

U.S. Municipal Bond Market

# State and Local Labor Market Weakness Continues in Dec. 2021, Trend Likely to Persist Into Beginning of 2022

- Overall nonfarm payrolls rose by only +199k, a significant miss relative to the market expectation of +450k.
- Weakness in the state and local government labor market continued in December 2021. For a fifth straight month the change in state and local government jobs was negative, they were -10k in December.
- COVID-19 and Omicron variant spread is even worse to begin 2022 compared to 2021. This means state and local labor market weakness could persist into 2022.
- State and local governments are still almost 1 million workers shy of their pre-COVID peak.
- We still believe the \$650 billion of fiscal policy Washington lawmakers approved for public finance entities in 2021 is enough to keep state and local government credit stabilized.

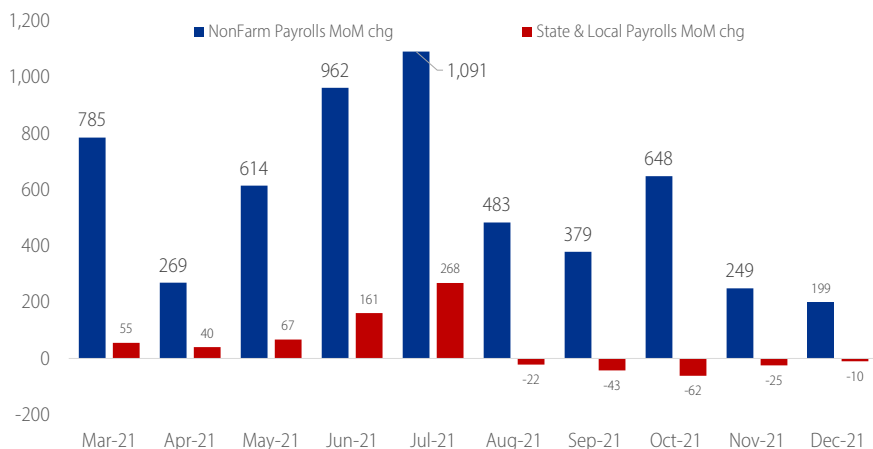
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## Virus Still Dominates, Deaths Forecast at Close to or Over Record Levels in Jan. 2022

We saw mixed results in today's nonfarm payroll data and continued weakness in the state and local government labor market after digging deeper into sector results. However, if one thing is clear it is that the significant spread of COVID-19 remains the dominant influence on the broader economy, the state and local government labor market, and schools. It is de ja vu all over again to begin January 2022. We wrote, [COVID-19 Spread Remains Out of Control to Begin 2021](#) almost a year ago to the day. COVID-19 and Omicron variant spread is even worse to begin 2022 compared to 2021. The COVID-19 related new case and hospitalization numbers look grim. The daily average number of new COVID-19 cases has soared as of Jan. 6 to 610,989 per data from The New York Times. What we are seeing now is well over the peak daily average of 251,232 from Jan. 11, 2021. The daily average of COVID-19 related deaths is rising too, now deaths are up 2% over the last two weeks.

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## Weakness in the State and Local Govt. Labor Market Persists



Source: Bureau of Labor Statistics and HilltopSecurities.

Please see disclosure starting on page 3.

The daily average of COVID-19 deaths is 1,404 as of Jan. 6, 2022. More troubling results are expected in coming weeks where COVID-19 deaths are concerned. This week [the Centers for Disease Control and Prevention \(CDC\) indicated](#) that weekly deaths are likely to rise to between 19,700 and 30,500. That means we could see daily deaths rise to between 2,800 and 4,300 a day in January 2022. The peak average daily number of deaths we saw at the beginning of last year was 3,342 on Jan. 26, 2021.

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“You don’t make the timeline, the virus makes the timeline,” [Dr. Anthony Fauci warned](#) back in March 2020, and these numbers are reminding us of Dr. Fauci’s advice. What is different to begin 2022 is that very effective vaccines exist and are widely available in the U.S. All things considered, we are expecting COVID-19 to impact the state and local labor market to begin the year.

## State and Local Jobs Revised Higher in Oct. & Nov., But Still Negative

There were mixed results in the [Dec. 2021 jobs report released](#) by the Bureau of Labor Statistics today (Friday Jan. 7, 2022). Nonfarm payrolls rose by only +199k, a significant miss relative to the market expectation of +450k. However, October and November 2021 numbers were revised upward by a total of +141k, consistent with recent revision activity we have seen throughout 2021. Please see HilltopSecurities [Economic Commentary by Scott McIntyre and Greg Warner](#) for more detail on the jobs numbers.

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Weakness in the state and local government labor market continued. For a fifth straight month the change in state and local government jobs was negative. In total they fell by -10k in December. State and local jobs in October and November 2021 were revised higher slightly, but remained negative overall. We have indicated in months past that employee retirements have likely been contributing to the falling number of state and local government workers. Please see [Employee Retirement – An Unexpected But Real Obstacle for State and Local Governments](#) for example. Retirement could be an ongoing factor.

Going into 2022 we expect that the spread of COVID-19 is likely to contribute, if not be a main driver of state and local government jobs results. Some schools have again begun to close or revert to remote learning, and this is likely to show up in the revisions to the December 2021 and January 2022 results. [Omicron is closing schools](#) and forcing classes online all over the country. [Teacher and substitute \(and other labor related\) shortages](#) are heavily factoring into government leaders’ decision making.

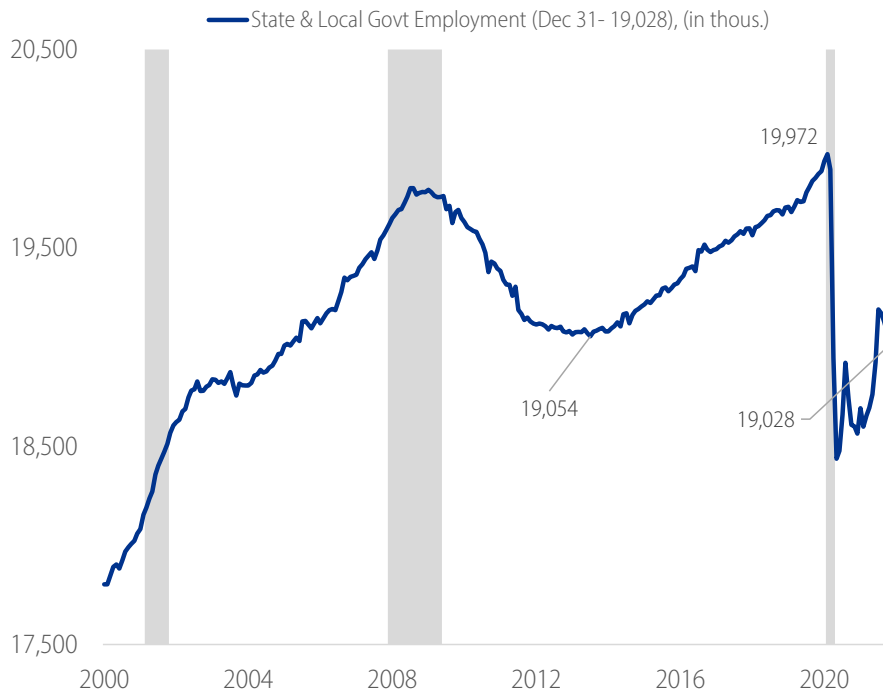
*Despite the above we are still not expecting weakness in state, or local government credit quality.*

Despite the above, we are still not expecting weakness in state or local government credit quality. Public finance received about \$650 billion of federal aid (Please see page 4 of [The Municipal Market in 2022](#) for a breakdown) from the 2021 Rescue Plan Act and about \$130 billion of that was specifically for schools. We are expecting that it is likely that COVID-19 related waves could continue into the foreseeable future. This is one of the key reasons we believe lawmakers allocated a healthy amount of aid to public finance related entities.

## State and Local Governments are Still Almost 1 Million Workers Shy of Pre-COVID Peak

It remains to be seen how long it will take state and local government to return to a pre-COVID level of employment of 19.972 million. As of December 2021 state and local governments are still 944,000 workers below the pre-COVID peak.

### State and Local Government Jobs Well Below Pre-COVID-19 Peak



Source: Bureau of Labor Statistics and HilltopSecurities.

### Recent HilltopSecurities Municipal Commentary

- [2021 Municipal Bond Analyst Survey](#), Dec. 14, 2021
- [State and Local Employment Down For Fourth Straight Month in November](#), Dec. 3, 2021
- [The Municipal Market in 2022](#), Dec. 2, 2021
- [Our 2022 Municipal Bond Issuance Forecast](#), Nov. 22, 2021

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

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