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Fitch: US States' Employment Recoveries Still Have a Long Way to Go

Fitch Ratings-New York-08 September 2020: All states saw significant employment losses during the height of shutdowns due to the coronavirus pandemic from February through April 2020, says Fitch Ratings. With business re-openings and lifting of travel restrictions beginning in April, employment has gradually recovered but still remains supressed in a number of states. The continued spread of the virus is weighing heavily on the pace of expansion.

The depth of employment declines and pace of recoveries varies widely among states, with implications for medium-term economic and labor market growth. High unemployment negatively affects income and sales tax revenues, squeezing state budgets and slowing economic recovery. Fitch considers most states well-positioned to deal with resulting budget volatility at current rating levels but the risk of a prolonged severe economic contraction consistent with Fitch's coronavirus downside scenario could compound revenue declines that erode states' gap closing abilities.

Those states in the lower left quadrant in the chart below experienced the steepest declines in employment in the first three months of the pandemic and have seen slower employment recovery in the following three months. Seven states, Alaska, Hawaii, Illinois, Kentucky, Nevada, New Jersey and New York, have a Negative Outlook, five of which appear in the lower left quadrant.

Leisure and hospitality were among the most affected sectors in terms of job losses, although there has been a notable recovery in many states over the summer months. Leisure and hospitality job losses as a percentage of total job losses through July were between 28%-39% for the states in the lower left quadrant, compared with 45%-60% at the height of the pandemic. The exception is Hawaii, for which leisure and hospitality employment losses through July were still 60% of total job losses.

While job losses in leisure and hospitality have been the most severe, average job losses in four other sectors are sizeable, between 10%-12% of total job losses from February to July: trade, transportation and utilities; professional and business services; education and health; and state and local government. Unemployment in these sectors is a significant drag on gross state product for certain states, and Fitch will be commenting on unemployment by sector in upcoming research.

Further private and public sector layoffs are expected the longer it takes to contain the coronavirus. State policy and budget responses, the extent of any additional federal aid for the economy at large, and state and local governments specifically, and the effectiveness of state and national efforts to reduce the virus' spread will also be critical to longer-term employment and economic recovery.

Fitch assessed monthly data from the Bureau of Labor Statistics (BLS) Current Employment Statistics (CES) program to calculate states' employment declines and subsequent growth. BLS notes the ongoing pandemic affected the agency's data collection process and led to some modifications in its reporting model. Given the compounding volatility inherent in the rapidly evolving labor market, Fitch considers the CES data to be a useful indicator of economic trends, but not as definitive as in pre-pandemic times.