

U.S. Municipal Bond Market

State and Local Government Jobs Driving U.S. Policy, Remain 1.2 Million Below Pre-COVID-19 Peak

- The state and local government labor market remains challenged, with the total number of jobs still 1.2 million below the pre-pandemic high. This is 300,000 fewer positions than observed during the post-Great Recession’s bottom.
- Jobs did not bottom-out in state and local governments until four years after the Great Recession ended in June 2009. They did not return to the pre-Great Recession peak until summer of 2019. Federal policymakers are hoping to avoid a similar lag that could have a negative impact on U.S. economic growth.
- Federal fiscal policy guidance in the form of \$350 billion of relief targeted to state, local, and tribal governments was finally released on May 11th. In just the first 11 days, \$105 billion of the \$350 billion was distributed to state and local governments.
- Results will likely be considered a policy win if state and local government jobs snap back quicker this time around. We expect this jobs recovery will not begin in a meaningful way until the fall of 2021.

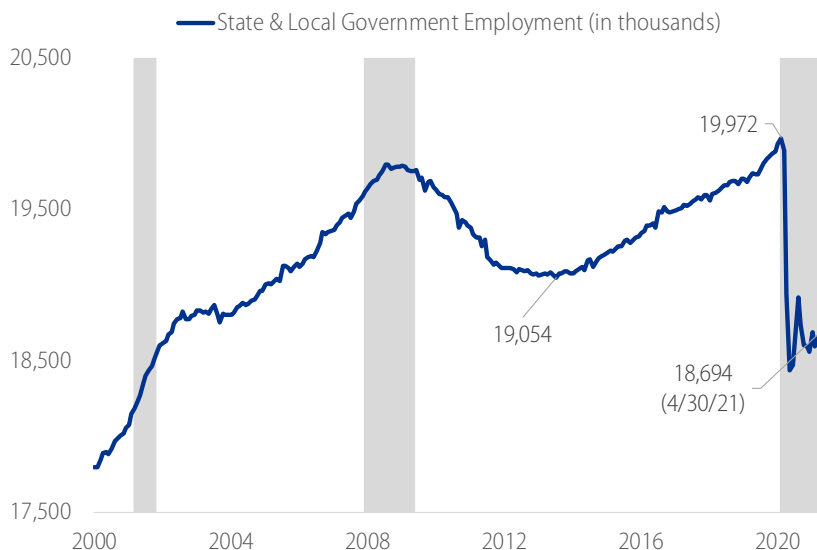
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The Importance of State and Local Government Employment

There are both big picture and specific reasons state and local government jobs are important. In this report we will concentrate on just one of those big picture reasons and also highlight that state and local government employment remains severely challenged as a result of COVID-19 reactions. We close by describing when we expect a recovery of state and local jobs is likely to meaningfully materialize.

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State & Local Government Jobs Remain 1.2 Million Below Pre-COVID-19 Peak



Source: Bureau of Labor Statistics and HilltopSecurities.

State and local government employment occurs at different levels and takes various forms. Those forms largely include state government, county government, city government, school districts, and other configurations of local governments. This category also includes public sector healthcare and higher education facilities workers. Let's also make sure to highlight police, fire, corrections, transportation, and other infrastructure-related public entities.

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The key reasons for the importance of state and local government jobs are wide-ranging; chief among them being their significance to the U.S. economy. Since the COVID-19 shutdowns began, several commentaries have supported this claim. For example, an economist wrote, [How State and Local Governments Are Crucial to the Economy](#). Policy analysts from the Federal Reserve Bank of Richmond wrote, [State and Local Governments: Economic Shocks and Fiscal Challenges](#). Even former Fed chair Ben Bernanke addressed this topic last summer in, [I Was Chairman of the Federal Reserve. Save the States](#).

Statistics also support the critical nature of state and local jobs. Together, state and local employments are one of the largest segments of the U.S. economy. At the beginning of 2020, prior to COVID-19, state and local governments employed almost 20 million workers, which represented [13% of the U.S. labor market](#).

Status of State and Local Employment

We have closely followed this theme since last year and recently highlighted the status of government jobs in our February 2021 commentary, [Deep Cuts Remain, State and Local Govt. Jobs Down Over 1.3 Million](#). At the worst, about 1.5 million state and local government positions were eliminated during the COVID-19 shutdowns.

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This commentary, [Why is State and Local Employment Falling Faster Than Revenues?](#) (Dec. 23, 2020), from The Brookings' Hutchins Center on Fiscal and Monetary Policy shines some light on what is happening with state and local government employment.

Some of the 1.5 million lost positions have come back, but the numbers remain significantly impaired, and they remain a threat not only to service deliver and municipal credit but also to the potential for a full and robust U.S. economic recovery.

Nearly 50% of Immediately Available Rescue Act Funds Disbursed in Initial 11 Days

Unlike after the Great Recession, federal help for state and local governments is on its way. The \$1.9 Trillion American Rescue Plan Act (Rescue Plan), signed into law on March 11, [included \\$350 billion for state, local and tribal governments](#). On May 11 the [U.S. Treasury Department finally released guidance and procedures](#) describing how eligible governments could request and access these relief funds.

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There has been pushback, generally, on the need for state and local government aid since the beginning of COVID-19. Some of this has been politically motivated and some policy oriented. Some have argued that relief was not needed because state

and local government revenues did not plummet as initially forecast last year. When asked about the need for state and local relief, White House Press Secretary Jen Psaki noted the revenue situation was not their main focus, but rather the actual feedback on the ground. Psaki highlighted it was, "what state, local governments and others are telling us they need to ensure that the people in their districts, the resources in their districts, the people who are making government function in their districts have the funding and resources they need."

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We attempted to clear up this revenue-related confusion in our Thursday commentary, [A Non-Fiction Look at State Government Revenues One Year After COVID-19](#). Essentially, we reported U.S. state tax revenues were just higher (+0.01%) for the 12 months between March 2020 and February 2021, but also noted that results differ state-to-state as revenues have not recovered in 19 states. We also addressed the Wall Street Journal's cynical piece, "The Great State Budget Con."

Early Use is a Sign State and Local Relief Needed

Time will soon tell us whether the relief was needed. Very early indications, however, point to the importance the Rescue Plan aid provided to state and local governments. A May 20 press release from the Treasury Department reported, [In the First 11 Days, Treasury Distributes \\$105 Billion through Coronavirus State and Local Fiscal Recovery Funds](#). This initial allocation amounts to about 50% of the initially available funds and approximately 30% of the total \$350 billion available from The Coronavirus State and Local Fiscal Recovery Funds, established by the American Rescue Plan Act of 2021.

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The Policy Mistake Secretary Yellen Was Referring to Last Week

We noted in our [May 11 report](#) the U.S. Treasury Department finally released [guidance and procedures](#), which Treasury Secretary Janet Yellen noted in a [press release](#) that the \$350 billion for state, local, and tribal governments corrects a post-Great Recession policy error. Just after the Great Recession, many state and local governments found it difficult to balance budgets without cutting employment. There was a lagged effect during this era that caused state and local employment to not bottom out until July 2013 at 19 million employed.

The [Brookings commentary](#) has a detailed comparison (see line charts on pages 6 and 7) of how state and local employment recovered over several years after the Great Recession. The current statistics also tell us there is something still wrong with the state and local government labor market. It will likely be considered a policy win if state and local government jobs are able to snap back quicker this time around as a result of the state and local relief policy.

When Will State and Local Employment Recover?

We will continue to closely watch state and local government data as it is released monthly to try to discern the success of the Biden Administration's initiative. However, we will not be surprised if it is not until the fall of 2021 before we see state and local government job data recover in a meaningful way.

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Recent HilltopSecurities Municipal Commentary

- [A Non-Fiction Look at State Government Revenues One Year After COVID-19](#), May 20, 2021
- [Treasury Issues Relief Guidance for State, Local, and Tribal Governments](#), May 11, 2021
- [A Boom is Coming. Are Governments Ready?](#), May 7, 2021
- [100 Days and \\$6 Trillion – We Analyze the Possibility of an Infrastructure Agreement](#), April 30, 2021
- [2020 Census Results Show Population Trends and Power Concentration in the U.S. Continue to Shift](#), April 28, 2021
- [Long-Term Capital Gains Potentially at 43.4%; This is Not New Information](#), April 27, 2021
- [How the Dispute Over a SALT Cap Repeal is Becoming an "Economic Civil War"](#), April 23, 2021
- [Status of Municipal Bond-Friendly Elements and the American Jobs Plan](#), April 14, 2021

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

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