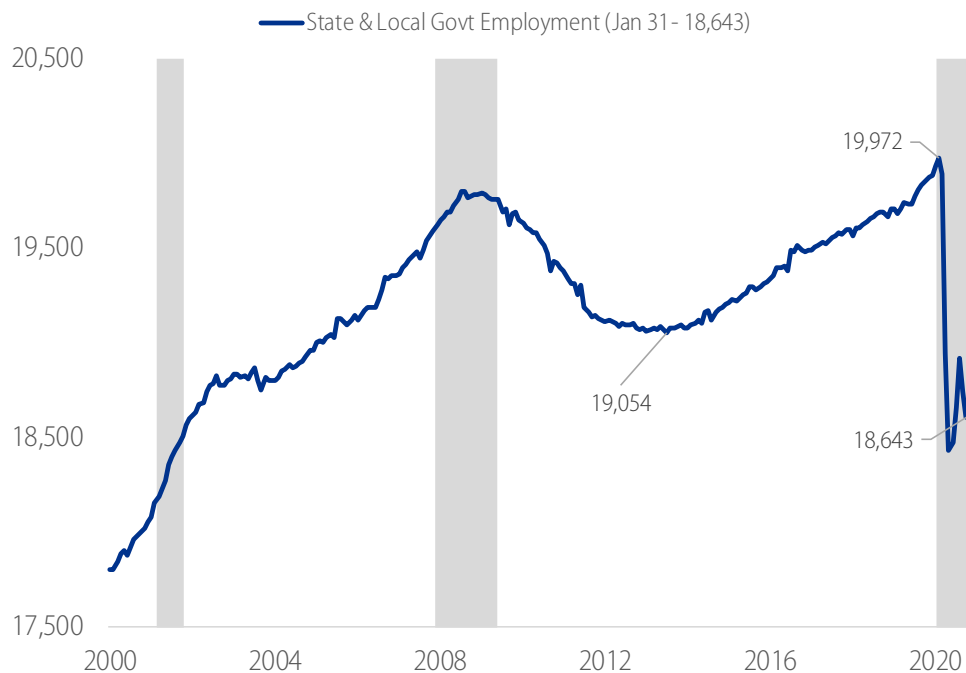
- State and local government employment is still down by 1.3 million jobs compared to the pre-pandemic level. The last time state and local employment was this low was 2002.
- Government employment results differ widely, regionally and state-by-state. This is likely a leading reason it has been difficult for lawmakers to build a widely-accepted consensus for direct state and city aid.
- Now that there is the potential for direct, unencumbered aid for state and local governments, we may see employment recover, but this depends upon the timing and messaging.

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State and Local Government Job Cuts Remain

Nickelback’s “How You Remind Me” was the No. 1 song, “A Beautiful Mind” won the Academy Award for Best Picture, and Bernie Williams was the starting centerfielder and batting clean-up for the New York Yankees the last time state and local government employment was as low as it was reported recently at 18,643,000. The year was 2002. Even in the wake of the Great Recession and Financial Crisis of 2008, the lowest state and local governments employment fell was 19,054,000.

State and Local Government Jobs Still 1.3 million Below Pre-Pandemic Peak



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Source: Bureau of Labor Statistics and HilltopSecurities.

Eight years later, state and local government employment finally peaked at 19,972,000 before COVID-19 related uncertainty caused it to plummet to 18,437,000 in May 2020. Some state and local government jobs returned over the summer, but further layoffs became necessary in September as it became clear direct state and local relief was hung up. Revised data now shows that state and local governments have reduced payrolls in four of the last five months. Overall, state and local government employment remains down over 1.3 million positions compared to its February 2020 peak.

Many still express disbelief in seeing the depth and longevity of state and local government payroll cuts since the pandemic began. This commentary [Why is State and Local Employment Falling Faster Than Revenues?](#) (Dec. 23, 2020) from The Hutchins Center on Fiscal and Monetary Policy shines some light on what is happening with state and local government employment. Regional and state-by-state government employment results differ widely, which is likely a leading reason it has been difficult to build widely-accepted consensus for direct state and city aid.

Recently, [Bloomberg reviewed state government cuts](#) and highlighted that New Hampshire reduced state government employment at a leading 26%. Another 11 states cut state employment in the double digits: Ohio (14%), Wisconsin (13%), Colorado (13%), followed by Maine, Michigan, Kentucky, Wyoming, Hawaii, Maryland, Massachusetts, and South Dakota, also [per Bloomberg](#). [Pew indicated](#) at the end of 2020 that nearly all states were shedding education-related positions. The [Center on Budget and Policy Priorities warns](#) there are likely to be more government layoffs without state and local aid.

No Direct Aid for State and City Governments to Date

One key reason state and local government jobs have not come back at a stronger pace is the lack of direct, unencumbered aid for state and city governments. There has been some aid targeted to schools and education. Please see [Clarifying the Magnitude of COVID-19 Related Federal Aid for State and Local Governments: \\$277 Billion, Much Restricted](#) and [Late and Limited is Better Than Nothing, Lawmakers Finalize \\$900 Billion Fifth Phase, No Direct State and Local Aid](#).

Nonfarm payroll data released on Friday showed [a weakening labor market picture](#). However, January 2021 saw the first month where state and local government jobs had increased, not decreased since September 2020. This could mean that state and local governments are not planning to cut as sharply as previously thought because now there is a higher level of hope for direct aid. We previously have thought and written that state and local governments would continue to cut payroll without a clear indication that direct unencumbered aid was on its way.

[President Biden did include \\$350 billion of direct aid for state and local governments](#) and \$170 billion for schools and colleges in his \$1.9 trillion "First Stage" proposal in January. It could be a boost in the near-term for state and local governments, now that it seems Democrats in Congress and the White House are walking down the path of providing relief that looks close to the \$1.9 trillion proposed. Recent

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sentiment noted that President Biden is placing an “urgent” level of priority on a sixth phase of COVID-19 relief, the timing of which is still unknown and at best the process might not result in funds until April.

Some state health officials are advising federal lawmakers go big on aid to state and local governments, stressing the need for vaccination-related resources.

Importance of Relief Argued

Several individuals testified to a House Financial Services Committee Hearing on Thursday, Feb. 4 about the remaining need for direct, unencumbered aid for state and city governments. In addition, some state health officials are advising federal lawmakers go big on aid to state and local governments, stressing the need for vaccination-related resources. On Friday, we reiterated our “Negative” outlook on the U.S. state government sector and noted that direct fiscal relief is still needed.

Recent HilltopSecurities Municipal Commentary

- State Outlook Remains Negative; Direct Fiscal Relief Still Needed, February 5, 2021
- U.S. COVID-19 “Spikes Like We Have Not Yet Seen” Could Be Coming; Sixth Phase Relief Status, February 1, 2021
- Yellen Hearing: Supports Defeat of Pandemic, Loss of Govt. Jobs “Economic Malpractice”, January 19, 2021
- Biden’s \$1.9 Trillion First Stage Rescue Package, What it Could Mean for Municipals, January 15, 2021
- President-elect Biden’s First Stage Rescue Package, Prelim Overview, January 14, 2021
- Housing Fundamentals Remain Solid and Our Housing (HFA) Sector Outlook Remains “Stable” to Begin 2021, January 14, 2021
- State and Local Government Job Losses in Three of Last Four Months Illustrate Continued Budget Pressures, January 11, 2021

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

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