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ECONOMIC TALKING POINTS

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March Showed Robust Job Growth. But Don't Overlook the Hazards Ahead!

Chart 1. Unemployment rate, seasonally adjusted, March 2019 – March 2021

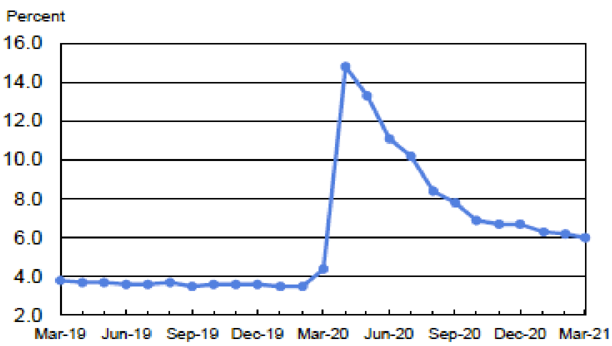
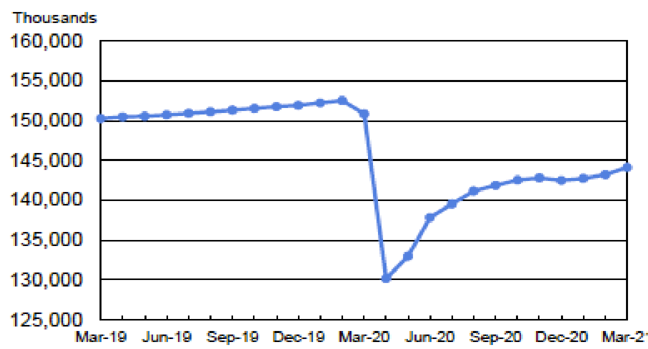


Chart 2. Nonfarm payroll employment, seasonally adjusted, March 2019 – March 2021



The successful roll out of the vaccine, along with trillions of dollars in fiscal stimulus the government doled out, was enough to convince employers that a new economic cycle has begun. And as business conditions improve, many companies appear eager to ramp up hiring. They haven't forgotten how difficult it was to find suitable workers just before the pandemic struck. March's 916,000 increase in nonfarm payrolls may signal the start of a new wave of hires at a rate of 700,000 to 1,000,000 each month for the rest of this year. At least that is the projection many forecasters are making.

Our role here is not be a contrarian. There is no doubt companies are moving fast to beef up their workforce. But a word of caution is also warranted. The actual contours of the economic recovery this year and next will ultimately depend on four key factors:

(1) What will be the efficacy and distribution of the vaccine, not just in the US but around the world? Our domestic economy cannot fully recover until the rest of the international community gets past the pandemic.

(2) With the $1.9 trillion American Rescue Plan now law, the next question is what will follow? Is President Biden to enjoy the same success in passing his ambitious $2.25 trillion infrastructure project? How likely will Congress approve his plans to increase corporate taxes? And, if some or all of it were approved, what impact would it have on the private sector economy?

(3) Let's not forget that Covid-19 was a traumatic event for many business and households. What will the post-Covid economy look like? Expect to see major changes in the business landscape in terms of who survived and who failed once the dust finally settles.

(4) Finally, we need to brace ourselves for the next shock, be it economic or geopolitical. Certainly no one wants to be blindsided again by an exogenous event. So what are the major unknowns we should have on our radar screens? Well for one, we do not know if the economy can absorb all that fiscal and monetary stimulus without any major side effects, such as unexpectedly high inflation or surging market rates. And on the geopolitical front, there is a multitude of serious threats we need to monitor closely. They include rising tensions in the Middle East as Iran gets closer to becoming the next nuclear military power, a confrontation with China as it turns more hostile towards Taiwan, and the prospect of North Korea test launching an ICBM across the Pacific that could potentially reach the US mainland.

Any one of these has the potential to quickly take steam out of the economic recovery, if not derail it altogether.

Thus when calibrating where the economy is headed, we have to consider these hazardous trend lines. They are not low-probability risks and their eruption will shape the path of the economy and labor markets the rest of this year.

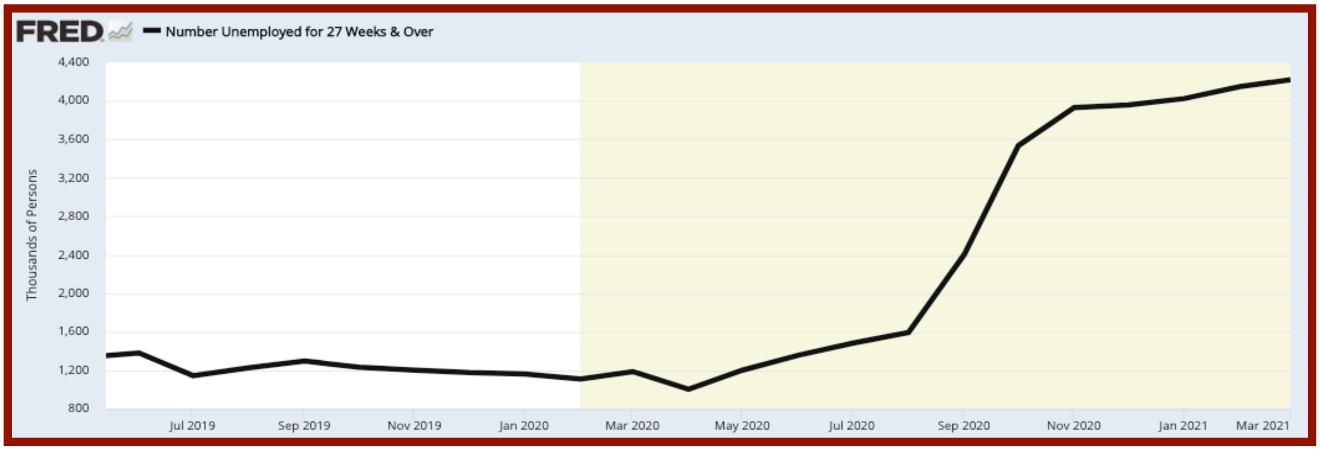
For now, however, it's appropriate to let out a sigh of relief that economic conditions are improving. Employers last month ended up hiring far more people than the 660,000 that analysts initially had forecast. March's 916,000 increase in payrolls was the most since last August, and even February's number was revised up by an additional 89,000 to show a gain of 468,000.

If we just look at hiring in just the private sector, payrolls rose by a decent 780,000. If that characterization sounds a bit muted, it's because the pace of hiring had exceeded that number in 6 of the 12 months in 2020. That tells us many private employers are still hesitant to bring back workers who have not yet been fully vaccinated. But that only puts pressure on existing employees to work longer hours. Average weekly hours worked in manufacturing jumped to 34.9 last month, from 34.6 in February, with overtime creeping up to 3.3 hours, the most since July 2019.

The broader household survey showed total employment rose by 609,000 in March, the biggest increase since September. Since there were fewer new people entering the labor force (347,000), the unemployment rate dropped down to 6.0%, its lowest since before the outbreak of the pandemic.

By the way, one interesting side note is that the demographic group which saw the biggest decline in joblessness consisted of those who never even completed high school. Their unemployment rate dropped from 10.1% in February to 8.2% last month. A large part of that is the re-opening in service-oriented positions, from transportation, warehousing and hospitality.

One worrisome data point is the number of people who have been out of work for at least 6 months; it still shows no sign of retreating! Not only has it been rising each month since last May, the total number of long-term unemployed has now swelled to 4.22 million, the most since August 2013! It suggests many of the jobs lost during the pandemic will never comeback. We estimate about 5 million positions are gone forever.



What's especially troubling is that the longer it takes for these people to return to work, the more likely they will lose the valuable skills and professional contacts that are necessary to secure new employment. This is precisely the kind of scarring in the labor force that is most difficult for government policymakers to resolve.

Nor should we forget that there are still nearly 8 million fewer people employed today than the pre-pandemic peak. So clearly we still have a way to go before the economy is fully back on its feet.

That shortcoming was evident from yesterday's report on new filings for unemployment benefits. It jumped back above 700,000 during the latest week (after slipping to 658,000 the prior week). It also showed more than 18 million Americans still receive some form of unemployment benefits compared to 2.1 million a year ago.

This is why it's important to put the March jobs report in perspective. Business activity is accelerating and this has certainly increased the demand for workers. But make no mistake, 2021 will be a delicate transition year. Last year's devastating economic collapse was unlike any in American history; it was triggered by a fatal microscopic organism that quickly spread around the world. As unique and unpredictable as that economic collapse was, we believe the recovery will also be unlike any previous business cycle.

Don't think for a moment that this recovery represents a return to mainstream economics. There's a new reality in the works.

United States

	I 2020	II 2020	III 2020	IV 2020	I 2021	II 2021	III 2021	IV 2021	I 2022	II 2022	III 2022	IV 2022	I 2023	II 2023	III 2023	IV 2023
Real Gross Domestic Product (GDP):																
%	-5.0	--31.4	33.4	4.3	5.2	5.8	5.3	6.7	3.8	4.9	5.5	4.2	2.8	3.5	3.1	2.9
Personal Consumption Expenditures:																
PCE %	-6.9	-33.2	41.0	2.3	5.5	6.6	5.1	6.0	2.4	5.2	4.2	3.6	3.1	4.1	2.8	3.5
Inflation, end of period, year-over-year:																
CPI %	1.5	0.6	1.4	1.4	1.5	2.4	2.5	2.7	2.5	2.5	2.3	2.2	2.5	2.6	2.6	2.7
Unemployment Rate (end of period):																
%	4.4	11.1	7.8	6.7	6.0	5.8	5.7	5.6	5.4	5.5	5.6	5.4	5.4	4.9	4.4	4.1
Non-farm Payrolls, monthly avg. thousand:																
	-303	-4,427	1,322	213	539	455	510	620	424	325	265	240	185	225	235	250
Treasury 10-yr Note Yield % (end of period):																
	0.63	0.65	0.68	0.91	1.75	1.71	1.65	1.79	1.77	2.05	2.00	1.94	1.90	2.05	2.00	2.10
Federal funds rate % (end of period):																
	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.38	0.88	1.13

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
US	2.6	1.6	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-3.5	5.8	4.6	3.1
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-6.8	3.3	2.5	2.0
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-9.9	4.4	4.6	3.1
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	2.2	0.3	0.7	-4.8	2.4	2.8	2.2
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-5.1	5.4	3.4	2.9
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.8	-8.2	9.1	6.4	5.7
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	2.3	6.9	5.7	5.6
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-4.1	2.9	2.7	2.4
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-8.3	3.3	2.8	2.7
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-1.1	2.5	3.0	2.7
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.2	-3.1	2.4	3.3	2.0
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.9	-4.2	4.4	4.2	3.9