CHANDLER ASSET MANAGEMENT

Economic highlights from the week ending on May 7, 2021

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The economy added far fewer jobs than expected in April. U.S. nonfarm payrolls increased by 266,000, versus the Bloomberg consensus forecast of 1,000,000. March payrolls were also revised down by 146,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 524,000 and 294,000 per month, respectively. Payrolls in the leisure and hospitality sector have been driving the job gains in recent months and were up 331,000 in April. Meanwhile, multiple sectors lost jobs in April, including transportation and warehousing, motor vehicle and parts manufacturing, and retail trade. The unemployment rate ticked higher to 6.1% in April from 6.0% in March, as the participation rate increased to 61.7% from 61.5%. Workers who classified themselves as employed but absent from work in April continued to understate the unemployment rate by about 0.3%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, declined to 10.4% in April from 10.7% in March.

Although the headline nonfarm payroll number was disappointing, there were a few factors in today's employment report that suggest the demand for labor is strengthening including a 0.7% month-over-month increase in average hourly earnings, an increase in the average work to 35.0 hours from 34.9 hours, and a decline in the number of workers who were working part-time due to economic conditions. However, health concerns, childcare demands, and supplemental unemployment benefits may also be deterring some people from going back to work. Supply chain issues in the auto manufacturing sector were also likely a factor for the decline in manufacturing jobs, which should resolve over time.

Overall, we believe the April employment report may be an anomaly and believe underlying momentum in the labor market remains positive. Nevertheless, the labor market remains a long way from a full recovery and as such we expect the Federal Reserve to remain highly accommodative. Earlier this week, Richmond Fed President Thomas Barkin said he is looking specifically at the employment-to-population level, which was 57.9% in April. He indicated that a recovery in the employment-to-population level toward the pre-pandemic level of 61.1% would support "substantial further progress" toward the Fed's goals, which is the qualitative benchmark the Fed has set before it will start adjusting monetary policy. Several other Fed policymakers made public remarks this week reiterating the view that accommodative monetary policy remains appropriate to support an ongoing economic recovery.

Next Week

CPI, PPI, Retail Sales, Industrial Production, Consumer Sentiment