First Trust
Monday Morning OUTLOOK

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Jobs Are Booming

When the scientists said "15 days to slow the spread," some of us actually believed that by Easter the shutdowns would end. That was last year. Now, a full year, and $5 trillion in government spending later, we may finally be getting our wish.

On Good Friday, the Bureau of Labor Statistics released the March 2021 employment data, and payrolls increased a staggering 916,000 for the month, easily beating the consensus expected 660,000. Jobs increased most in leisure & hospitality (up 280,000), construction (up 110,000), and education and health services (up 101,000). Meanwhile, manufacturing jobs increased 53,000, while government jobs rose 136,000 (almost all in education services).

This is what we should expect as unprecedented shutdowns ease. As we wrote weeks ago, the best stimulus is a COVID vaccine (and herd immunity) which gives people confidence to return to more normal life.

We expect similar gains in jobs in the months ahead. In fact, we would not be surprised if some months of 2021 had job gains topping one million. We need it. In spite of the surge in jobs in March, total payrolls are still 8.4 million short of where they peaked pre-COVID, with the leisure & hospitality sector, all by itself, accounting for 3.1 million of that deficit. Most of those gaps should be closed by the end of this year.

But, completely closing those gaps won't mean the labor market has fully healed. Jobs would have been growing in the past year if COVID-19 had never happened, perhaps adding two million new jobs or more. Nonetheless, this is the world we have created, and we have a hole to dig out of. And we are digging rapidly, indeed.

The payroll data comes from a survey of businesses, while the household employment data is captured by talking directly to workers. As a result, it includes small-business start-ups that haven't yet made it into the business payroll survey. This alternative measure of employment increased 609,000 in March and the unemployment rate dropped to 6.0%, even as the labor force (people who are either working or looking for work) grew 347,000 and the labor force participation rate ticked up to 61.5%.

The March data was also lifted by the fact that February was held back by harsh winter weather. We can see this in the length of the average workweek, which fell in February, but rebounded strongly in March. Total hours worked (the average workweek x total employment) rose 1.9% in March – that is a huge lift to overall economic output.

If there was a negative part of the March jobs report it was that average hourly earnings declined 0.1% for the month. However, we think that decline is a side-effect of the otherwise very strong jobs report.

COVID-19 and related shutdowns caused the most economic damage among service businesses that need many workers to interact directly with customers, like at restaurants and bars. These workers are often younger and earn lower than average pay. So, when these firms are re-hiring workers, which is a good thing, that process can also temporarily drive down average earnings. In other words, we don't think the dip in average hourly earnings is worth worrying about.

When you combine the path of total hours worked and average hourly earnings, they show a robust private-sector recovery. This measure of total private earnings hit a new all-time record high in March, up 0.7% versus the pre-COVID peak. When combined with trillions of dollars in stimulus spending that will roll out in the months ahead, we expect economic activity to boom. Job gains in the seven million range for all of 2021 and real GDP growth of 6%, or more, are highly likely if renewed shutdowns do not occur.

Collectively, adding the increased savings rate to the gains in income we expect households to have more money to spend than at any point we can find in historical data.

Growth and increased spending themselves don't cause inflation, and neither do budget deficits. Inflation is too much money chasing too few goods. So, if the government takes money from one person to redistribute it to another person, then there is no increase in overall demand. But if government prints money to fund itself, then that debt represents an increase in potential spending. And if government lifts tax rates, then output is hampered. That's our biggest worry for the next few years – watching demand soar due to 27% growth in the M2 money supply, while higher tax rates and more redistribution hold back output, leading to inflation. In the meantime, the economy is booming.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-5 / 9:00 am	ISM Non Mfg Index – Mar	58.5	**58.5**	63.7	55.3
9:00 am	Factory Orders – Feb	-0.5%	**+0.3%**	-0.8%	+2.6%
4-7 / 7:30 am	Int'l Trade Balance – Feb	-$70.2 Bil	**-$71.2 Bil**		-$68.2 Bil
2:00 pm	Consumer Credit– Feb	$2.4 Bil	**$0.0**		-$1.3 Bil
4-8 / 7:30 am	Initial Claims – Apr 3	705K	**705K**		719K
4-9 / 7:30 am	PPI – Mar	+0.5%	**+0.6%**		+0.5%
7:30 am	"Core" PPI – Mar	+0.2%	**+0.3%**		+0.2%