

Special Commentary — June 24, 2021

Signs of Some Labor Constraints Easing in Time for June Payrolls

Summary

Despite businesses' eagerness to hire, job growth has disappointed the past two months due to an array of staffing challenges we discussed in a [report](#) last month. Since then, it appears some of these headwinds—most predominately health concerns—are easing, which should help hiring pick up in June. However, childcare issues linger, and any boost stemming from an early end to extra unemployment benefits in some states seems to be at least another month away.

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Fading COVID Fears Supportive of Labor Supply Improvement

As we laid out in a [report](#) last month, a number of factors, not all mutually exclusive, have kept workers on the sidelines and contributed to the disappointing pace of job growth over the past two months. Businesses are raring to staff up, evidenced by the record number of job openings and businesses planning to hire, but workers are not so ready to return.

As we head toward the June payrolls report, there are some signs that factors constraining a rebound in the labor supply are beginning to ease. Fears around contracting COVID have plummeted alongside new cases as tremendous progress has been made on vaccinations. According to the latest Census' Household Pulse Survey, which covered the two weeks ending June 7 and overlapped slightly with the employment survey week, one million fewer adults reported not looking for work due to fear of getting COVID compared to the period overlapping the May payroll report ([Figure 1](#)).

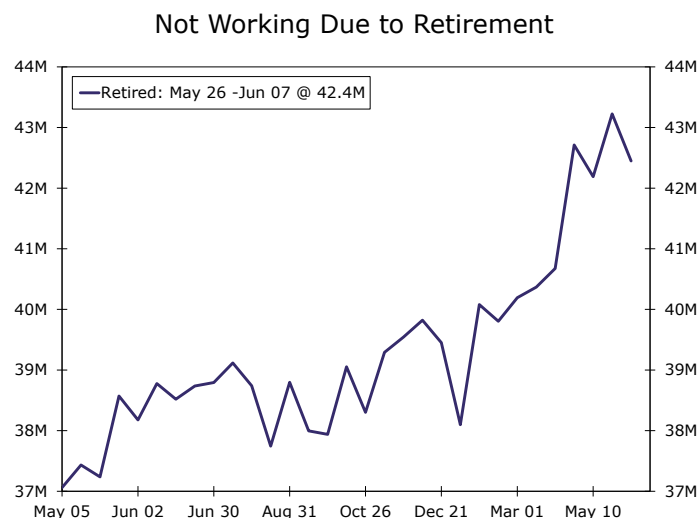
The accelerated pace of retirements brought on by the pandemic also appears to have eased over the past couple of months. After leaping early in the year, the latest survey shows the number of adults out of the labor force due to retirement lingering between 42 and 43 million ([Figure 2](#)).

Figure 1



Source: U.S. Census Bureau and Wells Fargo Securities

Figure 2



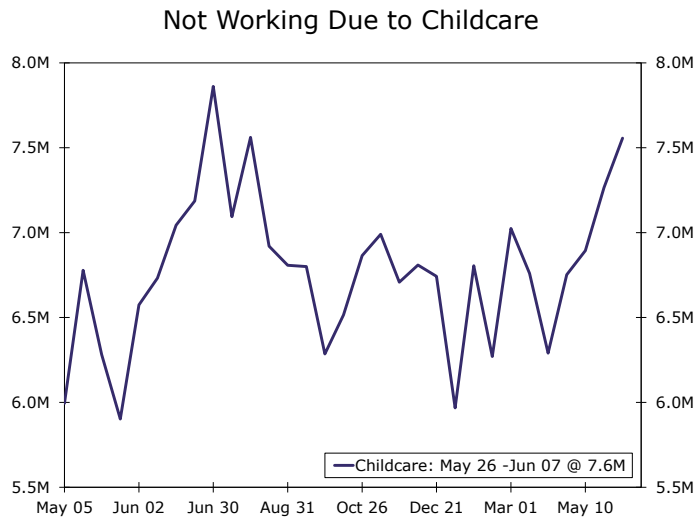
Source: U.S. Census Bureau and Wells Fargo Securities

Other Headwinds to Ease More Slowly

Other factors weighing on the labor supply, however, do not appear to be abating just yet. The latest Household Pulse Survey shows that childcare remains a significant hurdle to millions of potential workers. Since our initial report, adults not looking for work due to childcare issues rose by over 800,000 ([Figure 3](#)). This follows a similar pattern to last summer, suggesting that the rise is at least partly seasonal. Nevertheless, it appears childcare is likely to delay some parents from going back to work until schools reopen for in-person learning this fall.

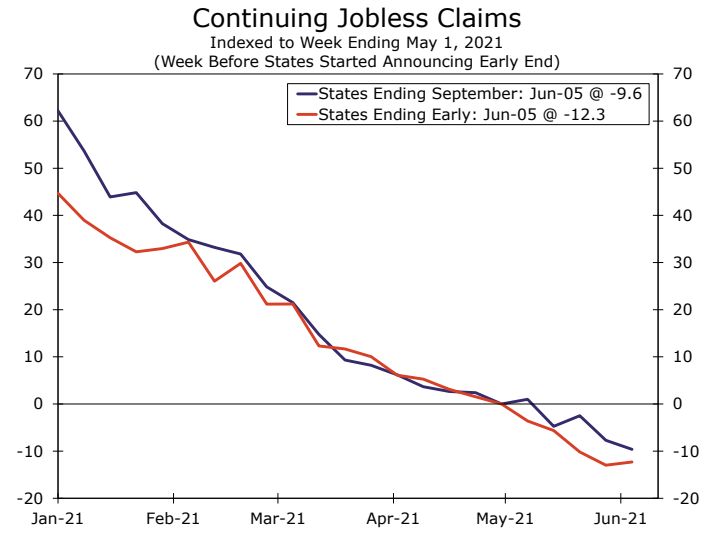
It is also likely too soon for the early cutoff of extra unemployment benefits in some states to move the needle on hiring in June. None of the 26 states planning on ending the \$300 federal top-up to benefits before its scheduled lapse in early September cut off benefits before the payroll survey week. Sure, the announcement alone may push some recipients to start a new job earlier than otherwise, but continuing claims have fallen to a similar degree in the states ending benefits early and those that are not, since the first announcement came from Montana on May 4 ([Figure 4](#)).

Figure 3



Source: U.S. Census Bureau and Wells Fargo Securities

Figure 4



Source: U.S. Department of Labor and Wells Fargo Securities

While the supply of labor is still likely to limit the pace of hiring in June, we expect it will not be as big of a constraint as it was in April and May. Health concerns have eased tremendously over the past couple of months, which should make more workers comfortable returning to the job site. At the same time, a wider array of opportunities at a rapidly improving rate of pay (average hourly earnings are up at 4.5% annualized pace the past three months) should also help some workers move off the sidelines. We expect to see a noticeable pickup in hiring in June as a result, with employers adding 750,000 new jobs. The unemployment rate is likely to only inch down to 5.7% as more workers return to the labor force. But with plenty of frictions still lingering, such as childcare issues, the type and location of jobs on offer and workers rethinking what they want out of job, hiring looks like it will be restrained by an inability to find workers for a while.

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