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ECONOMIC TALKING POINTS

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April 2021: The Million Jobs That Never Was

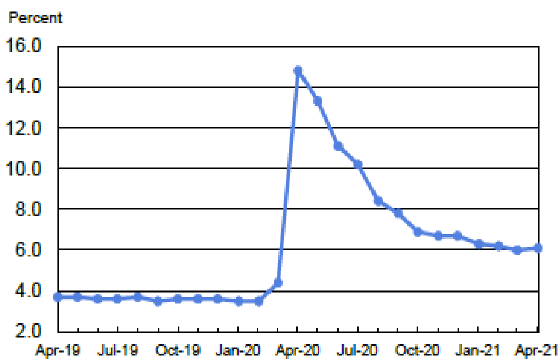

Chart 1. Unemployment rate, seasonally adjusted, April 2019 – April 2021

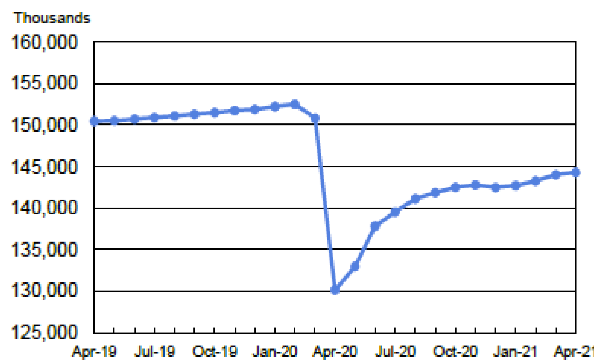

Chart 2. Nonfarm payroll employment, seasonally adjusted, April 2019 – April 2021

April's employment report was a surprise, but not a shocker --- at least not to us.

Projections that we would see upwards of a million new jobs in the latest payroll report just didn't make sense at a time when so many manufacturing firms had to slow or cease production because the gummed up global supply chain. Instead of a million jobs added, employment rose by a much less 266,000 last month. In normal times, this would have been a perfectly respectable figure. But there is nothing normal about this business cycle.

Why the weaker number?

So many firms simply lacked the critical components to keep factories functioning at capacity. We've seen this disruption in the auto industry, with furniture makers and producers of electronic goods. Why rush to ramp up hiring when your assembly lines have been shut or severely cut back?

It appears several companies have made the decision to temporarily lay-off workers until normal production resumes. The motor vehicles and parts industry had job losses of 27,000 last month. Firms making wood products, like furniture, dropped 7,000 from their payrolls.

Nor is the jobs report necessarily inconsistent with other key economic indicators. While most analysts will focus on the uplifting ISM headline numbers, or that of new orders, the fact is these orders cannot be fulfilled if inventories and stockpiles are empty. At this stage of the business cycle, we place greater significance on supplier deliveries. The length of time between orders and deliveries is now the longest in nearly 50 years! As a result, the backlog of orders is highest in three decades.

Given this backdrop, the census estimates of payrolls growing by more than 1 million in April just seemed nonsensical.

The service sector may be experiencing a different set of issues. Leisure and hospitality boosted payrolls by 331,000 last month and that helped slash the unemployment rate for that industry to 10.8% from 39.3% a year ago.

But to lure those workers back, many employers had to raise pay. Average hourly earnings in L&H (for nonsupervisory workers) jumped 6.8% over the past 12 months. Average weekly pay for all employees in L&H rose nearly 10% since April 2020.

But other segments of the service sector, especially those with lower pay scales like couriers, messengers and temp workers could not hold on to employees.

Employment in couriers and messengers plummeted by 77,400 last month and temporary workers fell by more than 111,000.

Restaurants and bars have been offering higher wages to entice workers back. But companies providing couriers and messenger services are finding it hellishly difficult to recall former employees or hire new ones. Case in point: average hourly earnings for couriers and messengers fell 1.8% the last 12 months! And while temporary workers did see a 4.6% annual increase in average hourly pay, even that was not enough to keep them.

Clearly there are industries in both manufacturing and services that are eager to beef up staff as the pace of economic activity accelerates. But those efforts are being frustrated. In some cases the problem is a mismatch in skills. You can't train a one-time courier on a bike to become an IT specialist overnight.

There are, of course, other reasons why employers have encountered difficulties

finding suitable workers. Over the last seven months, we asked clients and other business leaders why they believe it has been so challenging to fill posts. Here are the reasons and percentages from the 217 who responded:

- **Unemployment benefits were too generous: 46%**
- **Former employees chose other careers (or taking classes): 22%**
- **School age children were still at home: 16%**
- **Workers still feared catching Covid-19 if asked to return: 5%**
- **Miscellaneous (e.g., caring for elderly parent or ailing family member): 11%**

So what general lesson can we draw from today's employment report?

It is this. We have to think differently about how this economy functions. The pandemic has fundamentally altered the economic and business landscape and that requires forecasters to be much more agile and nimble in their analytic process. Everything about the past 18 months has been unique — from the speed of the economic collapse, the dramatic rebound that followed, the unprecedented fiscal stimulus and the gargantuan deficits and debt. The textbooks and economic models we relied on in the past now feel terribly anachronistic.

It's clear the US economy is in full recovery mode and should reach its pre-pandemic output this quarter. Hiring will accelerate in the coming months. We still hold the view that inflation is about to pop, but that this spike will be short-lived. The Federal Reserve is thus right not remove the punch bowl.

But again, we find ourselves with more caveats than usual to our forecasts these days. For instance, the US economy cannot fully sustain its growth momentum if the rest of the world can't get past the coronavirus. Nor will the US economy be able to reach its full potential if a large number of Americans refuse to be vaccinated. And then there is the looming risk of a major geopolitical eruption too.

Today's unexpected jobs report was a rude reminder why it's essential to rethink how the pandemic, technology and globalization have altered the dynamics that shape the new business cycle.

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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	6.4	8.7	6.6	5.9	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	10.7	11.3	6.5	6.0	3.4	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	2.6	2.7	2.5	2.5	2.4	2.4	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	513	555	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	1.68	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	7.2	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