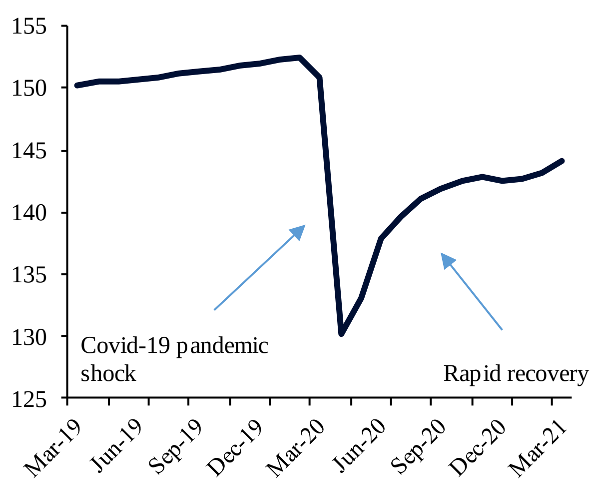
QNB Economics
economics@qnb.com
18 April 2021

Strong US employment data point to a rapid economic recovery

The US economic recovery continues to "shock and awe" investors and macroeconomists. After a sudden, Covid-19-related economic collapse in Q2 2020, US activity rebounded strongly, driven by massive policy stimulus. Importantly, the recovery seems to be more sustainable and distributed across different sectors, despite continuous waves of new Covid-19 cases.

In line with such recovery and acceleration in activity, the US "Employment Situation" report for March 2021 presented strong results. In fact, US nonfarm payrolls, which account for the overall number of nonfarm workers in the US private sector, increased by almost one million workers last month, surpassing analysts' expectations by far. After almost eleven months of uninterrupted growth, nonfarm payrolls reached a level of 144.1 million workers in March. At this level, US nonfarm payrolls have already reversed 62% of the decline since the initial shock from the pandemic.

Graph 1: US nonfarm payrolls
(Seasonally adjusted, million workers)

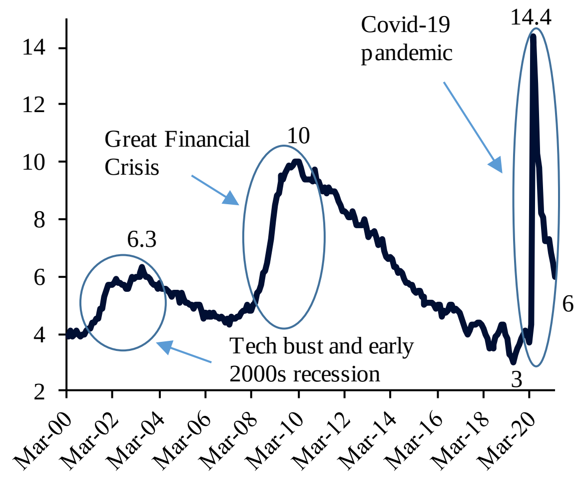


Sources: Haver, US Bureau of Labor Statistics, QNB analysis

The US labor market is a key indicator for the health of the overall US economy. This piece dives into three main points about current developments in the US labor markets.

First, the pace of the recovery in US civilian employment has been unprecedented. While the initial spike in unemployment was sharp due to the pandemic, the ongoing recovery is also taking place at record speed. Usually, the employment cycle plays out assymetrically, with unemployment increasing rapidly during recessions and reversing only gradually during economic expansions. This time around, however, employment has moved sharply in both directions. As a matter of reference, employment is reversing back to pre-Covid-19 levels 5 times faster than after the last two recessions. Such pace of recovery is a strong signal that the US economy is moving away from the Covid-19 recession in a much better shape than it was in after the global financial crisis or the tech bust recession of the early 2000s (see graph 2).

Graph 2: US civilian unemployment rate
(Seasonally adjusted, total unemployed, % of labor force)



Sources: Haver, US Bureau of Labor Statistics, QNB analysis

Second, the breadth of the recovery in US employment has also been strong, with significant job gains across most of the major industries. Covid-19-sensitive sectors have also benefited from strong employment growth, including categories such as leisure and hospitality, education, retail trade and other services. We expect continued employment growth in these sectors as the US economy re-opens over the summer.

Third, the overwhelming majority of US workers are emerging from the pandemic in a better financial situation than they were before the outbreak of Covid-19. According to the Bureau of Labor

Statistics, the real hourly earnings of US employees, which is adjusted by CPI inflation, has increased by almost 4% since January 2020. Such increase, amid a US recession, was only possible due to generous financial transfers from the government to households. As a result, personal income and household savings soared, creating a wall of consumer money that will likely be deployed once the economy opens up. This is expected to create a positive feedback loop in which additional spending creates more jobs, increases confidence and ultimately leads to even more spending.

All in all, a strong US labor market, after a deep recession, is a positive driver for the global economy. In the absence of any other major exogenous shock, the US is set to lead the world into a period of higher GDP growth rates.

QNB Economics Team:

James Mason
Senior Economist
+974-4453-4643

Luiz Pinto*
Economist
+974-4453-4642

* Corresponding author