



MORNING BRIEFING

February 10, 2021

Help Wanted

Check out the accompanying [chart collection](#).

(1) Summers trashes Biden's winter plan. (2) Providing disincentive to work. (3) Not enough workers with the right skills? (4) Private-sector wages and salaries at record high. (5) Our Earned Income Proxy was strong in January. (6) Wages rising at faster pace. (7) Payroll tax receipts at record high. (8) Small businesses are hiring, but can't find qualified workers. (9) Job postings back to pre-pandemic level. (10) Ratio of unemployment to job openings drops. (11) Quits jump reflecting labor force dropouts rather than job switchers. (12) Biden's plan is too stimulating. (13) An update on the major central bankers.

US Labor Market: Subsidizing Unemployment? Yesterday, I reviewed the recent *Washington Post* [op-ed](#) by Larry Summers in which he trashed Biden's American Rescue Plan as too stimulative and too inflationary. He also strongly implied that the plan included overly generous unemployment benefits that would discourage the unemployed from taking jobs. In fact, there is mounting evidence that the unemployment benefits provided by the CARES (Coronavirus Aid, Relief, and Economic Security) Act have been doing the same.

There actually seem to be lots of job openings, but fewer people willing to take them. That would explain why wages have been rising at a faster pace in recent months. At the start of the pandemic, many low-wage workers lost their jobs, while most high-wage workers could work from home. That explained the jump in average hourly earnings during March and April, for sure. But now, wages may be getting a boost from a shortage of workers. Of course, contributing to the problem may be a mismatch between the skills required for the available jobs and the skills of available workers.

This is obviously a controversial subject. Undoubtedly, there are many people who have lost their jobs and can't find new ones. It makes sense to target government stimulus support to them until the pandemic is over. Now let's see what the data have to say on this subject:

(1) *Wages and salaries*. On Monday, Debbie and I observed that despite January's disappointing payrolls report, our Earned Income Proxy (EIP) for wages and salaries in the private sector rose 1.1% m/m and 0.6% y/y, its first positive reading since last March. It had

bottomed at -8.9% y/y last April ([Fig. 1](#)). Private-sector wages and salaries in personal income already rose to a record high during December and probably did so again in January according to our EIP!

How can this be? Payroll employment in January was still down 9.6 million y/y, with 10.1 million people still unemployed, i.e., 4.3 million more than at the start of 2020. And the labor force was down 4.3 million from a year ago. Yet private wages and salaries in personal income rose 3.2% y/y in December ([Fig. 2](#)).

(2) *Hourly wages*. The measures of hourly wages all jumped during March and April as low-wage workers bore the brunt of the job losses from the lockdowns ([Fig. 3](#)). That might still explain the solid y/y percent increases in average hourly earnings for all workers (5.4% through January), average hourly earnings for production and nonsupervisory workers (also 5.4% through January), and hourly compensation in nonfarm business (7.8% through Q4).

However, there is mounting evidence that wages may be starting to get a boost from a shortage of workers willing to take jobs, perhaps because they can make more with government unemployment benefits, as Summers suggested.

(3) *Payroll tax receipts*. Allow us to keep you in suspense while we also observe that despite the terrible numbers of unemployed workers and labor market dropouts, total payroll taxes rose to a record high of \$1.48 trillion (saar) in personal income, more than reversing its Covid-related decline and exceeding the previous record high during October 2008 by 48%! The 12-month sum of just federal payroll tax receipts rose to a record \$1.34 trillion during December, up 6.2% y/y ([Fig. 4](#)). Both had declined sharply during the Great Financial Crisis (GFC) and remained weak during the subsequent recovery.

How can this be? Perhaps many of the job losses have occurred for low-wage workers who were paid off the books in cash. In addition, unemployment income is taxable, and many beneficiaries may have elected to have the payroll taxes withheld from their checks.

(4) *Income tax receipts*. Individual income tax receipts in personal income have rebounded along with personal income and were down only 2.4% during December from last February's record high ([Fig. 5](#)). The 12-month sum of federal income tax receipts also rebounded but was still down 10.9% during December compared to the record high last March.

(5) *Small businesses*. Yesterday, the National Federation of Independent Business (NFIB) released its January survey of small business owners. Overall, it was a downbeat report, with the Small Business Optimism Index taking a dive during January ([Fig. 6](#)). Many of the small business owners in the NFIB survey reported being depressed about poor sales and higher taxes ([Fig. 7](#)).

Yet remarkably, when asked about their staffing, 33.0% of respondents said they have job openings ([Fig. 8](#)). The net percent of small businesses hiring over the next three months was 17.0% last month. The percent with few or no qualified applicants for job openings was 46.0%. All these readings are within shouting distance of their pre-pandemic peaks. They rebounded dramatically following the lockdowns. We are amazed!

(6) *Indeed*. Yesterday, *The Wall Street Journal* [reported](#), “The number of help-wanted ads returned to pre-pandemic levels in January, particularly among industries that have weathered the pandemic relatively well, a sign that hiring could pick up from its sluggish pace at the start of the year. Available jobs on job-search site Indeed were up 0.7% at the end of January from Feb. 1, 2020, according to the company’s measure of job posting trends. The number of postings to the site has grown since hitting a low in May, though the pace of new openings has slowed in recent months, Indeed said.”

(7) *JOLTS*. We saved the best for last. Yesterday’s JOLTS report for December provided plenty of jolts on developments in the labor market. JOLTS is the [Job Openings and Labor Turnover Survey](#) compiled monthly by the Bureau of Labor Statistics.

For starters, total job openings rebounded from last year’s low of 5.0 million during April to 6.6 million during December ([Fig. 9](#)). It’s up 1.4% y/y. That represents a V-shaped recovery, especially compared to the experience during and after the GFC.

The number of unemployed workers as a ratio of job openings fell to a record low of 0.81 during October 2019 ([Fig. 10](#)). It jumped to peak last year at 4.63 during April. It was back down to 1.62 during December. The conclusion is that there are more jobs available and fewer unemployed workers competing for them.

(8) *Causalities*. By pointing out the above, we don’t mean to diminish the pain and suffering experienced by lots of people on the health, financial, and economic fronts of the world war against the virus. Our labor market has too many unemployed people and too many people

who have been forced out of the labor force by the pandemic's lockdowns of schools and businesses.

On a y/y basis through January, the labor force is down 4.3 million, with women accounting for 58% of the drop. Many no doubt had to quit jobs to take care of children whose schools were operating online only. Also, many individuals in the high-risk age group may have decided to retire early, especially those in face-to-face jobs like teaching.

We can see that in the JOLTS report, where the number of quits jumped from last year's low of 1.9 million in April to 3.3 million in December ([Fig. 11](#)). The quit rate is especially high in the leisure & hospitality industry ([Fig. 12](#)). Usually quits rise during good times as people find better jobs. This time, many of the quitters may be labor force dropouts.

(9) *Bottom line.* We are inclined to agree with Summers that the government's unemployment benefits were helpful at first but now may be contributing to a shortage of workers and may continue to do so if the benefits are extended by the Biden plan. The plan is too big and too broadly stimulative and could put more upward pressure on both wages and prices.

Global Central Banks I: Uneven Recovery & Response. Nearly a year into the pandemic, the economies of the European Union (EU), Japan, and China face divergent circumstances. Renewed surges of Covid-19, continued containment measures, and vaccine delays threaten the V-shaped recoveries of Europe and Japan. China—where the virus has been contained—is the only major world economy that expanded last year.

Accordingly, the central banks of each country—the European Central Bank (ECB), the Bank of Japan (BOJ), and the People's Bank of China (PBOC)—have responded differently to the pandemic's economic effects. The ECB and BOJ view too little ease as riskier than prolonged accommodation, so in Europe and Japan monetary policy remains easy and could get easier. In contrast, the PBOC perceives asset bubbles—a result of too much liquidity built up during the pandemic—as its big challenge, so in China monetary authorities are testing tightening to cool markets down.

Fiscal policymakers are acting in kind: The European Union (EU) awaits broader stimulus measures. Japanese authorities are working on a fourth supplementary fiscal budget to save the economy. Chinese fiscal authorities, in contrast, are trying out draining market liquidity and increasing regulation in risky sectors.

Not long from now, as vaccinations proliferate around the globe, taking risk off the table will become the focus of authorities in the EU and Japan, as it is currently in China. China is a bellwether of sorts, which we'll be watching for indications of what happens when authorities unwind massive amounts of stimulus after a pandemic. Our guess is that doing so won't be easy for any country.

Global Central Banks II: Europe's Double Dip. Europe may be headed for a double-dip recession. The super-contagious Covid variant that emerged in the UK threatens Europe's economic recovery amid vaccine rollout delays and new lockdowns by national governments, according to the ECB's January [Economic Bulletin](#). The intensified virus containment measures, which may last through March, depressed economic activity last year and are continuing to do so this year. The manufacturing sector has held up so far, but not services. Inflation remains exceedingly low, aggregate demand weak, and the labor market slack.

In response, the ECB is prepared to deploy "all" of its monetary stimulus tools, and EU fiscal authorities have committed in principle to a sweeping stimulus package—but support for it is not guaranteed. Here are more details:

(1) *Everything on the table.* "We're prepared to adjust all instruments. Nothing is off the table. Nothing is off the table," ECB President Christine Lagarde repeated at her January 21 [press conference](#). Both the pace of purchases under the ECB's asset program and the tools it uses are flexible, she said. That suggest to us that the ECB could venture further into negative-interest-rate territory. Bloomberg [reported](#) on January 27 that ECB Governing Council members agree that it should highlight that possibility and that ECB research shows deposit rates could go as low as -1.0% without causing any long-term damage.

(2) *Big fiscal stimulus package iffy.* Ratification of the Next Generation EU package (NGEU) would launch €750 billion in stimulus provided jointly by EU members, or about 5.0% of the EU's GDP, as we have discussed previously. But the plan—agreed to in principle in July and adopted in December—isn't likely to result in payouts before next fall if at all. Lagarde in her press conference called upon member states to hurry up and ratify the NGEU and to deliver more fiscal aid at the national level. Only Germany and the UK have dedicated a sizable amount of their national GDP to discretionary fiscal aid, [according](#) to *Barron's*, so the broader program is needed to help needier countries.

Global Central Banks III: Japan's Severe Situation. Japan's recovery has leveled off due to the pandemic's economic effects and is "in a severe situation," according to the BOJ's January 20 and 21 [Summary of Opinions at the Monetary Policy Meeting](#). "Scarring effects" could result if consumer sentiment is further depressed. A state of pandemic emergency has been reinstated for 60% of the economy, pressuring consumption of face-to-face services. The BOJ notes: "[S]tagnant economic activity and prices could become severe and be prolonged through the tightening of public health measures and deterioration in households' and firms' sentiment." Here's more:

(1) *Deeper negative rates?* At its latest meeting, the BOJ said it "will not hesitate to take additional easing measures if necessary." The central bank expects policy interest rates to "remain at their present or lower levels." In other words, like the ECB, the BOJ could go further negative.

(2) *Fiscal policy takes front seat.* However, Kikuo Iwata—the BOJ's former deputy governor and architect of its "bazooka" monetary stimulus—sees lower interest rates as posing a potential threat to Japan's financial system. "Fiscal policy should take the front seat," he told Reuters in a February 2 [interview](#). "The only mechanism left for Japan to see inflation accelerate to 2% is aggressive fiscal spending."

Japan could consider fresh economic stimulus, including a possible fourth extra budget, said a cabinet minister on January 14, [according](#) to Reuters. During December, the government approved a third supplementary budget for the fiscal year through March to fund an additional \$708 billion of stimulus spending. That would bring the combined Covid-related stimulus to about \$3 trillion, roughly two-thirds the size of Japan's economy, noted a December 7 Reuters [article](#).

Global Central Banks IV: China's Tightening Test. Chinese officials are in the precarious situation of maintaining economic growth while reducing the region's extensive debt load to temper asset price inflation.

The PBOC is testing whether tightening by withdrawing liquidity from overnight repo markets will cool down China's bubble-prone property, debt, and equity markets. *Barron's* expects China's GDP output to jump to around 11% by the end of 2021 above its pre-pandemic level. China will return to its potential growth rate this year, with exports remaining "pretty strong," said PBOC's Governor Yi Gang on January 26, [according](#) to Bloomberg. He noted that

consumer spending is picking up and the savings rate is declining, a positive trend. Looking forward, he said, “We will keep a delicate balance between supporting the economic recovery, at the same time, preventing risk.” Here is more:

(1) *Testing tightening*. At the start of the last week of January, the PBOC withdrew liquidity from the banking system, reported Bloomberg. After causing concern that a shift to a tighter policy could be underway, the PBOC [injected](#) funds, reversing three straight days of net fund withdrawal.

The initial moves came as PBOC adviser Ma Jun warned that asset bubbles in the stock and property markets would continue to inflate if monetary policy did not reverse course. But messages from Chinese authorities have conflicted. Others have said there would be “no sudden turns” in overall policy at the Central Economic Work Conference in December, [according](#) to the *South China Morning Post* (SCMP).

(2) *Soaring debt*. After a series of high-profile credit defaults made banks less willing to lend in late 2020, the PBOC unleashed lots of liquidity, adding to the buildup in asset values, noted a February 2 Bloomberg [article](#). China’s debt soared again last year amid the pandemic, the SCMP observed. Bank for International Settlements data show a debt surge in all sectors—from 257% of GDP at year-end 2019 to 280% in June 2020.

(3) *Damming the flood*. China’s Premier Li Keqiang said on February 3 that the global economy faces “many uncertainties and destabilising factors” as it battles the pandemic, [reported](#) Reuters. To tighten controls on debt, China imposed its “three red lines guidance on selected developers after an August 2020 meeting in Beijing that occurred against a backdrop of growing debt levels, rising land prices and booming sales,” wrote UBS [analysts](#) in a report. Nevertheless, a PBOC official recently [wrote](#) that China will keep liquidity reasonably ample and maintain support for an economic recovery in 2021 but won’t resort to flood-like stimulus.

CALENDARS

US: **Wed:** Headline & Core CPI 1.5%/1.5% y/y, Wholesale Inventories 0.1%, Monthly Budget Statement, EIA Crude Oil Inventories, Powell. **Thurs:** Initial & Continuous Jobless Claims 757k/4.49m, EIA Natural Gas Storage, Fed Monetary Policy Report. (DailyFX estimates)

Global: **Wed:** Germany CPI 0.8% m/m/1.0% y/y, France Industrial Production 0.4%, Lagarde,

Panetta, Balz, Bailey, Lane. **Thurs:** Guindos, Nakamura. (DailyFX estimates)

STRATEGY INDICATORS

S&P 500 Q4 Earnings Season Monitor ([link](#)): With 60% of S&P 500 companies finished reporting revenues and earnings for Q4-2020, revenues have beaten the consensus forecast by a well-above-trend 3.3%, and earnings have beaten estimates by 18.0%. The large surprises result from a lack of financial guidance from the companies that analysts follow during an economic rebound. At the same point during the Q3 season, revenues were 2.7% above forecast and earnings beat by 19.8%. For the 299 companies that have reported through the end of Monday, aggregate y/y revenue and earnings growth and the percentage of companies reporting a positive revenue and earnings surprise have improved from their Q3 measures. The Q4 reporters so far has 2.6% y/y revenue growth and an earnings gain of 5.8%. Those results mark a big recovery from Q3-2020, which was the worst quarter since Q1-2009 during the financial crisis. A whopping 85% of the Q4 reporters so far has reported a positive earnings surprise, and 78% has beaten revenues forecasts. Slightly more companies have reported positive y/y earnings growth in Q3 (64%) than positive y/y revenue growth (62%), which bodes well for profit margins. Excluding the FAANGM stocks, the earnings surprise drops to 15.1% from 18.0% and the revenue surprise falls to 2.7% from 3.3%; earnings would decline 2.9% y/y instead of rising 5.8% and revenues would be down 1.3% instead of up 2.6%. These figures will continue to change as more Q4-2020 results are reported in the coming weeks, but we expect the positive results seen so far to continue.

US ECONOMIC INDICATORS

NFIB Small Business Optimism Index ([link](#)): The Small Business Optimism Index (SBOI) dropped further below its historical average in January. NFIB Chief Economist Bill Dunkelberg noted, "As Congress debates another stimulus package, small employers welcome any additional relief that will provide a powerful fiscal boost as their expectations for the future are uncertain. The COVID-19 pandemic continues to dictate how small businesses operate and owners are worried about future business conditions and sales." The SBOI fell in January for the third month, to an eight-month low of 95.0, from 95.9 in December and a recent peak of 104.0 in both September and October; the January reading leaves the index three points below its 47-year average of 98.0. Last month, four of the 10 components fell and only two rose, while the rest were unchanged. The biggest drag on the SBOI was a 7.0ppt (to -23% from -16%) drop in owners' expectations of better business conditions—to its lowest reading

since November 2013—with each of the remaining three negative contributions down 2ppts: sales expectations (to -6 from -4), earnings trends (-16 from -14), and current inventory (5 from 7). Giving the SBOI only a negligible boost were expected credit conditions (to -3% from -5%) and current job openings (33 from 32). Meanwhile, the Uncertainty Index continued to fall, dropping to a nine-month low of 80 in January, from its recent peak of 98 last October.

JOLTS ([link](#)): Job openings were little changed again in December, climbing 74,000 to 6.65 million, exactly matching Q4-2020's average and slightly exceeding Q3-2020's 6.49 million. Openings were as low as 5.00 million in April. There were 10.7 million unemployed in December, leaving less than two unemployed workers competing for every job opening that month. The number of hires (which includes rehired employees) dropped 396,000 in December to an eight-month low of 5.54 million, with losses occurring in the following industries: accommodation & food services (-221,000), transportation, warehousing, and utilities (-133,000), and arts, entertainment & recreation (-82,000); retail trade (+94,000) saw an increase in hiring in December. Total separations—which includes quits, layoffs, and discharges—dipped 63,000 to 5.46 million in December, up from its recent low of 4.24 million last May; it had spiked to a record high of 14.64 million last March as layoffs soared 9.6 million to a record high 11.49 million. The number of quits increased 106,000 in December and 1.4 million since bottoming in April to 3.29 million—usually a sign employees feel more confident about the employment situation, though recent quitters could be labor force dropouts. The quit rate climbed to 2.3%—back up at its rate just before the pandemic hit—while the layoff & discharges rate was at 1.3%, holding around September's record low of 1.0%; the rate was at 7.6% in March.

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