TrendMacro

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TRENDMACRO LIVE!

On the April Jobs Report

Friday, May 7, 2021
Donald Luskin

Last year we were "running out of workers." Now we are running out of willing workers.

This morning's April Employment Situation report with 266,000 net payrolls was a big miss versus the consensus for 1 million, all the more so with the bar having been lowered with a 78,000 net negative revision to the prior two months. It is less of a miss versus our model based on an array of contemporaneous labor market indicators, which was calling for 550,000.

- *It's tempting to blame this on the latest round of stimulus and enhanced unemployment benefits, which reduce the incentive for the unemployed to seek work, and even creates incentives among some lower-wage service workers to temporarily quit working* (see "On the March Jobs Report" April 2, 2021).
- Some evidence: *Employment is off the 2020 peak by 7.5 million, but there are 7.4 million job openings*. The job vacancy rate is 4.9%, half-a-percent higher than where it was at the peak of the prior business cycle expansion in 2020 when everyone was worried we were running out of workers (see "Data Insights: Jobs" May 7, 2021). Okay, the unemployment rate was 3.5% then, so maybe we were. But today the unemployment rate ticked up to 6.1% from 6.0%. No one is going to say that's anywhere near "full employment." *It would seem that today we are running out of willing workers.*
- *We can't blame the April miss on pandemic conditions, which continue to substantively ease*. The share of persons outside the labor force who couldn't seek work due to coronavirus fell to 2.8% from 3.7%. The share of the population unable to work due to coronavirus fell to 3.6% from 4.4% (please see the chart on the following page). And the biggest payroll gains were in the

Update to strategic view

US MACRO: A huge miss versus the consensus, but only a large miss versus contemporaneous labor market indicators. This is not explained by pandemic conditions, which continue to ease substantively. The latest round of jobless benefits and stimulus payments reduces incentives to return to work and gives some low-wage workers incentives to temporarily quit. This explains why the vacancy rate is at 4.9% (consistent with a robust expansion), while the unemployment rate ticked up to 6.1% (consistent with recession). Employers' desperation for workers is why average hourly earnings across the whole labor market increased by a sharp 0.7% month-on-month, even as most of the new jobs were in the low-wage leisure sector. This highlights the inflation risk of augmenting demand with higher wages while supply is crippled by a labor shortage.

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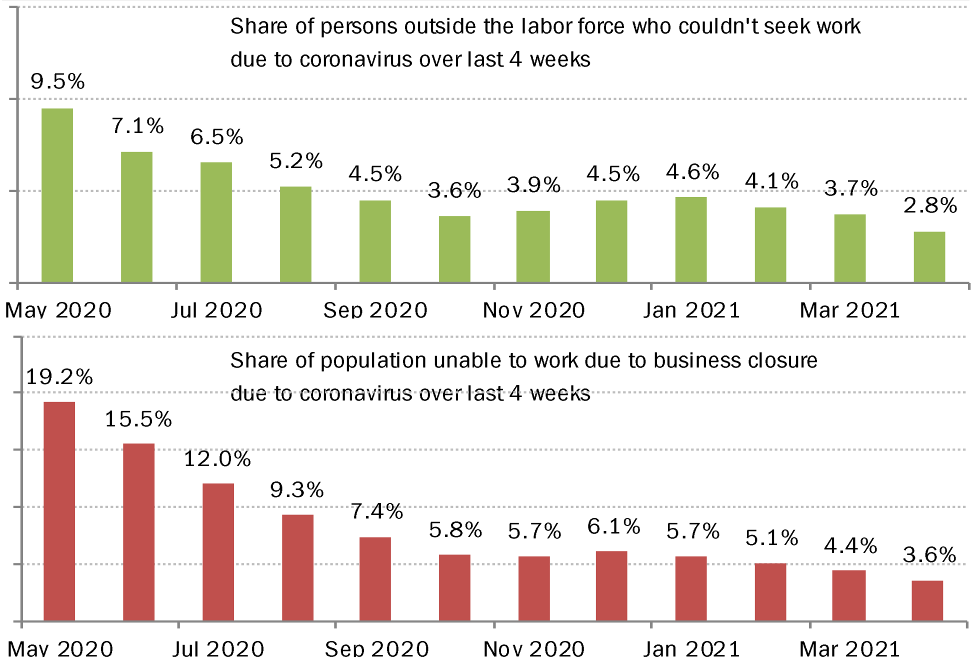
Labor market dislocations due to coronavirus



Source: BLS, TrendMacro calculations

reopening-sensitive leisure sector.

- _To attain even April's disappointing gains, it seems employers have had to bid up wage compensation. Average hourly earnings rose 0.7% in April – an 8.4% annual rate_. Considering that more than all the net job gains occurred in the low-wage leisure sector, this huge leap in *average* earnings across the entire labor market points to how desperate employers are for scarce workers.
- _This should give some traction to inflation narratives – in which the demand side is augmented by these higher wages, and the supply side is crippled by the inability to hire._ This mismatch will lead to a period of rising prices, but lasting inflation has durable monetary origins we believe are absent today.
- Inflation concerns aside, it's working, at least directionally: the labor force did expand by 430,000 new entrants, 328,000 of whom were immediately employed. The labor force participation rate rose to 61.7% from 61.5%, the largest one-month jump since August.
- But with employment 7.5 million below last year's pre-pandemic levels, and job openings at 7.4 million and growing daily as the economy reopens, we should be seeing better jobs growth. We think there will be no more "stimulus" bills, in which case all these frictions against employment will burn off in a matter of months. The economy will still boom this year. But without those frictions it could boom harder and sooner.

Bottom line

A huge miss versus the consensus, but only a large miss versus contemporaneous labor market indicators. This is not explained by

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