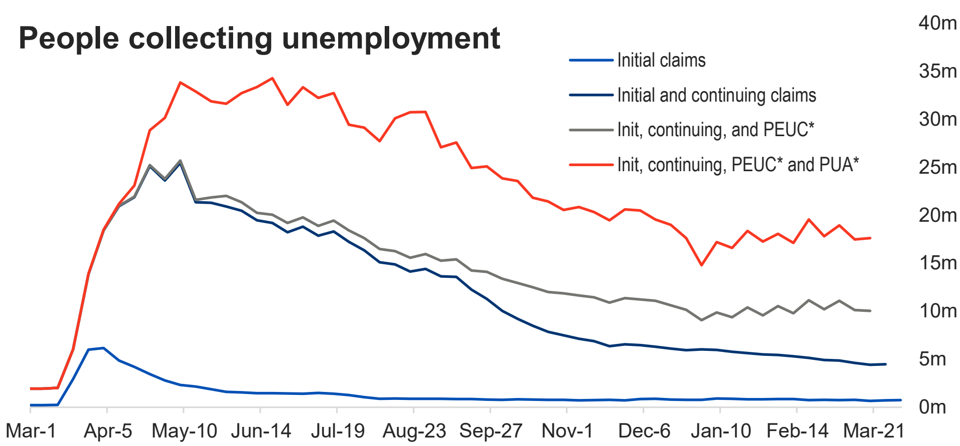
APRIL 9, 2021

ECONOMIC WEEKLY

Not all Jobs Data Are Looking Up

How many Americans are currently unemployed? After March's unexpected payroll surge, one might think it's 8.1 million, because that's the shortfall from the February 2020 pre-pandemic peak in payroll employment. Or, maybe it's 9.7 million, which is the number unemployed in the labor force from the household survey in the employment report. But it could be 17.6 million. That's how many people collected unemployment benefits in the week ending March 19, the latest week of complete data[1], which is 15.3 million more than the week ending March 13, 2020, the last week before the national lockdown began. By this measure, unemployment is still mind-bogglingly bad.



*Not seasonally adjusted. Source: Bloomberg, Bureau of Labor Statistics

Initial claims are claims by first-time filers. Continuing claims are paid to those still unemployed after the first week until eligibility expires after 26 weeks. Pandemic Emergency Unemployment Compensation (PEUC) claims are paid to those qualified to receive unemployment insurance, but unemployed for more than 26 weeks. Finally, Pandemic Unemployment Assistance (PUA) are benefits paid to people who had jobs that did not qualify for unemployment insurance because the employee worked part-time or was self-employed or a contractor. The PEUC and PUA are state-administered, federally-funded programs. They came out of the CARES Act, which set them to expire at the end of last year. The December stimulus extended them to the end of March and the American Rescue Plan extended them to the end of August.

[1] Initial claims are reported one week after they are filed. Continuing claims are reported with a one-week lag behind initial. PEUC and PUA claims are reported with a two-week lag behind initial claims.

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Unemployment beneficiaries peaked at an astonishing 34.2 million last June and trended down through the end of last year, with only a modest increase last August when the second COVID wave crested. Unemployment stopped falling at the turn of the year, however. **Payroll employment growth has accelerated since January, but not fast enough to dent the unemployment rolls.**

There is no way to tell which industries are represented in the claims data, but i) the decline in continuing claims since September, which was the 26-week mark after the initial lockdowns last year, and ii) commensurate increase in PEUC claims, suggest these are mostly jobs lost early in the pandemic. An increasing number of beneficiaries have been out of work more than six months.

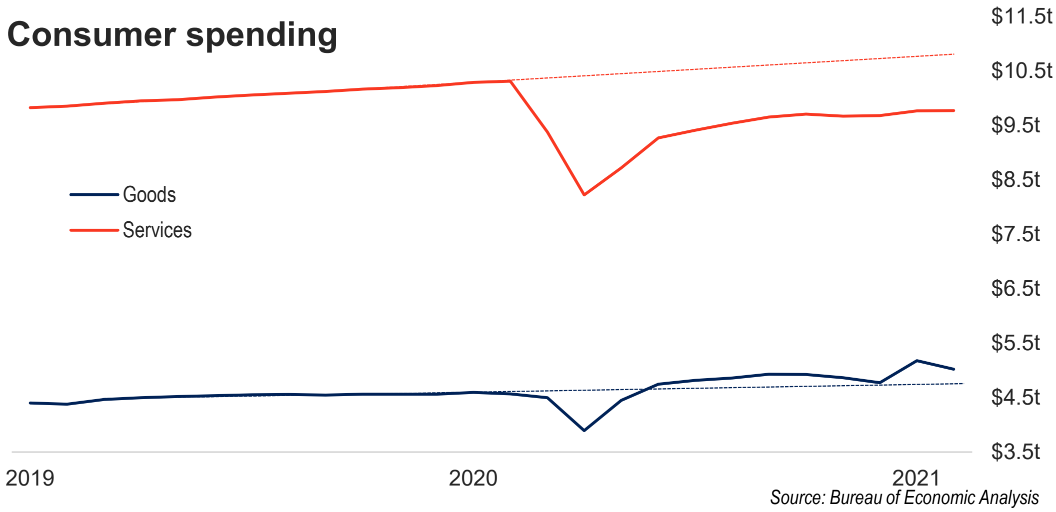
The solution to further reducing unemployment rides on fully reopening the economy. Stimulus and initial advances to thwart the pandemic stabilized the economy enough to get the first 17 million back to work, but the remaining 18 million are stuck. Maybe because they worked for companies suspended in COVID limbo, either not open or open with reduced staff and hours. Possibly, they cannot work because they are stuck at home keeping an eye on their tele-schooled children. Less likely, unemployment benefits worth more than the time lost and compensation earned while working may have encouraged some to stay on unemployment. We think it's mostly the first two, because there is no way to find a disincentive to work in the data, it is not something any of the statistical agencies try to measure, but there are reputable studies suggesting it is not a factor.[2]

The overriding problem remains the pandemic. COVID is still here, and there is still evidence — most recently in the Upper Midwest — relaxing social distancing too much increases the caseload and hospitalizations. Last month, when a reporter tried to pin down Chair Powell on whether fiscal policy or monetary policy was best to get people back to work, Powell insisted, "Vaccine policy is the best policy." That is clearly still true today.

Poor service

The lack of progress toward lower unemployment this year is pretty clearly a reflection of the lack of progress toward reviving the service economy. The economy is more open now than at any time since early last summer — it's even possible to eat inside a restaurant in New York City, something you could not do through most of the winter — but spending on a variety of service activities is still limited.

[2] Not surprisingly, this last contention is controversial. MSNBC and Slate have found multiple economists who insist it's a myth that anyone would choose to collect unemployment benefits rather than work, while FOX has found an equal number willing to say the opposite. There is no way to tell from the data. There is some anecdotal evidence in the Fed's Beige Book and ISM reports, but these stories come from employers, not the unemployed, and some consider that bias. Forbes tracked down some people who earned more unemployed than they did working, but not millions of people. A study by Yale economists published last August confirmed that 2/3 of unemployment recipients were collecting more than they earned at work (unemployment supplements were $600/wk at the time) but also found no difference in the duration of unemployment between those collecting benefits exceeding what they were paid while working and those collecting less. The Chicago Fed found a similar result.



The above chart shows consumption of goods and services. We've shown this chart before, but this time put the two on the same axis, shortened the time frame and switched from quarterly to monthly data.

Some observations:

1. Goods consumption fully recovered to trend last June. It petered out as stimulus faded last year, jumped in January and then stumbled with the Great Freeze in February but has been on or above trend for nine months.
2. Services consumption is twice as big as goods consumption. Last February, it was 69% of total consumption.
3. Lockdowns hit services much harder than goods, and service spending remains about $1 trillion below its pre-pandemic trend.

There are some goods producing sectors that continue to lag well behind pre-pandemic levels. Sales of formal wear are still quite weak, for instance. But it's all part of the same, bigger story. Until we are free to resume social interaction, employment will continue to suffer. Note, too, the unexpected surge in today's PPI reflected capacity constraints in the goods sector. Reopening services is key to containing inflation, too.

Vaccine delivery

According to the latest from *Bloomberg News'* excellent global vaccine tracker, the United States leads the world in the number of vaccine doses administered, thanks to a combination of orders placed last year, before the vaccines were approved, and export restrictions on US-made vaccines imposed by President Trump and extended by President Biden.[3] The US, at 19.4%, is seventh on the list of percentage fully vaccinated behind Gibraltar, Israel, the Seychelles, Monaco, Chile, and Bahrain. The next closest G-10 country is the UK, at 8.5%. Chile, by the way, is the only country in this group suffering an alarming rise in COVID cases, which some have attributed to the fact they are using China's Sinovac vaccine, which was 50% effective in trials, but may not work as well against COVID variants as the other major vaccines. For a more in-depth look at vaccines, see *The Weekly Report.*

[3] Companies can manufacture vaccines in the US and export them, but not until US government orders are filled. At the moment, the US is primarily exporting the AstraZeneca vaccine, not yet approved for US use.

A projection by *Bloomberg* based on the number of vaccines promised by Pfizer, Moderna, and Johnson & Johnson suggests the US could fully vaccinate its population, including children, by the end of July. Herd immunity, estimated by scientists still willing to guess the percentage required, could be possible by the end of May, when there will be enough vaccines for every adult and, if approved, many children.

How many people will agree to be vaccinated is another story. Check any Facebook group and you find two groups of anti-vaxxers. Some are opposed to getting the vaccine at all, while others plan to get after first seeing if their friends or families survive their vaccinations. The CDC is working hard to win over both groups, but with limited success so far.

There is a free rider problem related to the anti-vaxxer problem. Some people are avoiding vaccination because they assume they will be protected when everyone around them is vaccinated. The CDC is on this one, too, because too many free riders will prevent herd immunity just as effectively as too many anti-vaxxers.

ISMs reveal optimism

The manufacturing ISM index rose to a 38-year high in March, while the services index set a record. It's a younger index, with just 24 years of history, but the combination speaks to widespread optimism in the business community. FHN Financial's new Senior Economist, Will Compernolle, wrote up the ISMs on page 6.

The takeaway is both manufacturing and non-manufacturing companies are betting on full recovery before the end of this year. Most service companies even plan to add employees in the second and third quarters. Manufacturers already are, when they can find them. But of course, the economy must reopen before service hiring can fully recover.

Back to the Fed

When we sat down to write this week, we vowed not to make it about the Fed. Wednesday's Fed minutes were about as content-free as any we can remember, after all. The one-two punch on policy guidance was a promise to give plenty of notice before tapering asset purchases, followed by the absence of any written discussion of a taper. Together, that means it will be even longer than a long time before a taper can happen.

There were tons of questions about Fed timing during our April 5 webinar, ranging from, "Why not just tighten a little?" through, "Wouldn't the first few rate hikes be a reduction of accommodation rather than easing?" to, "Why aren't they at least talking about removing some accommodation?"

The answer to all of these boils down to the difference between forecast and reality. As San Francisco Fed President Mary Daly explained on Bloomberg television yesterday, "We said substantial further progress, we have to see it, we don't have to expect it, we have to see it."

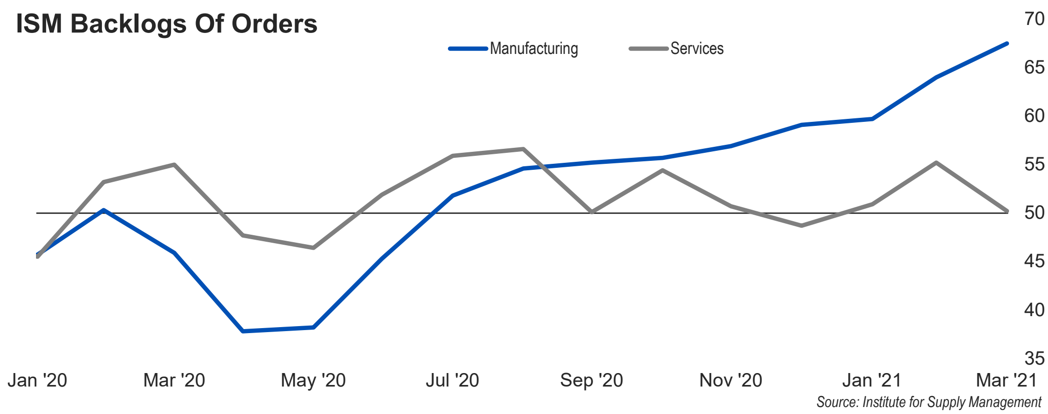
Parts of the economy are strong, but parts are still frozen. There's plenty of reason for optimism — the Fed's own forecast is considerably more optimistic than it was at any time last year — but there's also plenty of reason to worry. And, more importantly, there are still 17.6 million people collecting unemployment. For perspective, during the Global Financial Crisis, at the peak of the worst recession in 70 years, unemployment beneficiaries peaked near 7 million in 2009, including extended benefits. There's more than twice that many out of work now. Until the rest of the economy can open, the Fed will hope for the best, while still positioning for the worst. Mary Daly noted, "You still see real pockets of weakness, real pockets of concern." The number of people on unemployment assistance is one of those.

– Chris Low, Chief Economist

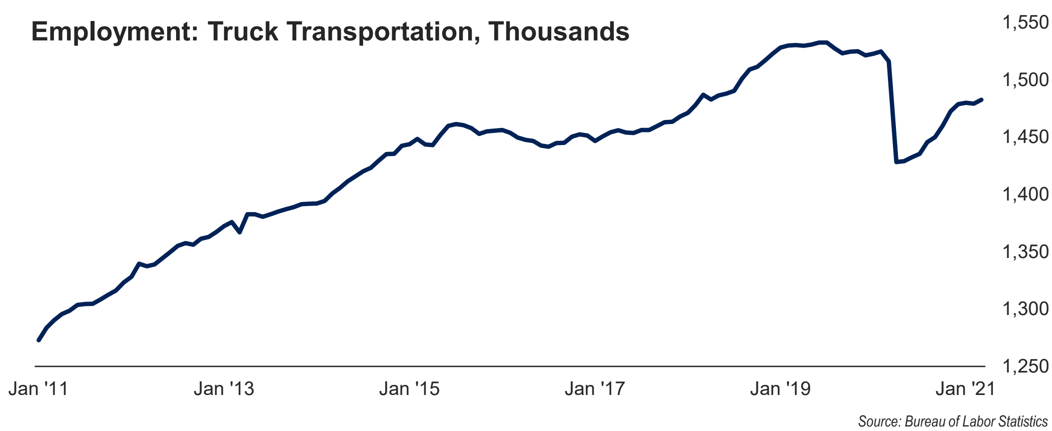
ISMs Suggest Growing Optimism, Temporary Bottlenecks

The headline readings for the March ISM surveys came in strong at 64.7 for manufacturing and 63.7 for services. New orders surged to 68.0 and 67.2 for manufacturing and services, respectively. The surveys also show that producers see supply chain and capacity issues as temporary, while they are increasingly optimistic about future economic conditions.

Both surveys show an increase in backlogs and lead times, as to be expected with supply chain bottlenecks and firm-level capacity constraints. Manufacturing saw an increase in its backlog of orders subcomponent, while services saw an above-50 reading of 50.2.



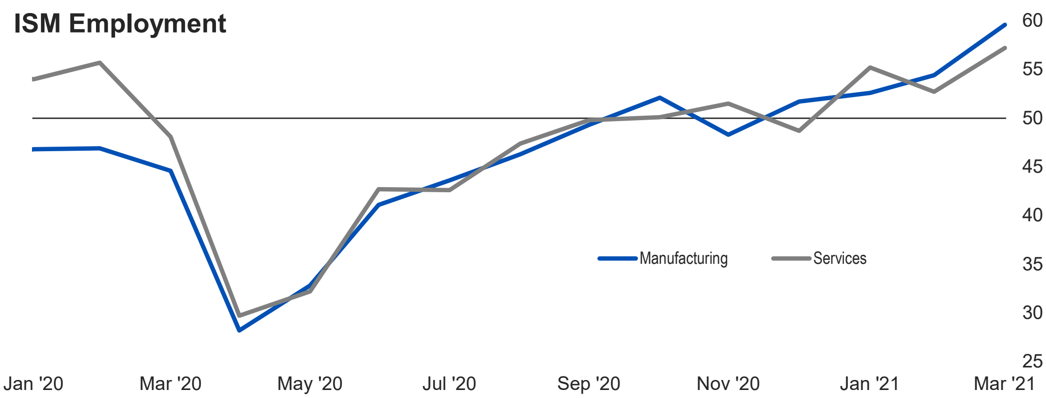
A supply chain only functions as well as its weakest link, and many links are under distress as the economy ramps back up. Consider employment levels in trucking this past year, which were at just over 1.52 million people in February 2020. After crashing to 1.43 million only two months later, truck transportation as of this March employs 1.48 million people — a rebound from its trough in April 2020, but still 40,000 short of before the pandemic. With fewer truck drivers, firms are waiting longer to get intermediate goods and ship finished products to consumers.



With current demand outpacing supply, manufacturers and service firms have reported raising their prices, but with an emphasis on *temporary* increases. With difficulty meeting demand, one might wonder why firms have not decided to raise prices even more in order to clear their markets, and for the longer term, instead of adding to their backlogs.

The answer lies in firms' expectations for the medium-run resolution of supply-side issues and sustained economic growth. If producers expected input shortages to be a permanent change, they would increase final product prices to reflect higher total production costs. But with the expectation that supply chains are merely in an adjustment period, firms are instead taking orders now to improve cash flow and add orders to their backlogs. After all, a firm that is short on chemicals due to Texas's Big Freeze in February won't get the needed chemicals any faster if they raise prices.

The struggle to meet surging demand now is coupled with expectations for economic growth *in the future*. With the stunted and uncertain economy of the past year increasingly in the rear view mirror, firms are more confident a stronger economy is here to stay. The employment component in Manufacturing ISM jumped to 59.6 from 54.4, the second-highest reading in nearly a decade. The same component in the Services ISM jumped 4.5 points to 57.2. The hiring and firing of workers is a costly process, and these above-50 values show that companies are making plans based on more confident expectations for sustained higher growth.



Source: Institute for Supply Management

The NFIB surveys a different mix of companies, focusing on small businesses, but its index corroborates the story in the ISMs. The plans for hiring subcomponent has grown steadily over the last three months from 17 in January to 22 in March. Additionally, firms surveyed in the NFIB are experiencing difficulty coordinating hiring quick enough to fill capacity, with the "Job Openings Hard to Fill" index jumping from 32 in December to 42 in March.

The Business Roundtable survey, taken mostly in the second half of February, indicated similar optimism. The plans for hiring subcomponent increased by 30 points from Q4-20, coupled with a 16 point increase in the subcomponent regarding plans to invest more in the next six months. CEO expectations for 2021 GDP growth grew 1.8 percentage points in the Q1 survey, to 3.7%.

All of this suggests that firms are expecting supply chain issues to be temporary and are making decisions based on expectations for a stronger economy in the future. This will lead to a tempering of price increases related to short-term resource constraints and stronger employment growth.

– Will Compernolle, Senior Economist

The Week Ahead

This Week's Numbers

			CONSENSUS			
		PRIOR	HIGH	LOW	MEDIAN	**FHNF**
Monday, April 12	Monthly Budget Statement - Mar	-$310.9b	--	--	--	**--**
Tuesday, April 13	NFIB Small Business Optimism - Mar	95.8	99.0	97.0	98.0	**97.0**
	CPI MoM - Mar	0.4%	0.7%	0.4%	0.5%	**0.6%**
	CPI YoY - Mar	1.7%	2.7%	2.3%	2.5%	**2.6%**
	CPI Ex Food and Energy MoM - Mar	0.1%	0.3%	0.1%	0.2%	**0.2%**
	CPI Ex Food and Energy YoY - Mar	1.3%	1.6%	1.4%	1.5%	**1.5%**
	Real Avg Hourly Earning YoY - Mar	3.4%	--	--	--	**1.4%**
Wednesday April 14	Import Price Index MoM - Mar	1.3%	1.5%	0.6%	1.0%	**1.0%**
	Import Price Index YoY - Mar	3.0%	--	--	--	**3.0%**
	Imports ex Petroleum MoM - Mar	0.5%	--	--	--	**0.4%**
	Export Price Index MoM - Mar	1.6%	1.0%	0.8%	0.9%	**1.0%**
	Export Price Index YoY - Mar	5.2%	--	--	--	**5.5%**
	U.S. Federal Reserve Releases Beige Book					
Thursday, April 15	Initial Jobless Claims	744k	725k	650k	700k	**700k**
	Continuing Claims	3,734k	--	--	--	**3,800k**
	Retail Sales Advance MoM - Mar	-3.0%	12.0%	3.5%	5.4%	**6.0%**
	Retail Sales Ex Auto - Mar	-2.7%	11.1%	1.7%	4.8%	**5.0%**
	Retail Sales Ex Auto and Gas - Mar	-3.3%	11.4%	2.7%	6.3%	**6.5%**
	Retail Sales Control Group - Mar	-3.5%	11.3%	4.0%	6.9%	**7.0%**
	Philadelphia Fed Business Outlook					
	Industrial Production MoM - Mar	-2.2%	3.6%	0.1%	2.6%	**2.5%**
	Manufacturing (SIC) Production - Mar	-3.1%	4.8%	2.1%	4.0%	**4.0%**
	Capacity Utilization - Mar	73.8%	77.0%	74.1%	75.6%	**75.9%**
	Business Inventories - Feb	0.3%	0.6%	0.3%	0.5%	**0.5%**
	NAHB Housing Market Index - Apr	82.0	85.0	79.0	83.5	**85.0**
	Total Net TIC Flows - Feb	$106.3b	--	--	--	**--**
Friday, April 16	Housing Starts - Mar	1,421k	1,760k	1,492k	1,606k	**1,520k**
	Housing Starts MoM - Mar	-10.3%	23.9%	5.0%	13.0%	**7.0%**
	Building Permits - Mar	1,720k	1,840k	1,691k	1,750k	**1,772k**
	Building Permits MoM - Mar	-8.8%	7.0%	-1.7%	1.7%	**3.0%**
	U. of Mich. Sentiment - Apr p	84.9	92.5	85.0	89.0	**85.0**
	U. of Mich. 1 Yr Inflation - Apr p	3.1%	--	--	--	**3.2%**
	U. of Mich. 5-10 Yr Inflation - Apr p	2.8%	--	--	--	**2.7%**

Review and Preview

This week's economic releases started with Monday's big services ISM and ended with Friday's 1.0% PPI increase, which was double the consensus forecast. The PPI was boosted by surging goods prices. A still unexplained Bureau of Labor Statistics' website crash, which delayed the release by 20-minutes, drew attention to it, sparking a sell-off in stocks and bonds that later corrected. The headline PPI rose 4.2% year-on-year, while the core rose 3.1%. Not all of this inflation will show up in next week's CPI, but the CPI consensus is 2.5%, which would be the highest since 2018.

From Washington, Fed minutes offered little more than further confirmation the Fed is comfortable waiting for inflation and full employment to materialize. The White House is taking a very different approach with fiscal stimulus. The March stimulus is not yet visible in economic data, except perhaps a little of today's PPI rise, and the White House continues to push its $2 trillion infrastructure plan. Today, President Biden unveiled his 2022 budget, which includes a $1.52 trillion increase in social spending, with the caveat there will be a further social services spending request, part II of the long-term stimulus, coming soon.

Next week's economic calendar is packed. In addition to the March CPI, there are March retail sales and housing starts as well as the preliminary April University of Michigan sentiment survey. We expect the general tone will reinforce the strong growth, frothy inflation message conveyed by this week's data.

– Chris Low, Chief Economist