Economics

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Economic Indicator — July 2, 2021

Hiring Heats Up with Hints of Labor Constraints Easing

Summary

June's jobs report demonstrated that despite the continued headaches caused by the inability of many businesses to find the help they need, the labor market recovery has picked up speed. Hiring strengthened in June, with employers adding 850K new jobs. The unemployment rate ticked up to 5.9%, but there was a notable jump in participation among prime-age workers. Staffing challenges remain supportive of strong wage growth at the industry level, which leads us to expect inflation will remain elevated in the months ahead. Even with this solid step on the road to "substantial further progress", we do not think this report will hurry the Fed in its current thinking on when to eventually start tapering.

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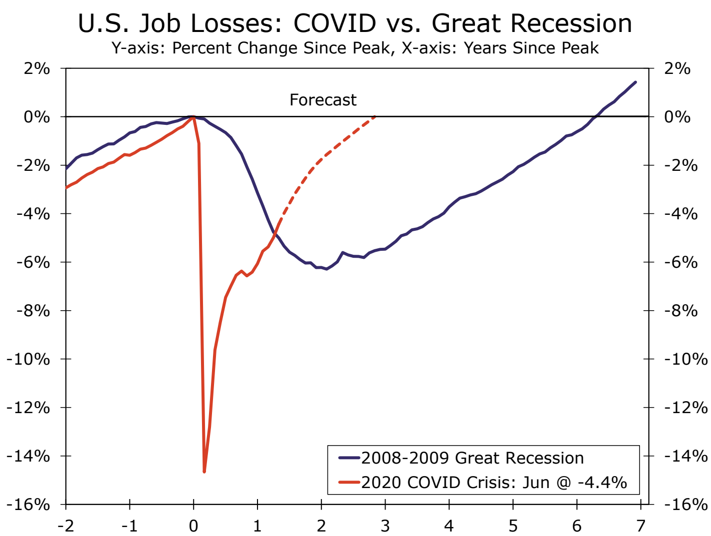


Source: U.S. Department of Labor and Wells Fargo Securities

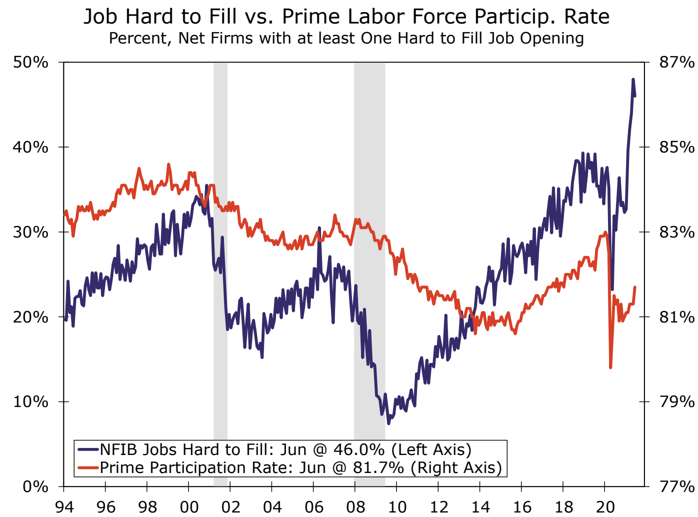
Picking Up the Pace

The jobs recovery progressed nicely in June, as employers added 850K new jobs. That marked the strongest increase since August 2020, with momentum clearly picking up over the past two months.

The gain comes as demand for labor remains red-hot during this summer of reopening. Job openings sit at record levels, hiring plans are at all-time highs and more consumers than ever view jobs as "plentiful". But supply has been the major hold up to a more robust payroll recovery amid concerns over COVID, childcare issues, more generous income support, and for many a broader re-think about what they want out of a job.

Today's report showed supply constraints may be starting to fade at least slightly. The labor force increased by 151K, and while that wasn't enough to move the needle on the overall participation rate, the participation rate among prime-age workers (25-54) leapt out of its narrow pandemic range. While businesses are still having a hard time filling positions, staffing challenges do not seem quite as dire based on today's pickup in payrolls.

Despite stronger payroll growth, the unemployment rate ticked up to 5.9%. The rise stemmed from the household measure of employment slipping 18K even as the labor force rose, leading to a jump in the ranks of the unemployed. Given the choppiness of the household data month to month, the main message from the uptick is that the unemployment rate will be slower to descend over the remainder of the year as the labor supply improves, but we believe the trend remains downward.

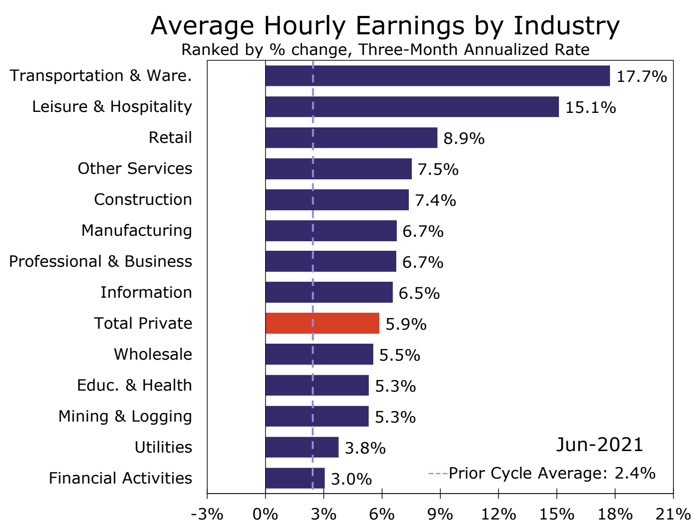


Source: U.S. Department of Labor, NFIB and Wells Fargo Securities

Labor Doesn't Come Cheap

On an industry basis, the reopening of the services economy was clear. Leisure & hospitality payrolls were up another 343K, consistent with our expectation for a recreation renaissance this summer. Retailers also stepped up hiring, particularly at clothing and general merchandise stores. Fewer summer layoffs at schools following a year of mostly remote learning also looks to have given government hiring a boost in June (+188K). With state coffers flooded with cash and payrolls still down 4.4%, we expect to see additional big gains in the sector in the months ahead. Meanwhile, soaring prices for materials and parts, if businesses can even get them, is keeping a lid on hiring in the construction industry and at auto producers, but it is also supporting job growth in the mining industry, as oil prices have come back strongly.

Getting workers back to the jobsite has not come cheap. Average hourly earnings rose another 0.3% in June, which is impressive considering some of the biggest job gains last month came from lower-paying industries. Employers have had to pony up in industries where shortages have been particularly acute. The sharp jump in wages over the past few months (and the potential for further strong gains amid ongoing staffing challenges), leads us to expect that inflation will remain elevated in the months ahead.

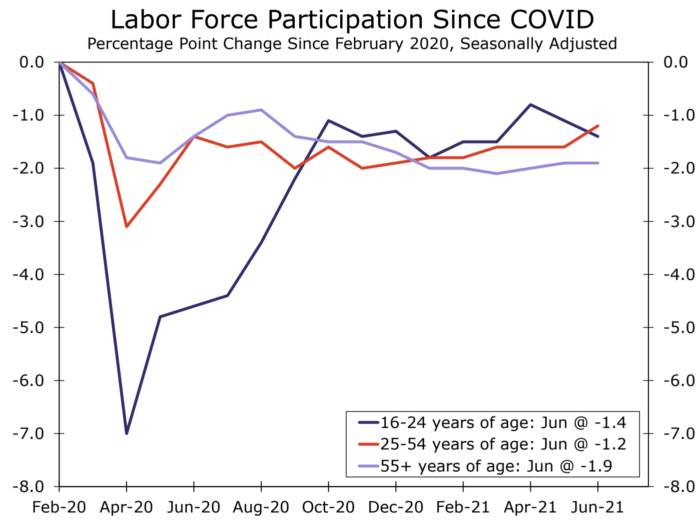


Source: U.S. Department of Labor and Wells Fargo Securities

Progress? Sure, but Not Enough to Hurry the Fed

Today's report should be encouraging for the Fed. Employers seem to be finding ways to step up hiring even given current constraints, as rising job opportunities and pay among prime-age workers seem to be unlocking labor supply.

That said, a fuller recovery will still take time. We expect the labor supply to improve more meaningfully this fall as schools open for in person learning and any extent to which extra unemployment benefits are weighing on hiring fades. But it won't be until late this year that it becomes clear whether the still-significant drop in the labor force reflects a temporary timing mismatch between when employers are looking to hire and workers are ready to come back, or is symptomatic of scarring. While participation among young adults and prime-wage workers has improved since the early days of the pandemic, participation among older workers remains stubbornly low and could reflect more permanent exits via retirements. Therefore, even with solid step on the road to "substantial further progress", we do not think this report will hurry the Fed in its current thinking on when to eventually start tapering.



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

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