MORNING BRIEFING
October 11, 2021

Lots of Good News About Jobs

Check out the accompanying chart collection.

(1) Our proxy for wages and salaries at another record high. (2) The inflation tax is taking its toll. (3) Are teachers quitting, retiring, or both? (4) Pandemic-challenged industries continue to recover. (5) More full-time jobs for part-time workers. (6) Wages rising faster for lower-wage workers, and beating inflation. (7) Biggest wage gains in industries with highest job openings rates. (8) A close look at NILFs. (9) Retiring seniors. (10) The grim reaper is taking a toll on labor force too. (11) Foreign workers have gone back home. (12) Movie review: "No Time To Die" (-).

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

US Labor Market I: EIP at Record High. The bad news in Friday's employment report was that payrolls rose only 194,000 during September. However, that disappointment was mostly attributable to a 160,800 drop in state and local education employment. This category is included in government payrolls, which fell 123,000 last month. The news from the private sector of the labor market was good:

(1) *Earned Income Proxy at a record high, again.* Private-sector payrolls rose 317,000. In addition, average weekly hours in private industry rose 0.6% (*Fig. 1*). As a result, aggregate weekly hours rose 0.8% m/m and 4.6% y/y to 4.4 billion hours during September, the highest reading since March 2020. Here's more good news: Average hourly earnings for all private-sector workers rose 0.6% m/m and 4.6% y/y. The bottom line is that our Earned Income Proxy (EIP) for private-sector wages and salaries in personal income rose 1.4% m/m and 9.4% y/y to yet another record high (*Fig. 2*)!

(2) *Inflation is eroding consumers' purchasing power.* Now for a bit of bad news: Inflation has been eroding the gains in our EIP. On an inflation-adjusted basis, using the headline PCE deflator, our EIP was down 0.1% m/m and up 4.7% y/y (*Fig. 3*).

(3) *Teachers quitting and retiring?* Why did state and local education payrolls fall so much in September? The drop was probably Covid related. Some schoolteachers likely have retired or quit rather than risk exposure to the Delta variant of the virus. Others likely were

discharged for refusing to go along with vaccination requirements.

(4) *Pandemic-challenged industries still rebounding.* Debbie and I have been tracking payroll employment in the industries that are most at risk of layoffs resulting from social-distancing restrictions (*Fig. 4*). They include retail trade, hotels & motels, air transportation, restaurants & other eating places, arts, entertainment & recreation (which includes amusements and gambling industries), and offices of real estate agents & brokers. They were particularly hard hit during last year's lockdowns.

Altogether, they plunged from a record high of 31.8 million during February 2020 to 22.0 million during April 2020. They rebounded to 30.2 million by this August. We estimate that they rose by 250,000 during September. All in all, they are still down about 1.3 million from their record high. The problem seems to be the availability of workers rather than the demand for them.

US Labor Market II: More Full-Time Jobs. The really good news is in the household measure of employment, which rose 526,000 during September. It counts the number of workers with one or more jobs, whereas the payroll measure counts the number of jobs. Another difference is that the household measure includes self-employed workers; as a result, it has always exceeded the payroll measure (*Fig. 5*). Consider the following related developments:

(1) *More full-time jobs.* Full-time household employment rose 591,000 during September, while part-time household employment fell 36,000 during the month (*Fig. 6*).

(2) *Fewer part-time jobs for economic reasons.* We can mix and match the part-time household series to compare it to the payroll survey's "part-time employment for economic reasons" measurement (*Fig. 7*). The percent of part-time employment that is attributable to economic reasons was down to 17.4% in September from a peak of 57.0% during April 2020. The latest reading was little changed from the August level, which was the lowest since February 2020.

(3) *Bottom line.* The demand for labor is so strong relative to the availability of workers that employers seem to be offering more full-time employment to their workers who previously had part-time jobs but wanted to work full time.

US Labor Market III: Bigger Gains for Lower-Wage Workers. Over the past 12 months through September, the wages of lower-wage workers have risen faster than those of higher-wage workers. Debbie and I have devised a simple way to compare the average hourly earnings (AHE) of lower-wage and higher-wage workers. The Bureau of Labor Statistics provides a data series for the AHE of all workers and of production and nonsupervisory (P&NS, lower-wage) workers, who currently account for 81% of total private nonfarm payroll employment (*Fig. 8*). We can use these two series and the payroll data to calculate a data series for higher-wage workers. Consider the following:

(1) *Lower vs higher wages.* During September, total AHE was $30.90 per hour, up 4.6% y/y, with lower-wage AHE at $26.20 per hour (up 5.5%) and higher-wage AHE at $51.40 per hour (up 2.6%) (*Fig. 9*). Over the three months through September, the AHEs of lower-wage workers rose 6.7% (saar), and those of higher-wage workers rose 3.2% (*Fig. 10*). However, on an inflation-adjusted y/y basis through August, the real wage for lower-wage workers was up 0.6%, while the one for higher-wage workers was down 1.6% (*Fig. 11*).

(2) *Wages by industry.* Here is the performance derby of the percent change in the total versus P&NS AHEs for the major industries on a y/y basis and in current dollars through September: information (0.8%, 0.9%), utilities (2.2, 2.6), natural resources (2.1, 4.5), wholesale trade (3.8, 4.0), retail trade (3.9, 5.1), manufacturing (3.9, 5.1), construction (4.5, 5.8), all workers (4.6, 5.5) professional & business services (4.7, 4.9), financial activities (5.3, 4.0), education & health (5.8, 7.3), transportation & warehousing (6.0, 8.6), and leisure & hospitality (10.8, 12.9).

Lower-wage workers have received bigger-percentage wage gains than higher-wage workers in all of the major industries except financial services. Among the biggest wage increases occurred in the education & health, transportation & warehousing, and leisure & hospitality industries (*Fig. 12*). They are among the industries with the highest job openings rates based on July’s JOLTS report (*Fig. 13*).

US Labor Market IV: Not in Labor Force. The labor force includes all employed and unemployed workers who are 16 years and older. During September, it totaled 161.4 million, which was still 3.2 million below the record high during December 2019 (*Fig. 14*). The flip side of this fact is that the number of people not in the labor (NILFs) rose 4.8 million over this same 21-month period. The mystery that macroeconomists are trying to solve is: Where did they go, and will they come back? The short answer is: Probably not. Consider the following:

(1) *More senior NILFs.* Seniors, who are 65 years old or older, have been retiring at a faster pace (*Fig. 15*). The pandemic may have convinced some of them to retire sooner than they

had planned. The oldest Baby Boomers turned 65 during 2011 and 75 this year. The number of senior NILFs rose 2.9 million over the past 20 months through September.

(2) *More prime-age NILFs.* The number of prime-age NILFs, aged 25-64, is up 1.6 million over the 20 months through September. Some may have dropped out of the labor force to provide child or elder care to family members during the pandemic. Some of them might reenter the labor force now that schools have reopened for in-class sessions.

(3) *The grim reaper.* Widely ignored is the likelihood that the labor force has been depressed by the number of deaths since the pandemic started in February 2020 through June of this year (*Fig. 16*). Over this 17-month period, the number of deaths totaled 569,000, up from 231,000 during the previous 17 months. In addition, Covid survivors who were hospitalized dropped out of the labor force for some period of time.

(4) *Fewer foreign workers.* The Bureau of Labor Statistics' annual 2020 *Foreign Born Workers Summary* *report* stated: "From 2019 to 2020, the overall labor force declined by 2.8 million; the foreign born accounted for 1.1 million of this decline," or 38.4%. It added: "The foreign born include legally-admitted immigrants, refugees, temporary residents such as students and temporary workers, and undocumented immigrants."

The leisure and hospitality industry is highly dependent on temporary immigrant workers. Nearly a quarter of leisure and hospitality workers were immigrants leading up to the pandemic, *observed* *New American Economy*. The high *turnover rates* common in the industry mean that a fresh pool of candidates recurringly is needed to replenish staffing.

Last year, then President Trump had banned nearly all incoming foreign workers to protect American workers from foreign competition during the pandemic. "The seven most popular categories of student and work-related visas were down 89% to 408,046 in June through December last year from 3.66 million over the same period in 2019, according to State Department data," *reported* the February 15 *WSJ*.

Biden's administration reversed the bans during February of this year, but it could take years to tackle the growing immigration visa backlog, observed a law group *blog*. Pandemic-related travel restrictions may continue to block foreign-born workers from entering the US as well. Researchers for the Dallas Federal Reserve Bank *wrote* back in 2005 that the US needs to utilize immigration policy to offset the impact on the labor force as the Baby Boomers age out of it.

Movie. "No Time To Die" (-) (*link*) was very disappointing. The highlights were the usual thrill-packed opening of the James Bond films and a shootout in Cuba. The other car chases and shootouts weren't thrilling at all. Daniel Craig looks totally bored once again, as he did during the previous four films in which he played Bond. This will be his last time playing 007. So far, 12 male actors have had the role in 27 movies over the past 59 years. The next 007 might be a female. Rami Malek, who was great in "Bohemian Rhapsody," was awful as the villain in this film. He mumbled a lot. Most of the scenes could have used more lighting—unless the filmmakers were trying to hide the movie's lame plot and dialogue? "Goldfinger" is still the best of the franchise, and Sean Connery was the best "Bond, James Bond," of them all. (*Here* is a complete list of the Bond flicks.)

Calendars

US: Mon: None. **Tues:** NFIB Small Business Confidence, Job Openings 10.925m. (Bloomberg estimates)

Global: Mon: Italy Industrial Production -0.3%m/m/-0.7%y/y, UK NIESR GDP Estimate, UK BRC Retail Sales Monitor, Japan Machine Tool Orders, Australia NAB Business Survey. **Tues:** Germany ZEW Economic Sentiment 24.0, UK Employment Change 3m/3m 243k, UK Unemployment Rate 4.5%, UK Average Earnings Including & Excluding Bonus 7.0%/5.9% y/y, Japan Core Machinery Orders 1.7%m/m/14.7%y/y, China Trade Balance $47.6b, China Exports & Imports 21.5%/19.2% y/y. (Bloomberg estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): Last week saw the US MSCI index gain 0.8% as it recovered from its biggest drop in seven months a week earlier. The index ended the week 3.4% below its record high on September 6. The US ranked 24th of the 49 global stock markets that we follow in a week as 32 of the 49 countries rose in US dollar terms. The AC World ex-US index performed slightly worse, rising 0.6% to 5.7% below its September 15 record high, as nearly all regions rose. EM Eastern Europe was the best-performing region last week, with a gain of 4.5%, ahead of EMEA (2.4%), BRIC (1.7), and EM Asia (0.8). EM Latin America was the biggest underperformer, with a decline of 1.7%, followed by EAFE (0.3) and EMU (0.5). Peru was the best-performing country last week, with a gain of 8.9%, followed by Indonesia (7.2), Russia (5.3), the Czech Republic (3.3), and Canada (3.3). Chile was the worst performer, with a decline of 7.0%, followed by Pakistan (-2.8), Korea (-2.4), Japan (-2.3), and Argentina (-2.3). EM Eastern Europe is now the top-performing region ytd, with a gain of 29.2%, ahead of EMEA (27.1), the United States (16.3), EMU (8.2), EAFE (5.7), and the AC World ex-US (4.0). The following regions are lagging the AC World ex-US: EM Latin America (-9.3), BRIC (-6.5), and EM Asia (-5.5). The top-performing countries ytd: the Czech Republic (40.1), Austria (33.9), Russia (32.6), India (26.7), and Jordan (25.1). The biggest laggards of 2021 so far: Pakistan (-29.9), Turkey (-22.8), Peru (-20.9), New Zealand (-16.7), and China (-16.3).

S&P 1500/500/400/600 Performance (*link*): All three of these indexes rose last week. LargeCap's 0.8% rise was ahead of the gains for MidCap (0.2%) and SmallCap (0.1). LargeCap ended the week 3.2% below its record high on September 2, while MidCap and SmallCap finished 3.0% and 3.9% below their respective record highs on September 2 and June 8. Twenty-one of the 33 sectors were higher for the week, compared to 12 sectors rising a week earlier. LargeCap Energy was the best performer of the week, with a gain of 5.0%, ahead of MidCap Energy (4.7), SmallCap Energy (4.6), SmallCap Utilities (3.0), and MidCap Financials (2.4). SmallCap Health Care was the worst performer, with a decline of 2.8%, followed by MidCap Health Care (-2.2) and SmallCap Tech (-1.9). SmallCap continues to lead in the 2021 derby with a gain of 21.4% ytd as LargeCap (16.9) moved ahead of MidCap (16.6). All 33 sectors are higher ytd, paced by these best sector performers: SmallCap Energy (85.1), MidCap Energy (71.1), LargeCap Energy (50.1), SmallCap Consumer Discretionary (34.2), and SmallCap Communication Services (33.6). The biggest laggards so far in 2021: MidCap Communication Services (0.5), LargeCap Utilities (3.2), MidCap Consumer Staples (3.5), LargeCap Consumer Staples (4.3), and SmallCap Health Care (5.7).

S&P 500 Sectors and Industries Performance (*link*): Eight of the 11 S&P 500 sectors rose last week, and seven outperformed the composite index's 0.8% gain. That compares to a 2.2% decline for the S&P 500 a week earlier, when one sector rose and six outperformed the index. Energy was the best performer, with a gain of 5.0%, ahead of Financials (2.3), Industrials (1.8), Utilities (1.4), Consumer Staples (1.4), Materials (1.0), and Consumer Discretionary (0.9). The worst performers this week: Real Estate (-0.8), Health Care (-0.3), Communication Services (-0.1), and Tech (0.3). With respect to 2021's performance, the S&P 500 has risen 16.9% so far, with all 11 sectors higher ytd and four beating the broader index. Energy remains in the top spot as the leading sector with a gain of 50.1% ytd, followed by Financials (32.3), Communication Services (22.8), and Real Estate (22.4). This year's laggards to date, albeit with gains: Utilities (3.2), Consumer

Staples (4.3), Consumer Discretionary (11.4), Health Care (11.8), Materials (11.8), Industrials (13.8), and Tech (16.5).

S&P 500 Technical Indicators (*link*): The S&P 500 rose 0.8% last week and improved relative to its 50-day moving average (50-dma) and 200-day moving average (200-dma). However, it was below its 50-dma for a second week and for just the second time since mid-June. It was above its 200-dma for a 67th straight week last week after being below for 13 weeks through late May of 2020. The S&P 500's 50-dma moved lower for a second week and for the first time since last October. The index improved to 1.1% below its falling 5-dma from an 11-month low of 2.0% below its falling 50-dma a week earlier. The index had been mostly 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 67th week last week, and improved to 5.4% above its rising 200-dma from an 11-month low of 5.0% above a week earlier. That compares to 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*): Three of the 11 S&P 500 sectors traded above their 50-dmas last week, up from two a week earlier, as Consumer Discretionary moved above and joined Energy and Financials. That compares to all 11 sectors above at the beginning of May. Consumer Discretionary's 50-dma also turned higher; it along with Energy and Financials are the only three sectors with a rising 50-dma. Looking at the more stable longer-term 200-dmas, all sectors are above again, up from nine a week earlier, as Materials and Utilities rejoined the club after being out for a week. All 11 sectors have had rising 200-dmas for 30 straight weeks. For perspective, back in April 2020, just one sector (Health Care) was trading above its 200-dma. Notably, Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

US Economic Indicators

Employment (*link*): Payroll employment was well below consensus expectations for the second month in September, as the leisure & hospitality industry—which has been the biggest engine of growth—recorded another subpar job gain last month. Payroll employment rose only 194,000 (versus consensus estimates of 500,000), though there were upward revisions to both August (to 366,000 from 235,000) and July (1.091 million from 1.053 million) payrolls for a net gain of 169,000. Total payroll employment has recovered 1.7 million jobs since bottoming last April, though is still 5.0 million below its pre-pandemic level. Private payrolls expanded by 317,000, with revisions in August (to 332,000 from 243,000) and July (816,000 from 798,000) boosting employment by 107,000. Service-providing jobs added only 265,000 to payrolls last month, an eight-month low; these jobs rose 3.5 million during the six months through July, with leisure & hospitality contributing 2.1 million over that period. Leisure & hospitality employment averaged monthly gains of only 56,000 the past two months—likely impacted by the Delta variant. Goods-producing jobs climbed 52,000 last month, with manufacturing contributing 26,000 and construction companies 22,000 after no gain the prior month. Industries posting the biggest gains last month were leisure & hospitality (+74,000), professional & business services (+60,000), retail trade (+56,000), transportation (+47,000), information services (+32,000), and social assistance (+30,000). Meanwhile, government employment fell 123,000 last month, led by decline of 144,200 and 16,600 in local and state government employment, respectively—likely Covid-related. Here's a tally of industry performances from strongest to weakest since bottoming last April, and where they stand relative to last February's pre-pandemic levels: leisure & hospitality (+6.6 million & -1.6 million), retail trade (+2.2 million & -202,200), professional & business services (+2.0 million & -385,000)—led by temporary-help services (+741,200 & -256,800), health care (+1.1 million & -523,700), manufacturing (+1.0 million & -353,000), construction (+912,000 & -201,000), transportation & warehousing (+646,200 & +71,600), social assistance (+497,300 & -204,100), education (+352,900 & -172,300), financial activities (+254,000 & -25,000), wholesale trade (+249,800 & -159,400), information services (+173,000 & -108,000), and mining & logging (+25,000 & -43,000). Here's the same exercise for both local (+147,500 & -310,200) and state (+28,400 & -193,600) government education jobs.

Earned Income Proxy (*link*): Our Earned Income Proxy (EIP), which tracks consumer incomes and spending closely, recorded its 16th increase in the past 17 months—up 1.4% in September and 20.5% over the period—to yet another new record high. The EIP has averaged monthly gains of 0.9% over the past seven months. The average hourly earnings component of the EIP climbed 0.6% during September though only 2.6% during the 17 months through September—as large employment fluctuations since February 2020 had complicated the analysis of recent trends in average hourly earnings. Things appear to be getting back on track, as average hourly earnings rose 4.6% y/y in September, up from 0.3% y/y in April. Meanwhile, aggregate weekly hours, the EIP's other component, advanced for the 14th time in 17 months, by 0.8% m/m and 17.9% over the period.

Unemployment (*link*): September's unemployment rate sank to an 18-month low of 4.8%, in part due to a 183,000 drop in the labor force. The participation rate remains subdued, ticking down to 61.6%, even as about 25 states led by Republican governors ended expanded benefits. By race, unemployment rates fell across the board, with the rate for African Americans (to 7.9% from 8.8%) posting the biggest decline, followed by Asians (4.2 from 4.6), Whites (4.2 from 4.5), and Hispanics (6.3 from 6.4)—with all four rates the lowest since March 2020. By education, the rates for those with less than a high school degree (to 7.9% from 7.8%) was the only one that ticked up last month, while those with a high school degree (5.8 from 6.0), some college (4.5 from 5.1), or a bachelor's degree and higher (2.5 from 2.8) all dropped to their lowest percentages since March 2020.

Global Economic Indicators

Germany Manufacturing Orders (*link*): German factory orders plunged more than expected in August as continued shortages of semiconductors and other intermediate products are preventing manufacturers from meeting strong demand. Total orders plunged a larger-than-expected 7.7% in August, after jumping 9.8% during the two months ending July to a new record high. The report notes August's sharp fall was preceded by strong gains in both July (+4.9%) and June (+4.6) in part due to major orders in aircrafts, ships, and trains during those months. Driving orders down in August was a 15.2% plunge in orders from outside the Eurozone—after soaring 18.2% in July—while domestic orders fell 5.2% in August and 7.3% during the two months ending August, after soaring 17.8% during the five months through June to a new record high. Billings from inside the Eurozone continued its up-and-down pattern, rising 1.6% in August after a 1.8% loss and a 1.7% gain the prior two months. Here's a look at movements in domestic orders, along with orders from inside and outside the Eurozone for the main industry groupings in August and year to date: capital goods (-7.7%, +7.9%, -21.3% m/m & +12.2%, +26.6%, -1.2% ytd), intermediate goods (-3.0, -9.6, +3.3 & -1.7, -7.6, +5.1), consumer durable goods (-2.2, +3.3, -15.0 & -4.3, -7.4, +20.0), consumer nondurable goods (-0.2, +15.5, -15.4 & +17.8, +5.3, -10.9)—with overall capital, intermediate, and consumer durable goods orders remaining in record territory despite August declines.

Germany Industrial Production (*link*): Production fell for the sixth time this year in August, posting its biggest monthly decline since April 2020, as supply disruptions continued to depress the motor vehicle industry, sending industrial production south. Germany's headline number, which includes construction, contracted 4.0% in August and 6.5% ytd, while production excluding construction fell 4.0% and 6.0% over the comparable periods. Production is 9.0% below pre-pandemic levels. Capital goods production fell for the fourth time in five months, by 7.8% m/m and 9.6% over the period. Production of motor vehicles, trailers, and semi trailers has increased only once this year, plunging 17.5% in August and 36.2% ytd. Machinery & equipment production sank 6.3% in August, though remains in a very volatile flat trend around recent highs, up 1.2% ytd. Looking ahead, IHS Markit's M-PMI revealed that supply bottlenecks continued to constrain both orders and production in September—with growth in both the weakest in 15 months.

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