**MORNING BRIEFING**
**June 7, 2021**

## Can Washington Lift Wages?

*Check out the accompanying chart collection.*

(1) The meaning of full employment. (2) Lots of turnover in labor market. (3) Frictional unemployment reflects geographic and skills mismatches. (4) Plenty of job openings. (5) 25 states say no to federal jobless benefits. (6) Checking off Powell's check list. (7) Timing tapering. (8) Confusing employment data. (9) Another record high for wages and salaries. (10) Biden wants to raise wages, which he erroneously claims are lowest in 70 years! (11) The myth of income stagnation, again. (12) Bullish outlook for real pay in Roaring 2020s scenario. (13) Broad-based rebound in corporate earnings fuels broad-based bull market. (14) Movie review: "Mare of Easttown" (+ +).

**YRI Podcast.** In our latest 10-minute video *podcast*, Dr. Ed discusses the main points of today's *Morning Briefing*.

**US Labor Market I: The Unemployed & Chair Powell.** How many people are unemployed? That should be an easy question to answer. Friday's employment report showed that 9.3 million workers were counted as unemployed, with the unemployment rate at 5.8% (*Fig. 1* and *Fig. 2*). That's well short of full employment.

However, keep in mind that "full employment" doesn't mean zero unemployment. Even during good times, there's unemployment because there's always lots of turnover in the labor market and people are counted as unemployed when between jobs. Consider the following:

(1) *Unemployment.* So, for example, when the unemployment rate fell to a near historical low of 3.5% during September 2019, the number of people unemployed was still 5.7 million.

(2) *Turnover.* Those people might have been let go and were looking for another job. Or they might have voluntarily quit to find alternative employment. During all of 2019, which was one of the best years ever in the labor market, a total of 11.3 million people filed for unemployment insurance (*Fig. 3*). During good times when jobs are plentiful, workers are more likely to quit their jobs to look for another one. Remarkably, during March, 3.5 million workers quit their jobs, the highest reading since January 2020, just before the pandemic hit (*Fig. 4*).

(3) *Frictional unemployment.* There will always be a certain amount of "frictional unemployment" as a result of geographic and skills mismatches. Let's say that in today's labor market, this number is 5 million, about the same as it was in 2019 before the pandemic. That suggests that full employment requires that the number of unemployed drop by 4.3 million from the 9.3 million counted as unemployed in May. (We are assuming that if dropouts reenter the labor force, they are motivated to get back to work and will quickly find employment rather than add to the unemployment rolls.)

(4) *Job openings.* That's likely to happen within the next six months, in our opinion, given that there was a record 8.1 million job openings during March (*Fig. 5*). During May, a record 48.0% of small business owners reported having job openings (*Fig. 6*).

During May, the number of short-term unemployed was at 5.6 million, falling back near its pre-pandemic levels. Even the number of long-term unemployed (27 weeks or more) fell from March/April's recent high of 4.2 million to 3.8 million during May.

(5) *Benefits.* The improvement in this latter category of joblessness probably reflects the decisions in May and June of at least 25 states to prematurely cut off federal unemployment aid, which provided an extra $300 a week on top of regular state unemployment benefits. The supplemental benefit is not slated to expire until September 6, 2021.

Alabama, Alaska, Arizona, Arkansas, Florida, Georgia, Idaho, Indiana, Iowa, Maryland, Mississippi, Missouri, Montana, Nebraska, New Hampshire, North Dakota, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Utah, West Virginia, and Wyoming announced they will stop giving unemployed workers the extra federal benefits sometime over the summer, affecting about 4.2 million people.

The average state unemployment benefit is about $330 per week. With the federal supplement, Americans are receiving about $630 in weekly unemployment benefits. (For comparison's sake, that's about $32,000 annually, or roughly double the nation's minimum wage. For more, see the FoxBusiness *article* titled "These 25 states are ending $300 unemployment benefits this summer.")

(6) *Powell's check list.* The labor market may be getting back to full employment much sooner than Fed Chair Jerome Powell has been expecting. At his April 28 *press conference*, he said that before the Fed starts talking about talking about tapering he wants to see that "people are confident that it's safe to resume activities involving crowds of people." Melissa and I wonder whether Powell knows that on the Sunday of Memorial Day weekend, the

Indianapolis Motor Speedway had the largest crowd ever in the world for a sports event. The stands were packed with 135,000 fans.

Powell also suggested that one reason for the shortage of workers is the supplementary federal unemployment insurance of $300 per week. He maintained that monetary policy needed to be kept accommodative to keep the economy brisk enough for companies to rehire their workers displaced in the pandemic; but on the other hand, he acknowledged that many workers won't return until their benefits run out in September. That's now happening in at least half the states. In addition, Powell said that "one big factor" behind the disconnect between the unemployment rate and the worker shortage is that "schools aren't open yet." They are opening along with camps and childcare facilities.

(7) *More taper talk.* It's likely to be increasingly hard for Powell to claim that the economy needs to make "substantial further progress" toward achieving maximum employment before the Fed starts talking about talking about tapering.

By our count, we now have six FOMC participants ready to start talking about tapering. The latest one to indicate readiness is Cleveland Fed President Loretta Mester. Last Friday on CNBC, shortly after the Labor Department released what she described as "a solid employment report, she said, "We're going to have discussions about our stance of policy overall, including our asset-purchase programs, and including our interest rates." On the other hand, New York Fed President John Williams said Thursday to Yahoo Finance that "we're still quite a ways off" from winding down the program.

We expect that the FOMC will start talking about tapering at the June 15-16 meeting and actually start tapering after the July 27-28 meeting. We may be jumping the gun. If so, then tapering would probably start after the September 21-22 meeting. However, we expect that June's employment report, which will be reported in early July, will be very strong and that the inflation reports for both May and June, which will be released before the July meeting, could be higher than expected.

**US Labor Market II: Lots of Crosscurrents.** There are help-wanted signs everywhere. Yet reports for both April and May payroll employment released by the Bureau of Labor Statistics (BLS) were weaker than expected. Why aren't the unemployed jumping to fill all the open positions? In last Wednesday's *Morning Briefing*, Melissa and I reviewed the most likely explanations, including government unemployment benefits, retiring seniors, and childcare challenges.

Becky Frankiewicz, the president of Manpower Group, Inc., observes “a trend we have been tracking for some time—employees are acting like consumers in how they are consuming work—seeking flexibility, competitive pay and fast decisions. Employers need to get creative to attract talent in this market—and they need to hold onto the workers they have with both hands.”

Let’s have a closer look at the latest labor market data:

(1) *ADP vs BLS.* According to ADP, private-sector payrolls rose 1.6 million during April and May, while the comparable series reported by the BLS rose half that at 837,000 (*Fig. 7*). The two series closely tracked one another until mid-2020. They’ve diverged subsequently.

(2) *EIP.* During May, payroll employment was still 5.0% below its record high during February 2020, yet our Earned Income Proxy (EIP) for private wages and salaries rose 1.0% m/m and 13.2% y/y to yet another record high (*Fig. 8*). The EIP has been rising in record-high territory since March, and the actual series for wages and salaries has been doing the same since November. How is that possible?

People are working longer hours and getting paid more per hour. Prior to the pandemic, average weekly hours in private industries fluctuated around 34.4. Over the past few months, it’s been around 34.9. That might be because many people are commuting less and working longer hours from home. Meanwhile, average hourly earnings (AHE) rose a solid 0.5% m/m during May to another record high.

**US Labor Market III: Labor & President Biden.** On Thursday, May 27, President Joe Biden lashed out at critics of his economic plans. He flatly rejected the notion that his policies are causing problems in the labor market. In effect, he said that if employers paid their workers more, they would find more of them. “When it comes to the economy we’re building, rising wages aren’t a bug, they’re a feature,” he said. He went on to renew his call for Congress to raise the federal minimum wage to $15 an hour. “A lot of companies have done extremely well in this crisis, and good for them,” he said. “The simple fact is, though, corporate profits are the highest they’ve been in decades. Workers’ pay is at the lowest it’s been in 70 years. We have more than ample room to raise worker pay without raising customer prices.”

Like most past presidents, Biden claims that his policies are creating jobs. “We’ve had record job creation, we’re seeing record economic growth, we’re creating a new paradigm. One that rewards work—the working people in this nation, not just those at the top.” Unlike most past presidents, Biden also thinks his policies can boost wages.

Biden may be right about that to the extent that employers are forced to offer higher wages to compete with generous unemployment benefits. He may or may not succeed in raising the minimum wage by law. He certainly is the most pro-union US president ever.

In any case, the President's goal should be to increase workers' standards of living by raising their purchasing power. That can happen only if nominal wages rise faster than consumer prices. And that can happen only if productivity rises because real wages are determined by productivity, not by politicians or unions. However, more often than not, politicians and unions create impediments that weigh on productivity and boost labor costs. The result can be a wage-price spiral with prices rising faster than wages. The unintended consequence is that real wages decline along with productivity.

Consider the following:

(1) *Law of economics.* In a market economy, competitive forces tend to cause labor's marginal productivity to be commensurate with inflation-adjusted pay. The motto of many labor organizers in the past and now is "A fair day's wage for a fair day's work." A competitive economy tends to make that ideal happen. This is one of the classic and time-tested insights of microeconomic analysis.

(2) *The myth of the productivity-pay gap.* The most widely followed measure of productivity is the ratio of real output to hours worked in the nonfarm business sector, which is reported on a quarterly basis (with monthly revisions) by the BLS in the *Productivity and Costs* release. It is often compared to the release's time series on nonfarm real hourly compensation (RHC).

It's been widely observed by progressive politicians (and the careless liberal economists they rely on) that there has been a widening gap between productivity and real hourly compensation since the mid-1970s (*Fig. 9*). That's only true if RHC is derived using the CPI. The gap narrows significantly using the PCED, which is widely recognized as a more accurate measure of consumer prices. The gap almost disappears using the nonfarm business price deflator (NFBD), which is also reported in the Productivity and Costs release.

(3) *The right price.* It makes much more sense to divide hourly compensation by the NFBD than by the CPI or even the PCED (*Fig. 10*). That's because this is the measure of real hourly pay that actually matters to employers when they calculate the labor costs

associated with producing more product. Workers' purchasing power obviously depends on the prices of items such as food, gasoline, and rent. But in a competitive market economy, employers pay for a fair day's work, not for the cost of living.

(4) *Bi-cycles.* The data confirm the microeconomic theory that the real value of labor is determined by productivity. The 20-quarter percentage change, at an annual rate, in RHC based on the NFBD has been tracking the comparable growth rate in productivity very closely since the start of the data in 1952 (*Fig. 11*). The same can be said using the PCED to derive RHC (*Fig. 12*).

Previously, Debbie and I observed that productivity growth collapsed during the 1970s. The same goes for real hourly compensation growth. Since around 2015, both have been growing at faster and faster paces. In our Roaring 2020s scenario, that should continue, with both peaking by the middle of the decade around 4%, matching previous peaks. That would obviously be a very bullish scenario.

(5) *The wage stagnation myth.* The data belie the claim often made by progressives that workers' pay has stagnated for decades, let alone the President's bizarre statement that wages are the lowest in 70 years. In fact, all of the major measures of real hourly compensation were either at or near recent record highs during Q1-2021 (*Fig. 13* and *Fig. 14*). That's true whether we use the NFBD or the PCED.

A couple of the measures did stagnate during the 1980s through the mid-1990s, but they've all been rising since then. Here are their total and average annual increases from Q1-1995 through Q1-2021 using the PCED rather than the more theoretically pure NFBD: nonfarm business hourly compensation (58%, 2.2%), Employment Cost Index including wages, salaries, and benefits (31, 1.2), and AHE for production and nonsupervisory workers (38, 1.5) (*Fig. 15*).

It's likely that the first two measures of hourly pay are boosted by high-income earners. However, the AHE series applies only to production and nonsupervisory workers, who account for about 80% of payroll employment. There certainly has been no stagnation in their real pay.

(6) *Bottom line.* In our Roaring 2020s scenario, productivity growth rises to 3%-4% by the middle of the decade, using the 20-quarter average at an annual rate. That would allow real hourly compensation to grow just as fast! If that happens, we'll all be joining Taco in *singing* "Puttin' on the Ritz!"

**Strategy: More Earnings Galore.** The bull market has been broadening since the start of September 2020 as investors began to discount the broadening reopening of the US economy. As a result, the equal-weighted S&P 500 has been outperforming the market-cap-weighted S&P 500 (*Fig. 16*).The improvement in underlying earnings for the 11 sectors of the S&P 500 has also been broad based and impressive:

(1) *Q1 before and after.* Here are the y/y growth rates as represented by the analysts' consensus Q1-2021 earnings-per-share estimates just before the start of the Q1 earnings-reporting season as well as the actual Q1 growth rates of earnings reported by the end of the season: S&P 500 (24.2%, 52.5%), Communication Services (13.6, 53.5), Consumer Discretionary (99.0, 223.6), Consumer Staples (0.3, 10.4), Energy (-5.1, 25.4), Financials (68.9, 137.4), Health Care (17.9, 26.7), Industrials (-13.4, 3.1), Information Technology (24.3, 44.7), Materials (47.0, 62.3), Real Estate (0.2, 5.7), and Utilities (2.6, -0.9) (*Fig. 17*).

(2) *2021 before and after.* Finally, here's the same drill but for full-year 2021 consensus estimates over actual 2020 earnings: S&P 500 (27.2%, 36.5%), Communication Services (11.4, 23.9), Consumer Discretionary (53.7, 66.4), Consumer Staples (6.1, 7.5), Energy (greater recovery from a loss), Financials (25.6, 45.1), Health Care (14.6, 16.7), Industrials (75.5, 81.6), Information Technology (22.0, 28.9), Materials (41.2, 59.8), Real Estate (-9.1, 1.9), and Utilities (4.7, 1.6) (*Fig. 18* and *Fig. 19*).

**Movie.** "Mare of Easttown" (+ +) (*link*) is an HBO drama series starring Kate Winslet as a detective in a small Pennsylvania town. Her performance shines throughout the show, especially during her darkest challenges, when she struggles to solve crimes while dealing with her very complicated home life. The basic theme of the show is that life is hard, and everyone has their own agenda, so deal with it as best you can.

## Calendars

**US: Mon:** Consumer Credit $21.0b. **Tues:** NFIB Small Business Optimism Index, JOLTS Report, Trade Balance -$69.0b, API Crude Oil Inventories. (Bloomberg estimates)

**Global: Mon:** Germany Factory Orders 1.0%, Spain Industrial Production 12.6% y/y, Japan GDP -1.2%q/q/-4.8%y/y, Japan Leading & Coincident Indicators, China Trade Balance $50.5b. **Tues:** Eurozone GDP -0.6%q/q/-1.8%y/y, Germany Industrial Production 0.7%, Germany ZEW Economic Sentiment 85.3, Italy Retail Sales, China CPI & PPI 1.6%/8.5%

y/y. (Bloomberg estimates)

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## Strategy Indicators

**Global Stock Markets Performance** (*link*): Last week saw the US MSCI index rise 0.6% for only its third gain of the past seven weeks. The US ranked 33rd of the 49 global stock markets that we follow in a week when 37 of the 49 countries rose in US dollar terms, and the AC World ex-US index rose 1.0% as all regions moved higher for a second week. EM Latin America was the best-performing region last week with a gain of 4.9%, ahead of EM Eastern Europe (2.6%), EMEA (2.0), BRIC (1.5), and EM Asia (1.1). EMU was the biggest underperformer, albeit with a gain of 0.4%, followed by EAFE (0.7). Colombia was the best-performing country last week, with a 7.1% gain, followed by Brazil (6.7), Peru (6.2), Indonesia (4.8), and Hungary (4.5). Portugal was the worst performer with a decline of 4.7%, followed by Jordan (-4.3), Hong Kong (-2.8), Egypt (-2.6), and Spain (-1.5). EM Eastern Europe is now the top-performing region so far in 2021 with a gain of 17.1%, ahead of EMEA (16.3), EMU (13.4), the US (11.7), EAFE (9.8), and the AC-World ex-US (9.7). The following regions are lagging, albeit with gains: BRIC (4.5), EM Asia (5.3), and EM Latin America (8.7). The top-performing countries ytd: Austria (30.0), the Czech Republic (25.8), Hungary (22.5), Jordan (22.0), and Canada (21.4). The biggest laggards of 2021 so far: Turkey (-21.4), Colombia (-17.5), New Zealand (-15.5), Egypt (-11.9), and Sri Lanka (-7.5).

**S&P 1500/500/400/600 Performance** (*link*): All three of these indexes rose for a second week. LargeCap gained 0.6% for the week, behind the increase for SmallCap (0.9%) and ahead of the less than 0.1% gain for MidCap. LargeCap and MidCap ended the week 0.1% and 1.5% below their respective record highs on May 7, while SmallCap was 1.0% below its March 12 record. Twenty-four of the 33 sectors were higher for the week, up from 28 a week earlier. SmallCap Energy rose 12.1% in the best performance for the week, followed by MidCap Energy (7.2), LargeCap Energy (6.7), SmallCap Communication Services (3.3), and LargeCap Real Estate (3.0). MidCap Communication Services (-1.7) was the worst performer, followed by MidCap Consumer Discretionary (-1.2), MidCap Health Care (-1.2), and LargeCap Health Care (-1.2). SmallCap continues to lead so far in 2021 with a gain of 23.7%, ahead of both MidCap (18.3) and LargeCap (12.6). All 33 sectors are higher ytd, paced by these best sector performers: SmallCap Energy (81.9), MidCap Energy (57.1), SmallCap Consumer Discretionary (46.2), LargeCap Energy (45.3), and MidCap Materials (31.7). The biggest laggards so far in 2021, albeit with gains: MidCap Communication Services (1.4), LargeCap Utilities (3.6), LargeCap Consumer Discretionary (4.9), LargeCap

Consumer Staples (5.2), and MidCap Tech (6.3).

**S&P 500 Sectors and Industries Performance** (*link*): Nine of the 11 S&P 500 sectors rose last week, and five outperformed the composite index's 0.6% gain. That compares to a 1.2% rise for the S&P 500 a week earlier, when seven sectors rose and five outperformed the index. Energy rose 6.7% for the biggest gain of the week, ahead of Real Estate (3.0%), Financials (1.2), Tech (1.2), and Consumer Staples (1.0). The worst performers this week: Health Care (-1.2), Consumer Discretionary (-1.0), Industrials (0.2), Utilities (0.2), Communication Services (0.6), and Materials (0.6). With respect to 2021's performance, the S&P 500 has risen 12.6% so far, with all 11 sectors higher ytd and six beating the broader index. Real Estate moved up the leaderboard this week, and Consumer Discretionary dropped. The leading sectors so far in 2021: Energy (45.3), Financials (30.0), Real Estate (22.1), Materials (20.8), Industrials (18.5), and Communication Services (16.6). This year's laggards to date, albeit with gains: Utilities (3.6), Consumer Discretionary (4.9), Consumer Staples (5.2), Tech (7.2), and Health Care (7.3).

**S&P 500 Technical Indicators** (*link*): The S&P 500 rose 0.6% last week, but was mixed relative to its 50-day (50-dma) and 200-day moving averages (200-dma). It was above its 50-dma for a 14th week after dropping below for a week at the end of February for only the second time since early November. It was above its 200-dma for a 49th straight week last week after being below for 13 weeks through late May. The S&P 500's 50-dma rose last week for a 31st week after falling for a week at the end of October for the first time in six months. However, the price index ticked down to 2.0% above its rising 50-dma from 2.1% a week earlier and is down from its 19-week high of 5.8% during mid-April. That compares to 0.1% below its rising 50-dma around the end of February and is down from a 13-week high of 6.0% above its rising 50-dma in mid-November. The index mostly has been trading above its 50-dma since late April 2020; in June 2020, it was 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index was above its 200-dma for a 49th week, and rose to 12.0% above its rising 200-dma from 11.9% a week earlier. That compares to a 14-week high of 15.4% in mid-April and a 17-week low of 9.7% above at the end of February. It's down from 17.0% above in early December, which was the highest since November 2009 and up from the 26.6% below registered on March 23—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

**S&P 500 Sectors Technical Indicators** (*link*): Nine S&P 500 sectors traded above their

50-dmas last week, unchanged from a week earlier. That's down from all 11 sectors above at the beginning of May and compares to four above at the end of January. Consumer Discretionary was below its 50-dma for a fourth straight week and Utilities for a second week. All 11 sectors had a rising 50-dma for a second straight week. Energy's 50-dma turned back up a week earlier after dropping below for one week and for the first time since early November. That compares to just six sectors with a rising 50-dma in mid-March, which had been the lowest count since early November. Looking at the longer-term 200-dmas, all 11 sectors traded above them for a 13th week. During April 2020, just one sector (Health Care) was above its 200-dma. All 11 sectors have had rising 200-dmas for the past 13 weeks. Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

## US Economic Indicators

**Employment** (*link*): Employment missed forecasts again in May, with nonfarm payrolls rising 559,000 (vs 650,000 estimate), following upward revisions to both April (to 278,000 from 266,000) and March (785,000 from 770,000) payrolls for a net gain of 27,000. Private payrolls climbed 492,000 (roughly half ADP's 978,000), with revisions to April (to 219,000 from 218,000) and March (724,000 from 708,000) adding 17,000 jobs. In May, BLS data show service-providing companies added 489,000 jobs, while goods-producing jobs added only 3,000 (following April's 36,000 loss)—with comparable data for ADP showing gains of 850,000 and 128,000, respectively. In May, leisure & hospitality (292,000) added the most jobs—with food services & drinking places (186,000) accounting for roughly two-thirds of that gain. Industries also adding to private payrolls were health care & social assistance (46,000), professional & business services (35,000), information services (29,000), manufacturing (23,000), transportation & warehousing (23,000), and wholesale trade (20,000), while the construction (-20,000) and retail trade (-6,000) saw job cuts. Here's a tally of industry performances from strongest to weakest during the 13 months through May, and where they stand relative to last February's pre-pandemic levels: Leisure & hospitality (+5.7 million & -2.5 million), retail trade (+2.0 million & -411,200), professional & business services (+1.7 million & -708,000)—led by temporary-help services (+703,900 & -294,100), health care (1.1 million & -507,900), construction (+888,000 & -225,000), manufacturing (+876,000 & -509,000), transportation & warehousing (+474,800 & -99,800), social assistance (+444,700 & -256,700), financial activities (+206,000 & -73,000), wholesale trade (+198,100 & -211,100), education (+232,200 & -293,000), information services (+88,000 & -193,000), and mining & logging (-8,000 & -76,000).

**ADP Employment** (*link*): “Private payrolls showed a marked improvement from recent months and the strongest gain since the early days of the recovery,” said Nela Richardson, chief economist, ADP. “While goods producers grew at a steady pace, it is service providers that accounted for the lion’s share of the gains, far outpacing the monthly average in the last six months.” Private payroll employment has been soaring the past three months, jumping 978,000 in May and 2.15 million over the period; this May’s gain was a record if the volatile Covid-related swings of last year are excluded. Service-providing jobs soared 850,000 in May and 1.85 million the past three months—accounting for 86% of the gains the past three months; goods-producing jobs are up 128,000 and 306,000 over the comparable periods. Here’s a tally of industry performances from strongest to weakest during the past three months, since bottoming last April, and where they stand relative to last February’s levels: leisure & hospitality (+890,000, +4.6 million, -3.1 million), trade transportation & utilities (+296,000, +2.0 million, -1.1 million), health care & social assistance (+244,000, +1.5 million, -544,000), construction (+145,000, +870,000 & -83,000), manufacturing (+138,000, +855,000, -447,000), other services (+136,000,+882,000, -393,000), administrative & support services (+116,000, +774,000, -774,000), professional & technical services (+80,000, +333,000, -200,000), education (+39,000, +243,000, -206,000), financial activities (+42,000, +154,000, -111,000), natural resources & mining (+22,000, 9,000, -43,000), management of companies & enterprises (+12,000, -8,000, -90,000), and information services (-11,000, -49,000, -312,000). Here’s the same exercise by company size: medium (+742,000, +3.3 million, -1.6 million), small (+733,000, +4.3 million, -1.1 million), and large (+677,000, +4.6 million, -4.7 million) businesses.

**Earned Income Proxy** (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 12th increase in the past 13 months, up 1.0% in May and 17.0% over the period, to yet another new record high. The average hourly earnings component of the EIP climbed 0.5% during May though only 0.9% during the 13 months through May, with BLS noting “Since average hourly earnings vary widely across industries, the large employment fluctuations since February 2020 complicate the analysis of recent trends in average hourly earnings.” Meanwhile, aggregate weekly hours, the EIP’s other component, advanced for the 11th time in 13 months, also by 0.5% m/m and 16.1% over the period.

**Unemployment** (*link*): Unemployment (link): May’s unemployment rate dipped to 5.8%, with the number of unemployed falling 496,000 to 9.3 million; that’s well below the Covid-related record highs of 14.8% and 23.1 million, respectively, though still well above their pre-Covid readings of 3.5% and 5.7 million last February. The participation rate was little changed at 61.6% last month, 1.8ppts below last January’s recent peak of 63.4% just before the pandemic hit; but the rate will likely begin moving higher, as governors in 23 states announced they will stop giving unemployed workers an extra $300 in benefits sometime over the summer. The number of unemployed persons on temporary layoff fell 291,000 in May to 1.8 million—down considerably from last April's high of 18.0 million but 1.1 million higher than in February 2020. By race, the unemployment rate for Whites has dropped the first five months of this year from 6.0% to 5.1%, while the rate for Hispanics fell from 9.3% to 7.3% over the same period. Meanwhile, the jobless rates for African Americans and Asians have been more volatile from month to month, though the rate for the former dropped to a 14-month low of 9.1% in May, while the latter is at a three-month low of 5.5%. By education, the rate for those with less than a high school diploma has been very volatile the past few months, falling to 9.1% last month after rising from 8.2% to 9.3% in April; the rate was at 1.01% in March. Meanwhile, the rate for those with a high school degree (6.8%) remained near the 7.0% of the past few months, the rate for those with some college (5.9) held near April's 13-month low of 5.8%, and the rate for those with a college degree or higher sank to a 14-month low of 3.2%.

**Productivity & Labor Costs** (*link*): Productivity rebounded an unrevised 5.4% (saar) during Q1 after contracting 3.8% during Q4 as output accelerated 8.6%, up from 5.8% during Q4, and hours worked slowed to 3.0%—less than one-third Q4's 10.0%. (Both output and hours worked were little changed from their initial estimates of 8.4% and 2.9%, respectively.) Meanwhile, revisions show Q1 unit labor costs (to 1.7% from -0.3%) rose rather than fell last quarter, as hourly compensation (3.3% from 1.3%, saar) increased at nearly triple the initial estimate. During Q4, these measures increased 14.0% and 9.7% (saar), respectively. Over the past year, productivity rose 4.1% y/y—the most since Q1-2010—reflecting a 1.1% increase in output and a 2.9% drop in hours worked. The increase in both unit labor costs (to 4.1% from 6.1% y/y) and hourly comp (8.3 from 8.8) slowed from Q4's yearly gains—both of which were the highest since the early 1980s. We track the five-year growth rate of productivity, and it shows productivity growth continues to trend higher: Since Q4-2015, the five-year rate has tripled from 0.6% to 1.9% y/y during Q1.

**Auto Sales** (*link*): Motor vehicle sales reversed course in May and fell to 17.1mu (saar) after accelerating from 16.1mu in February to 18.5mu in April—its best reading since the summer of 2005, when aggressive incentives boosted sales above 20.0mu. Domestic light truck sales slipped to 9.9mu (saar) after holding at 11.0mu in April, which was the highest since July 2005; these sales had plunged to 5.3mu last April. Meanwhile, domestic cars sales remained in a rut at 2.6mu (saar), up from last April's record low of 1.5mu though still below the 3.3mu at the beginning of last year; car sales have been stalled around this level since last September. In the meantime, sales of imports were little changed at 4.7mu (saar) last month after more than recovering from their Covid-related declines. They soared from 2.0mu last April to 4.8mu (saar) this April—the best sales pace since the late 1980s—led by a record 3.4mu in light truck sales! Light truck sales in May were a tad lower than in April, at 3.2mu, but were 1.4mu above last April's 1.4mu.

## Global Economic Indicators

**Global Composite PMIs** (*link*): Global growth was the best in 15 years in May due to rapid expansions in the US and Europe, while the Asian region tended to underperform. The JP Morgan Global Composite Output Index (C-PMI) climbed for the fourth month to a 181-month high of 58.4 last month, after easing from 53.3 in October to 52.3 by January; it had increased steadily from April's low of 26.2 through October. The service (to 59.4 from 57.0) sector outperformed the manufacturing (56.0 from 55.9) sector—with the former expanding at the fastest rate in more than 15 years. At the country level, C-PMIs show the US (68.7), Ireland (63.5), and the UK (62.9) all posted record growth, with the overall Eurozone (57.1) not too far behind—as Spain (59.2), France (57.0), Germany (56.2), and Italy (55.7) all accelerated last month. Meanwhile, growth in China (to 53.8 from 54.7) eased, while Japan (48.8 from 51.0) and India (48.1 from 55.4) fell back into contractionary territory. On the inflation front, output charges accelerated at the fastest pace in survey history last month, with part of the increase reflecting the highest input costs since August 2008.

**US Non-Manufacturing PMIs** (*link*): The US service sector accelerated in May at its fastest pace on record, according to both the ISM and IHS Markit surveys, while prices continued to accelerate at a rapid rate. ISM's NM-PMI rebounded from 62.7 to 64.0 last month, after dipping to a recent low of 55.3 in February. Both the production (to 66.2 from 62.7) and new orders (63.9 from 63.2) measures moved higher in May, while the employment measure (55.3 from 58.8) moved lower. Meanwhile, the supplier deliveries (to 70.4 from 66.1) gauge jumped further above 60.0, with recent increases reflecting the difficulties suppliers continue to experience due to the Covid-19 impact. In the meantime, price pressures intensified, with the price index (to 82.7 from 78.6) not far from its all-time high of 85.0 during mid-2008. Switching to the IHS Markit NM-PMI measure, it climbed for the fifth month, from 54.8 at the end of 2020 to 70.4 by May—its best performance since data collection began in late 2009. According to the report, stronger client demand and a sustained rise in orders, along with the continued reopening of the economy following Covid-related restrictions, broadened the range of services available to consumers. On the price front, May saw an acceleration in input prices across the service sector, as supplier price hikes intensified cost pressures.

The rate of inflation accelerated for the seventh straight month to the sharpest ascent on record.

**Eurozone Retail Sales** (*link*): The continuation of Covid-related restrictions across Europe pushed April sales lower, while March sales were revised higher. Sales dropped a steeper-than-expected 3.1% in April (triple the -1.0% consensus estimate), following an upwardly revised 3.3% (from 2.7%) jump during March. Sales remain in a volatile flat trend since reaching a new record high in October, down 4.3% over the six-month period. Sales were 23.9% above year-ago levels. Two of the three major components moved lower in April—non-food products excluding auto fuel (-5.1%) and food, drinks & tobacco (-2.0)—while auto fuel edged up 0.4%. Sales for non-food products ex fuel and food, drinks & tobacco remain at elevated levels. April data are available for three of the top four Eurozone economies and show sales in Germany contracted 5.5% after a two-month surge of 11.2%, while sales in France and Spain contracted 6.0% and 0.9% in April after increasing 2.3% and 6.8%, respectively, during the two months through March. Compared to a year ago, sales were up 42.1%, 37.3%, and 6.6% in France, Spain, and Germany, respectively.

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