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ECONOMIC TALKING POINTS

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"A tremendous jobs report!"
"This is an incredibly powerful labor market."
"Amazing news! I'm blown away."
"I've never seen such a wonderful set of data."

**A robust employment report, yes.
But tone down some of the exuberance.**

A cascade of effusive comments followed the release of the July employment report. And in many respects it was certainly better than expected.

But let's take a step back and temper some of the enthusiasm. Here's why.

- The pace of hiring in the private sector actually slowed last month. Business payrolls dropped back to 703,000 in July, compared to 769,000 in June.
- Private sector hiring in services slowed to 659,000, down from 724,000.
- Employers in the goods producing sector took on 44,000 new workers, slightly less than the previous month.
- Average weekly hours worked in the private sector remains stuck at 34.8.

So what kicked up the headline numbers to 943,000, the most since last August?

Essentially it was one sector that happens to be among the most seasonally sensitive in the entire jobs report --- local government hiring of educators. It shot up more than 220,000 in July, the largest monthly increase ever for a series that goes back to 1955.

| Category | July 2020 | May 2021 | June 2021P | July 2021P |
|---|-----------|----------|------------|------------|
| EMPLOYMENT BY SELECTED INDUSTRY (Over-the-month change, in thousands) | | | | |
| Total nonfarm..... | 1,726 | 614 | 938 | 943 |
| Total private..... | 1,523 | 555 | 769 | 703 |
| Goods-producing..... | 60 | 16 | 45 | 44 |
| Mining and logging..... | -4 | 4 | 11 | 6 |
| Construction..... | 26 | -24 | -5 | 11 |
| Manufacturing..... | 38 | 36 | 39 | 27 |
| Durable goods ¹ | 30 | 27 | 37 | 20 |
| Motor vehicles and parts..... | 43.7 | 29.1 | 2.7 | 0.8 |
| Nondurable goods..... | 8 | 9 | 2 | 7 |
| Private service-providing..... | 1,463 | 539 | 724 | 659 |
| Wholesale trade..... | -19.5 | 14.8 | 27.2 | 2.8 |
| Retail trade..... | 240.1 | 59.9 | 72.5 | -5.5 |
| Transportation and warehousing..... | 49.5 | 15.0 | 19.6 | 49.7 |
| Utilities..... | 0.5 | -0.9 | -0.4 | -0.1 |
| Information..... | -10 | 20 | 4 | 24 |
| Financial activities..... | 12 | 2 | -1 | 22 |
| Professional and business services ¹ | 147 | 50 | 75 | 60 |
| Temporary help services..... | 133.5 | 7.5 | 35.0 | 9.7 |
| Education and health services ¹ | 214 | 46 | 60 | 87 |
| Health care and social assistance..... | 201.4 | 12.8 | 7.3 | 46.8 |
| Leisure and hospitality..... | 666 | 319 | 394 | 380 |
| Other services..... | 163 | 13 | 73 | 39 |
| Government..... | 203 | 59 | 169 | 240 |

Look, there is no doubt the job market is improving. Companies are aggressively competing for workers, a fact that is reflected in the 4% increase in average hourly earnings and 4.5% in average weekly pay --- even though hours worked remains unchanged.

But the underlying dynamics in the labor market have not yet crystallized --- and traders in the bond market are well aware of that. Rates moved up only marginally in response to the employment report. An hour after its release, 10 yr treasury yields crawled up a few basis points to a still modest 1.29%.

There is no doubt this report will raise pressure on the Fed to advance a timetable to scale back asset purchases. But it would be folly for them to make any changes at this juncture. Summers are notorious for volatile job numbers and that is especially the case this season as the country struggles to recover from the Covid viruses.

Clearly the Fed will wait to see what this report will reveal in September and October before making any pronouncements on a fixed timetable and dollar amount in tapering asset purchases.

At most, today's jobs report may require Powell to slightly tweak his speech at Jackson Hole on how the labor market continues to improve. But that should be it.

There are just too many wild cards out there on the trajectories of Delta and Lambda viruses, let alone how, when and if Congress passes the full \$1 trillion infrastructure bill and \$3.5 trillion reconciliation package.

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 | 6.3 | 6.5 | 7.1 | 4.3 | 2.8 | 3.6 | 3.1 | 2.9 | 1.8 | 2.7 | 2.5 | 2.6 |
| Personal Consumption Expenditures: | | | | | | | | | | | | | | | | |
| PCE % | -6.9 | -33.2 | 41.0 | 2.3 | 11.4 | 11.8 | 8.2 | 4.9 | 2.6 | 4.2 | 3.7 | 2.9 | 1.5 | 2.9 | 2.8 | 2.7 |
| Inflation, end of period, year-over-year: | | | | | | | | | | | | | | | | |
| CPI % | 1.5 | 0.6 | 1.4 | 1.4 | 2.6 | 5.4 | 3.4 | 2.8 | 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 | 5.9 | 5.5 | 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 | 607 | 735 | 875 | 524 | 425 | 265 | 240 | 185 | 225 | 235 | 250 |
| Treasury 10-yr Note Yield % (end of period): | | | | | | | | | | | | | | | | |
| | 0.63 | 0.65 | 0.68 | 0.91 | 1.75 | 1.44 | 1.35 | 1.40 | 1.37 | 1.55 | 1.70 | 1.90 | 2.10 | 2.10 | 2.26 | 2.35 |
| 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 | 6.2 | 3.1 | 2.4 |
| Eurozone | 1.7 | 1.4 | -0.9 | -0.2 | 1.4 | 2.1 | 1.9 | 2.5 | 1.9 | 1.2 | -6.7 | 4.0 | 3.5 | 2.2 |
| United Kingdom | 1.7 | 0.7 | 0.3 | 1.8 | 2.9 | 2.2 | 1.9 | 1.9 | 1.3 | 1.5 | -9.8 | 5.8 | 4.8 | 2.9 |
| 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 | -5.4 | 6.2 | 5.1 | 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 | 6.8 | 7.7 | 6.7 |
| 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 | 5.9 | 5.6 |
| Brazil | 7.5 | 2.7 | 0.9 | 2.3 | 0.1 | -3.5 | -3.5 | 1.2 | 1.2 | 1.1 | -4.4 | 4.6 | 3.3 | 2.4 |
| Mexico | 5.2 | 4.0 | 3.9 | 1.4 | 2.3 | 2.7 | 2.7 | 2.4 | 2.1 | -0.1 | -8.4 | 5.7 | 3.1 | 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 | 4.8 | 3.1 | 2.3 |
| Russia | 4.0 | 4.3 | 3.4 | 1.3 | 0.6 | -2.8 | -0.2 | 1.6 | 2.5 | 1.2 | -2.9 | 2.7 | 2.8 | 2.4 |
| World | 4.2 | 3.1 | 2.5 | 2.6 | 2.8 | 2.8 | 2.6 | 3.4 | 3.2 | 2.9 | -3.8 | 5.6 | 4.8 | 3.9 |

Key Economic & Geopolitical Projections for 2021 & 2022

• Updated: July 29, 2021

| PROBABILITY | U.S. |
|-------------|---|
| HIGH | Congress to pass the additional \$540 billion physical infrastructure bill in 4Q 2021. |
| Moderate | Senate reconciliation passage of \$3.5 trillion American Families Plan is unlikely. May require multiple legislative parts. |
| HIGH | Current surge in inflation will drop back to near 2% in 2022 as supply chains improve and wage increases level off. |
| Moderate | Treasury 10-yr. yields to hover between 1.3% to 1.6% in 2021 even as the Fed hints of scaling back asset purchases. |
| HIGH | Covid-19 to become an endemic as virus continues to mutate. Another wave of infections likely this fall and winter. |
| HIGH | Fed to begin scaling back asset purchases in IQ 2022 as the US economy regains firmer footing and labor market slack diminishes. |
| | FOREIGN |
| HIGH | Beijing fortifies naval presence in SCS; further erodes autonomy in Hong Kong and increases threats against Taiwan. |
| HIGH | Biden orders greater US naval presence in SCS to defend International Law of the Sea and support regional allies. |
| HIGH | US - Russian tensions approach cold war levels over Moscow's cyberattacks, extrajudicial killings and Ukraine. |
| Moderate | A cyber World War is underway; may result in periodic disruptions to global financial networks and power grids. |
| HIGH | Iran's new hard-line president secretly backs policy to produce enough fissile material for a nuclear weapon. |
| Moderate | Economies of Europe & Asia to recover in 2022; Africa & South America will struggle from low vaccination rates & scarce fiscal resources. |
| HIGH | US resets trade relations with Europe. No such reset in the works with China as trade tensions and sanctions remain. |

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