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Fitch: U.S. Labor Market Job Loss Mismatch to Persist Through 2022

Fitch Ratings-New York-04 August 2021: Employment recovery is far from complete and largely unequal, with a new Fitch Ratings report pointing to how the pandemic is disproportionately hitting relatively lower-wage service jobs where human interaction is essential.

There are early signs of this labor market mismatch in some states. For instance, while the labor market is very tight in Vermont and New Hampshire, the labor market is showing more slack in Hawaii, California and New York. Relatively low wage service jobs in the leisure and hospitality sector are accounting for a disproportionate share of these job losses, a disconnect that will likely remain in place at least through the end of next year.

“It would be hard to design a labor market shock that more drastically targeted low-wage workers. We’re seeing widening of existing inequalities and a rise in the risk of long-term labor force detachment and economic scarring in the most affected states,” said Fitch Senior Director Olu Sonola. “The segment of the population that has been unemployed for an extended period of time is most at risk for the impending government support cliff.”

This mismatch shines more of a light on the employment to population ratio (EPR), which Fitch views as a more holistic measure of disequilibrium than the unemployment rate because it combines the impact of both labor force participation and unemployment. South Dakota, Kansas and Mississippi are the only states that are now back to pre-pandemic EPR levels. However, despite significant recovery, Mississippi, West Virginia and New Mexico have the lowest three EPR levels. This suggests that the long-term economic growth trajectory of these states will likely continue to be slower, relative to other states, absent offsetting productivity gains. ‘U.S. States Labor Market: Disparities in Pandemic Job Losses to Persist Beyond 2022’ is available at ‘www.fitchratings.com’.

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