



MORNING BRIEFING

June 12, 2019

Positive Spins

See the [collection](#) of the individual charts linked below.

(1) Is the problem the demand for or the supply of labor? (2) Finally running out of qualified workers. (3) Job openings exceed unemployed workers by record amount. (4) Lots more job openings in cyclical industries, including durables manufacturing and construction. (5) Fewer openings in retail. (6) Labor force shrinking again as Baby Boomers retire faster than younger adults seek jobs. (7) Lots of help wanted at small businesses. (8) Counting on productivity. (9) No recession in latest C&I loans. (10) Fed survey finds that most Americans are comfortable.

US Economy I: Labor Slacking Off? Debbie and I aren't convinced that the demand for labor was hard hit by Trump's escalating trade war during May. Granted, payroll employment was weak last month, rising just 75,000 ([Fig. 1](#)). That compares poorly to the average gains of 186,250 per month during the first four months of this year and 223,250 per month during 2018.

The problem may be that all the anecdotal evidence of labor shortages is actually constraining the growth of payrolls. Perhaps we really are finally running out of workers, or at least those with the appropriate skills and geographic proximity to fill job openings. Consider the following:

(1) *Openings*. There certainly are plenty of job openings. They totaled 7.45 million during April, exceeding the number of unemployed workers by a record 1.6 million ([Fig. 2](#)).

(2) *The most*. Here were the industries with the most job openings during April: professional and business services (1.241 million), health care and social assistance (1.244 million), and leisure & hospitality (1.004 million) ([Fig. 3](#)). Those are roughly the same levels of openings as a year ago, when the job market was also widely deemed to be tight.

(3) *The biggest*. The biggest increases in job openings compared to a year ago have been in some of the most cyclical industries: construction (404,000, up from 258,000), durable goods manufacturing (322,000 up from 288,000), state & local government excluding education (359,000, up from 339,000), transportation, warehousing, & utilities (373,000, up from 348,000), and financial services (365,000, up from 328,000) ([Fig. 4](#)).

(4) *The least and the one big loser*. Interestingly, neither mining and logging (33,000) nor information technology (131,000) is looking for very many workers. Job openings in retail trade fell from 1.032 million a year ago to 837,000 during April ([Fig. 5](#)).

(5) *Labor force*. Last year, the labor force increased 217,000 per month on average ([Fig. 6](#)). During the first five months of this year, it is down 119,000 per month on average. This must be exacerbating labor shortages.

(6) *NILFs*. The problem is that senior Baby Boomers (65 years old and older) are retiring and dropping

out of the labor market faster than 25- to 64-year-olds are entering the labor market, while most members of the 16-24 cohort are still in school ([Fig. 7](#)).

Over the 12 months through May, the total number of people not in the labor force (NILFs) increased 428,000, with senior NILFs up 1.1 million, younger adult NILFs down 137,000, and student NILFs down 440,000.

(7) *Small business owners*. May's NFIB small business survey was released yesterday. The [report](#) shows that the demand for labor by small business owners remains strong. Last month, 38.0% said that they have job openings, which continues the readings in record-high territory ([Fig. 8](#)). The net percentage increasing hiring over the next three months was 21.0%, near previous cyclical highs. However, the percentage complaining of few or no qualified applicants for their job openings was 54.0%.

Twenty-five percent of all owners cited the difficulty of finding qualified workers as their Single Most Important Business Problem, equaling the record high. Fourteen percent of all firms reported using temporary workers. In construction, 59% had openings, and 93% of those openings were for skilled workers. No wonder that construction payrolls rose only 4,000 during May.

The NFIB survey's job-openings series is highly inversely correlated with both the national unemployment rate (at just 3.6% in May) and the percentage of respondents who say that jobs are hard to get in the Consumer Confidence survey (at only 10.9% in May) ([Fig. 9](#) and [Fig. 10](#)). All these indicators portray a labor market that's been very tight through May, when payrolls rose much less than expected.

(8) *Productivity to the rescue?* Does it really matter whether payroll employment growth slows because we've run out of workers or because demand for workers is weakening? Either way, wages and salaries growth will slow and depress consumer spending and GDP growth. In our opinion, better productivity growth may have started to offset the supply constraints that are slowing payroll gains. Businesses will still have demand for their goods and services and will do what they can to produce more by boosting productivity.

US Economy II: Are Banks Lending? The current economic expansion, which will turn 10 years old next month, will also be the longest on record. Along the way, recession watchers from time to time have warned that slowdowns in business loans signaled an impending recession. They've also bemoaned that commercial banks have been sitting on lots of excess reserves, which means they haven't been making enough loans to boost economic growth, in their opinion.

We think the pessimists have been consistently alarmist in this regard. Consider the following:

(1) *Short-term business credit*. For starters, commercial and industrial (C&I) loans at all US commercial banks rose to a record high of \$2.4 trillion during the 5/29 week ([Fig. 11](#)). This series is up \$1.2 trillion from its cyclical low during the week of 7/21/2010. Including nonfinancial commercial paper (NFCP), short-term business credit rose to a record \$2.7 trillion at the end of May.

(2) *Nonfinancial commercial paper*. By the way, NFCP took a dive late last year, dropping by \$64 billion from the 11/21/2018 week through the 1/2 week of this year ([Fig. 12](#)). It has rebounded \$90 billion since then through the first week of June.

This might very well explain the so-called "Powell Pivot," when Fed Chairman Jerome Powell changed from a hawk during October 2018 to a dove at the start of this year. His hawkish comments caused

stock prices to plummet and triggered a credit crunch, as evidenced by NFCP. He quickly changed his tune, which triggered rebounds in stocks prices and opened up the credit markets.

(3) *Credit cycle*. The growth rate in C&I loans is a very good coincident indicator of the business cycle ([Fig. 13](#)). That makes sense, since the economy tends to expand when credit is available and to contract when it isn't.

The growth rate of C&I loans is currently signaling economic growth. Following the growth recession of 2015 and 2016, it rebounded from a 12/13/2017 low of 0.5% y/y to a recent high of 10.7% during the 3/20 week of this year. It was down to 6.8% during the 5/29 week. So it is still signaling economic growth.

(4) *For worriers*. If you are looking for something to worry about, then worry about the widening spread between short-term business credit and business inventories ([Fig. 14](#)). During April, the former exceeded the latter by a record \$660 billion. That may be a sign of speculative excess, where more and more short-term business credit isn't secured by inventories.

US Economy III: Americans Mostly Comfortable. The Fed's latest [Report on the Economic Well-Being of U.S. Households in 2018](#) was released on 5/23. The report "describes the responses to the sixth annual Survey of Household Economics and Decisionmaking (SHED). The goal of the survey is to share the wide range of financial challenges and opportunities facing individuals and households in the United States. For many, the findings are positive; however, areas of distress and fragility remain."

Like most surveys, this one is subjective, but it provides some insights into how Americans are doing. Our primary takeaway from the 64-page report is that most US households are similarly well off financially or slightly better off than in 2017 and substantially better off than in 2013, when the survey began. In line with 2017 results, 75% of adults surveyed in 2018 said that financially they were either "doing okay" or "living comfortably," a result that was 12ppts higher than in 2013. That's not to say that no Americans are suffering, but most are doing just fine. Here's more:

(1) *Most who want a job have one*. According to the report, just one in 10 adults (10%) are not working but want to work. But about 6% of adults who say they want a job aren't actively trying to get one. Only 4% of adults are not working yet desire to work and applied for a job in the past year, which correlates with the 3.8% unemployment rate in 2018. In other words, most adults who want a job have one!

Nevertheless, it is concerning that 24% of prime-age adults in 2018 did not work in the prior month. About half of them want a job but have reasons for not looking for a job, including health limitations. However, some are just discouraged. As expected, prime-age women not working often cite child care or other family obligations as a reason more so than men. Older adults not working are more likely to be retired. And younger ones are in school or training.

(2) *Most could cover a financial emergency or cope*. Survey results showed that a sizable share of adults would have trouble handling a \$400 emergency expense, but more are less financially vulnerable than they were in recent years. Of the adults surveyed, 61% of adults said they would "cover it with cash, savings, or a credit card paid off at the next statement," 27% would "borrow or sell something to pay for the expense," and 12% would "not be able to cover the expense at all." The good news is that those who self-reported the ability to cover it increased by 2ppts from 2017 and by 11ppts from 2013.

Interestingly, if faced with a larger unexpected expense, like a job loss, 70% of adults said that they could access savings by borrowing or selling assets. Other coping strategies to deal with unwelcome

financial surprises include accessing familial support or engaging in gig work. Three in 10 adults picked up at least one form of gig work in the month before responding to the survey, spending a median of five hours on such work.

(3) *For most, medical surprises not life or death.* One eye-catching statistic in the report is that 24% of adults skipped necessary medical care in 2018 because they were unable to afford the cost. But that's compared to a higher 32% during 2013. The most commonly skipped medical expense was dental care. That may make life more painful for some Americans, but it's not quite the same thing as opting out of life-saving medical care.

(4) *Most are satisfied at home and live with family.* Most adults surveyed are satisfied with their housing and neighborhood: 80% of adults living in middle- and upper-income neighborhoods and 60% living in low- and moderate-income neighborhoods are satisfied. While singledom seems to be on the rise, just 15% of adults are living alone, according to the survey, while half live in a household with their nuclear family alone and the remainder live in other less traditional living arrangements.

In 2018, 64% of adults are homeowners, 27% are renters, and 9% have another housing arrangement. Homeownership increases with age; the majority of adults over 30 are homeowners. For many of those who rent, the rent is onerous: More than 7 in 10 low-income renters spend more than 30% of their monthly income on rent.

(5) *Not that many 30-somethings are living with their parents.* Considering how expensive rent is, it's not that surprising that most adults under age 25 live with their parents. Meanwhile, just one-quarter of adults in their late 20s and about 1 in 10 in their 30s live with their parents. Many of those in their late 20s are doing so to save money, while about one-third of those in their 30s do so to care for a family member or friend in the household.

(6) *Most are current on student loans.* Forty-three percent of those who attended college have taken on some form of debt to finance their education, according to the report. Most student loan borrowers are "current on their payments or have successfully paid off their loans." Two in ten adults with their own student debt are behind on payments. The most likely to be behind are those who did not complete their education! Counterintuitively, those with more debt were not likely to be more behind because earning power generally rises with debt levels.

(7) *Most older folks are prepared to retire.* One scary salient statistic is that one-quarter of non-retired adults have no retirement savings or pension, while 36% of non-retired adults think that their retirement saving is on track. However, those without retirement savings are young more likely than not, as "preparedness for retirement increases with age." Just 13% of the non-retired respondents aged 60 or older had no retirement savings or pension.

CALENDARS

US. Wed: Headline & Core CPI 1.9%/2.1% y/y, MBA Mortgage Applications, Monthly Budget Statement, DOE Crude Oil Inventories. **Thurs:** Jobless Claims 215k, Import Prices Headline & Ex Petroleum -0.3%/-0.1%, EIA Natural Gas Report. (DailyFX estimates)

Global. Wed: China CPI & PPI 2.7%/0.6% y/y, Draghi, Guindos. **Thurs:** Eurozone Industrial Production -0.5%/m/-0.5%/y/y, Germany CPI 0.2%/m/1.4%/y/y, Australia Employment Change & Unemployment Rate 16k/5.1%. (DailyFX estimates)

STRATEGY INDICATORS

S&P/Russell LargeCaps & SMidCaps ([link](#)): All of these price indexes are up so far in 2019, but only the SmallCap indexes are still in a correction. Here's how they rank ytd through Monday's close, along with their percentage changes since LargeCap's record highs in recent weeks and SMidCap's in late August: Russell LargeCap 1000 (15.5% ytd, -2.1% from record high), S&P LargeCap 500 (15.2, -2.3), S&P MidCap 400 (14.4, -7.2), Russell SmallCap 2000 (13.0, -12.5), and S&P SmallCap 600 (9.7, -15.6). Forward earnings rose for all three indexes for a second week as LargeCap's was higher for an eighth straight week and at a record high for the first time since late October. The recent trend has been positive: LargeCap's has risen during 14 of the past 17 weeks; MidCap's 10 of the past 13 weeks; and SmallCap's eight of the past 11 weeks. While LargeCap's forward EPS is at a record high, MidCap's and SmallCap's are 1.2% and 6.3% below their mid-October highs. During October, analysts had been expecting double-digit percentage earnings growth for 2019. While those forecasts have dropped sharply since then, they are stabilizing now. Here are the latest consensus earnings growth rates for 2018, 2019, and 2020: S&P LargeCap 500 (22.7%, 3.0%, 11.8%), S&P MidCap 400 (22.7, 1.6, 14.0), and S&P SmallCap 600 (22.4, 2.8, 18.6).

S&P 500 Growth vs Value ([link](#)): The S&P 500 Growth index is up 17.5% ytd through Monday's close, ahead of the 12.6% gain for its Value counterpart. Growth has risen 25.8% since the bottom on 12/24, ahead of the 19.4% gain for Value. Both of these indexes are out of a correction now: Growth is now 1.3% below its 4/30 record high, while Value is 5.8% below its record high more than 17 months ago on 1/26/18. Since the election in late 2016, Growth's 47.9% gain is more than double the 20.9% increase logged by Value. Looking at the fundamentals, Growth is expected to deliver higher revenue growth (STRG) and earnings growth (STEG) than Value over the next 12 months. Specifically, 8.0% STRG and 8.9% STEG are projected for Growth, respectively, versus 4.2% and 5.8% for Value. Prior to the selloff in February 2018, Growth's P/E of 21.8 on 1/26/18 was its highest since May 2002, while Value's 16.6 on 1/3/18 was its highest since April 2002. Through Monday, Growth's P/E was back up to 21.1 from its 50-month low of 15.9 on 12/24, and Value's 13.5 was up from a six-year low of 11.5 on 1/3 of this year. Regarding NERI, Growth's was positive in May for the first time in six months as it improved to 4.1% from -0.8%. That compares to a 25-month low of -4.4% in February and a record high of 22.3% in March 2018. Value's NERI was negative in May for a seventh month, but up to a six-month high of -1.5% from -6.7%; that compares to a 34-month low of -9.8% in February and a record high of 21.2% in March 2018. The Tax Cuts and Jobs Act (TCJA) sharply boosted the consensus forward earnings estimates and the forward profit margin for both Growth and Value, but Growth's margin is falling now. Growth's forward profit margin of 15.9% is up from 14.4% prior to the TCJA's passage, but down from its record high of 16.7% during mid-September. Value's forward profit margin of 10.3% is down from a record high of 10.5% in December, but up from 9.1% prior to the TCJA.

US ECONOMIC INDICATORS

NFIB Small Business Optimism Index ([link](#)): "Optimism among small business owners has surged back to historically high levels, thanks to strong hiring, investment, and sales," said NFIB President and CEO Juanita D. Duggan. "The small business half of the economy is leading the way, taking advantage of lower taxes and fewer regulations, and reinvesting in their businesses, their employees, and the economy as a whole." The Small Business Optimism Index (SBOI) rose in May for the fourth month, to 105.0, after sliding from a record high of 108.8 last August to 101.2 in January—which was the lowest since November 2016. In May, six of the 10 components rose, only one fell—expected credit conditions (to -5% from -4%)—while current (-4) and expected (2) inventories, along with current job openings (38), were unchanged, the latter near record highs. Capital spending plans (30 from 27) increased notably, along with sales expectations (23 from 20), business conditions (16 from 13), and the environment for expansion (30 from 25). Meanwhile, earnings trends (-1 from -3) remained very strong, and credit conditions (-5 from -4) very favorable, while hiring plans (21 from 20) held in record territory.

As for inflationary pressures, respondents saying they're raising their selling prices fell to a net 10%, while a net 20% plan to raise prices—the lowest percentages since December 2017 and September 2017, respectively.

GLOBAL ECONOMIC INDICATORS

Global Leading Indicators ([link](#)): In April, the OECD's composite leading indicators (CLIs)—designed to anticipate turning points in economic activity relative to trend six to nine months ahead—continued to anticipate an easing of growth momentum in most major economies, with the OECD's CLI (99.0) sinking to its lowest level since September 2009. Easing growth momentum remained the assessment for the US (98.9), Canada (98.8), Japan (99.3), and the Eurozone (99.1) as a whole—including Germany (99.0) and Italy (99.0)—while France's CLI (99.1) continues to point to stable growth momentum. Meanwhile, the UK's CLI (98.6) now points to growth momentum stabilizing, albeit around historically low levels; that represents an upgrade from easing growth momentum in prior months. However, the report notes that “large margins of error remain due to continue Brexit uncertainty.” Among the major emerging economies, stable growth momentum remains the assessment for India's (100.6) and China's (98.8) industrial sectors. It's also the assessment for those of Brazil (102.3) and Russia (99.9); however, Brazil's is a downgrade from the gaining growth momentum seen in March's report, while Russia's is an upgrade from March's “sign” of easing growth momentum.

Contact us by [email](#) or call 480-664-1333.

Ed Yardeni, President & Chief Investment Strategist, 516-972-7683
Debbie Johnson, Chief Economist, 480-664-1333
Joe Abbott, Chief Quantitative Strategist, 732-497-5306
Melissa Tagg, Director of Research Projects & Operations, 516-782-9967
Mali Quintana, Senior Economist, 480-664-1333
Jackie Doherty, Contributing Editor, 917-328-6848
Valerie de la Rue, Director of Institutional Sales, 516-277-2432
Mary Fanslau, Manager of Client Services, 480-664-1333
Sandy Cohan, Senior Editor, 570-775-6823

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