

Wentz Weekly

June 7, 2021

Goldilocks May Employment Report



Investment management for your lifetime

Employers in the U.S. added 559,000 jobs in May, according to the Department of Labor, a number that was near expectations and enough to keep pace with an economy that is driving full speed but not too much to cause investor concern about an overheating economy and a potential change of course from the Fed. The unemployment rate fell to 5.8% from 6.1% thanks to the job gains and the participation rate falling to 61.6% from 61.7% as more people left the labor force. In our opinion, a better measure of true unemployment is the U-6 unemployment rate which includes those employed part time that want full time work and those not looking for work but would like to work. The U-6 rate fell to 10.2% from 10.4% in May. As expected, the leisure/hospitality sector saw the most job gains at 292,000, however are still down 2.5 million jobs compared to pre-pandemic levels. Education saw the second most at +144,000, followed by health care at +46,000. Construction lost 20,000 jobs, a sector which is also seeing a large labor shortage and significant demand in projects. In total, the U.S. is still 7.6 million jobs, or 5%, lower than where it was pre-pandemic.

Somewhat of a surprise to us was the average wage ramping up in May. Last year, layoffs of low wage employees caused the average earnings to jump substantially higher due to more higher paying jobs staying in the calculation and more lower paying jobs leaving the calculations, with the average skewed higher as a result. As workers return to the labor force the expectation was for the average earnings to decline as more low paying jobs were added back to the calculation. A report by Goldman Sachs notes each 100k increase in employment in the leisure and hospitality sectors (accounting for 44% of remaining in private sector job losses) will subtract 2.7 basis points (.027%) from monthly average hourly earnings growth, and even more of a drag due to retail job gains (-.035%). This led Goldman to estimate average hourly earnings measures for the remainder of the year would drag the index lower. However, the latest report showed the opposite, with average hourly earnings rising 0.5% in the month, indicating employers may just be offering higher wages to attract qualified workers. While this was a little higher than expected, one month of data does not make a trend. If this does become a trend, higher wages typically lead to higher inflation, something the Fed and investors will be sure to focus on in upcoming data.

Another sign of the strong labor is weekly unemployment claims data. Last week the Department of Labor said 385,000 people filed for initial state unemployment benefits, a decrease of 20,000 and bringing the number of weekly claims below 400k for the first time since last March. Prior to March 2020, initial claims were averaging in record low territory of around the low 200,000's. The number of individuals continuing to collect weekly benefits from the state was at 3.771 million, continuing a trend lower.

However, as of May 15 there are still over 11 million Americans collecting pandemic unemployment benefits. The number has leveled off at this range for several weeks, but we expect that to decline substantially over the upcoming weeks. The reason is about half of the states in the U.S. said they are ending this supplemental pandemic related unemployment assistance. Under this program, Americans who filed for this benefit receive an additional \$300/week in unemployment benefits under the federal program. The program was put in place last April to help Americans out of work weather the pandemic as many businesses shut down leaving them out of work. Now, dynamics have changed and employers are struggling to find workers and states have taken notice. The federal pandemic benefit is set to expire the first week of September, but it looks like a majority of the country will see it end before then, a move we believe will help the labor shortage and lead to additional job gains in the months ahead.

The Organization of the Petroleum Exporting Countries (OPEC) and its allies met last week and concluded in its forecasts the global economy will demand more oil for the second half of the year than previously expected. This led OPEC to reaffirm its commitment to boosting oil production by 2.1 million barrels/day by July. That is a fraction of the 9.7 million barrels/day the group agreed to cut in early 2020 when the pandemic began shutting down economies and demand plummeted. West Texas Intermediate oil has gained in eight of the past ten trading sessions and is up 12.20% over that period, settling at \$69.62 per barrel on Friday for a fresh two year high. This has been a catalyst for energy stocks, most of which make higher profits as the price of oil rises. The energy sector is the best performing sector year-to-date, up 45.51% over that time.

Company News

- According to recent data, hotels have recovered just as well as airlines. Hilton said its occupancy rate was 93% over the Memorial Day weekend, and summer reservations are above 2019 levels, the previous peak.
- After being up 139% Tuesday and Wednesday, AMC Entertainment said Thursday morning it was selling 11.6 million new shares of stock in effort to raise more money to take advantage of its higher stock price. Since the start of the second quarter, AMC has raised \$1.25 billion. In its filing AMC said, "we caution you against investing in our Class A common stock, unless you are prepared to incur the risk of losing all or a substantial portion of your investment." We would agree with that statement.
- DocuSign reported quarterly results that blew past analysts' expectations. Its revenues grew 58% from a year ago while billings were up 61% from a year ago. In addition, the company provided revenue and billing forecasts for both the current quarter and full year that were both above consensus expectations.

The Week Ahead

The calendar is lighter again this week and the main event for investors will be the consumer price index report on Thursday. Economists are expecting the index on consumer prices to have risen 0.4% in the month of May, after a 0.8% increase in April, bringing the annual rate higher to 4.6%. Inflation has been a key concern for investors lately, whether the jump in prices will be transitory or something that is persistent, but we would suggest not basing opinions on this one report. Outside of the inflation report we will see job openings and labor turnover on Tuesday, latest jobless claim figures on Thursday, and ending with the University of Michigan's consumer sentiment results on Friday. Several notable companies reporting earnings this week include Coupa Software and Marvel Technology on Monday; Campbell Soup on Wednesday; and Chewy on Thursday. Importantly in the biotech sector, Merck and Regeneron will discuss their cancer drug pipeline at an annual Oncology meeting. Other events include one of REITs biggest events of the year; NAREIT REITweek, and Apple's WWDC event on Monday where the company is expected to highlight its new operating systems.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. Every investor's situation is unique and you should consider your investment goals, risk tolerance and time horizon before making any investment. Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Information contained herein was received from sources believed to be reliable, but accuracy is not guaranteed. Information provided is general in nature and is not a complete statement of all information necessary for making an investment decision and is not a recommendation or a solicitation to buy or sell any security. Investing always involves risk and you may incur a profit or loss. Keep in mind that individuals cannot invest directly in any index. Past performance does not guarantee future results. There is no assurance these trends will continue, or forecasts will occur.