

Wentz Weekly

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April Employment Report Better than Headlines Suggest



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Several economic data reports – jobless claims, the ADP employment report, Job Openings and Labor Turnover Survey, and manufacturing surveys – have indicated that last Friday’s Department of Labor Employment Report would show strong job growth for the month of April. However, the DOL’s report showed just 266,000 jobs were added in the month, well short of one million expected by many. The data is adjusted by seasonal factors and if you take out seasonal adjustments nonfarm payrolls rose by 1.089 million, closer to the “typical” (pre-pandemic) April, and down just slightly from 1.176 million from March. In addition, about three million jobs are typically added from the February to June period and through just March and April this year we have added 2.27 million, on pace to surpass the average. Nonetheless, we are still 8.2 million jobs less than where we were from February 2020 (pre-pandemic) so we still have a long way to go in the labor market. We would expect the market to continue to accelerate this year as the economy continues to reopen, more people get vaccinated, and those on the sidelines become more optimistic on finding a job.

In addition to April’s miss, March’s 916,000 job gains (seasonally adjusted) was revised down to 770,000, suggesting the labor market perhaps was not as strong as we initially thought. That is how the markets reacted at least, with the 10-year Treasury falling back below 1.50%, and stock futures falling. Call it a knee jerk reaction - once the markets opened stocks quickly changes course and ended up finishing positive on the day. Investors took the report as “bad news is good news” and see a higher chance the Fed will keep accommodative policy in place for longer the previously expected. Recall the Fed has two mandates – to promote maximum employment and moderate long term inflation and does so by controlling interest rates and money supply in the economy. Last week we received the latest data on the employment market, this week we will see more data on the inflation front with the consumer price index, producer price index and import and export prices.

The labor report was not the only this causing a knee jerk reaction in markets last week. Around mid-week Treasury Secretary Janet Yellen was speaking at a Wall Street Journal event and made remarks on the administration’s recent proposals and economic impact. Yellen said if the proposals were enacted “it may be that interest rates will have to rise somewhat to make sure our economy won’t overheat,” and that the spending would be small relative to the economy but “could lead to some very modest increases in interest rates.” Growth stocks have been very sensitive to interest rate talk, because they are expected to receive a majority of profits in the future and discounting those back to present value at a higher rate gives a lower present value, and moved lower after the comments. Stocks recovered somewhat the next day, but at the end of the day the Fed is expected to keep monetary policy accommodative for some time until it sees a significant change in inflation.

Key manufacturing reports from the Institute for Supply Management (ISM) and IHS Markit (PMI) remain in expansion territory but fell short of expectations in its latest monthly survey on business conditions. Both reports are key indicators on business conditions in the sector and suggest how purchasing managers feel about the economy. Both surveys noted strong growth in new orders, production and output, but also noted unprecedented supplier delivery delays and shortages. In fact, the PMI report noted manufacturers are seeing the “biggest boom in at least 14 years during April,” and “demand surged at a pace not seen for 11 years amid growing recovery hopes and fresh stimulus measures.” ISM survey members were noted saying they are “struggling to meet increasing rates of demand due to Covid impacts limiting availability of parts and materials.” PMI respondents said the raw material shortages are leading to a faster rise in costs, which firms are trying to pass on to the customer. Consequently this has led to a moderation in business confidence due to concerns regarding supply chain disruptions. We think this is becoming a major issue in the economy, and another reason inflation will tick higher in the months ahead, which may be apparent in the upcoming inflation reports this week.

Company News

- Analysts are expecting Apple to launch a foldable iPhone with an 8-inch display sometime in 2023, with a plan for as many as 20 million units shipped that year. It was just last month that Nikkei reported Samsung is planning to release its own foldable phone later this year.
- Verizon is unloading its media segment in a deal where Apollo Global Management will acquire the assets, which includes AOL and Yahoo, for \$5 billion. Verizon acquired AOL in 2015 for \$4.4 billion and Yahoo in 2017 for \$4.5 billion. The acquired assets will be called Yahoo.
- Facebook’s oversight board upheld the banning of former President Trump. The board is now giving the company six months to make a final decision with a reasoning.

The Week Ahead

The calendar remains busy this week for both corporate earnings and economic reports. Economic data begins to roll in on Wednesday when the Bureau of Labor Statistics releases the consumer price index where the consensus is for a 3.6% increase in consumer prices from a year ago which would be one of the largest increases in years. Then on Thursday the BLS releases producer price index, an indicator of inflation at the producer level, where expectations are for a 5.9% increase from a year ago. Also on Thursday is initial unemployment claims. Claims fell below 500k last week and are expected to do so again in the latest week. The week ends Friday with consumer spending data where retail sales are expected to rise 0.5% from a month ago, after a 9.7% increase in March. The earnings calendar slows this week, but there are still several notable reports including The Trade Desk and Tyson Foods on Monday; Electronic Arts on Tuesday; Toyota on Wednesday; Alibaba, Airbnb, Yeti, Disney, and DoorDash on Thursday. There will also be several large investor conferences held throughout the week which could cause some moves in individual stocks.

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