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TRENDMACRO LIVE!

On the June Jobs Report

Friday, July 2, 2021

Donald Luskin

A new wrinkle: workers are quitting to get the "new worker premium" elsewhere.

The net gain of 850,000 payrolls in *this morning's June Employment Situation report* doesn't feel right. We don't want to be one of those people who won't take yes for an answer where good economic news is concerned, but…

- It was a big beat versus consensus expectations for 720,000, with no significant revisions to prior months to complicate the comparison. It was an even bigger beat versus the array of other contemporaneous labor market statistics that had indicated 525,000 payrolls.
- It is contradicted starkly by the "Household Survey" data showing a contraction of 18,000 employed, and an increase of 168,000 unemployed. With 151,000 entering the labor force, this is why the unemployment rate was a huge miss versus the consensus for 5.6%, rising from 5.8% to 5.9% (is was "little changed" as the Bureau of Labor Statistics put it gently, neglecting to mention the direction).
- *It's too soon for the June and July roll-off of enhanced unemployment benefits to have made any difference in the half of US states that opted out of the federal program* (in the four states where benefits ended earliest, it was concurrent with the with week in which the BLS gathered their statistics for June). So, in a now-familiar pattern, we see the number of adults in the total population saying they were unable to work because of pandemic-related business closures fall by 1.698 million, yet in the same survey 18,000 fewer were employed (see "Data Insights: Jobs" July 2, 2021).

- *And here's a new wrinkle*. It's obvious why paying people more not to work than to work keeps them from seeking work. But the

Update to strategic view

US MACRO: A big beat in payrolls, but a big miss for the unemployment rate. It's too soon for enhanced unemployment benefits to have rolled off in the half of US states that have opted out of the federal program. The "Household Survey" reported a small drop in total employment, even though it also reported that 1.7 million persons were no longer unable to work due to pandemic-related business closures. Hourly earnings continue to rise sharply as employers bid for scarce labor, though less sharply than in prior months. A new dynamic has arisen, in which a near-record number of employed workers quit to find other work, presumably in response to higher earnings offered to new employees. If all the growth in average earnings is all explained by new employees, the "new worker premium" is so great that relatively labor-intensive low-productivity sectors like Leisure and Hospitality, hardest hit by the lockdowns, can't compete.

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resulting scarcity of labor versus an abundance of job openings has, at the same time, created a perverse form of dynamism: 164,000 workers voluntarily left their jobs in June to find new employment, bringing the total to 942,000 (a level seen rarely, and not for almost five years).

- *Dynamism is good – we want to see workers aspire to more productive and more remunerative jobs. We just would rather it were triggered endogenously by economic growth, not exogenously by government-imposed pay dynamics.*
- *Those dynamics seem to be continuing to drive a bidding war among employers, but it may be cooling a bit.* Average hourly earnings (private sector) grew month-over-month at a 4.0% annual rate. This suggests some reduction in employers' willingness to pay virtually anything for labor, having fallen from 5.3% in May and 8.3% in April.
- Remember, any such growth is reported as an average across all employed persons – presumably, to a large extent higher wages are offered to attract new workers without necessarily extending them to existing ones. *Making the stylized assumption that all the wage increases went only to new hires, that would mean in June new workers earned $47.44 per hour, while the average in May (before they arrived) had been $30.30 – a 56% "new worker premium").*
- In this environment, the lower-productivity labor-intensive Leisure and Hospitality sector – hit the hardest by pandemic lockdowns – must find it very difficult to compete. Here our stylized statistic for new worker hourly pay was $25.78 per hour versus an $18.05 average (a 43% "new worker premium"). But that has to compete with the more productive Manufacturing Sector, for example, where new worker pay was $136.29 versus a $29.53 average (an admittedly absurd 362% premium).
- *No wonder people are quitting in near-record numbers in order to become "new employees" somewhere else.*

Bottom line

A big beat in payrolls, but a big miss for the unemployment rate. It's too soon for enhanced unemployment benefits to have rolled off in the half of US states that have opted out of the federal program. The "Household Survey" reported a small drop in total employment, even though it also reported that 1.7 million persons were no longer unable to work due to pandemic-related business closures. Hourly earnings continue to rise sharply as employers bid for scarce labor, though less sharply than in prior months. A new dynamic has arisen, in which a near-record number of employed workers quit to find other work, presumably in response to higher earnings offered to new employees. If all the growth in average earnings is all explained by new employees, the "new worker premium" is so great that relatively labor-intensive low-productivity sectors like Leisure and Hospitality, hardest hit by the lockdowns, can't compete.

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