

# Wentz Weekly

September 7, 2021

## Social Security to be Depleted By 2034 and the Disappointing Labor Report



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The Department of Labor said Friday only 243,000 payrolls were added in August, well short of the 750,000 expected. Most of the disappointment can be attributed to the delta variant slowing hiring, as the leisure and hospitality sector did not see any net job gains, compared to consistent several hundred thousand in the prior months. In addition, seasonal adjustments are difficult; a large gain was expected in education, but the report showed only 40,000 educational payrolls were added. Fed Chairman Powell has said the Fed would like to see further progress on job gains before shifting monetary policy, and we believe this report will put a pause on any potential action in the September meeting and believe the probability a taper announcement at the November meeting has increased and is the most likely. Although it was a disappointment at first sight, it is not appropriate to assume a change in labor market conditions on one single report, as the prior two months had over two million new payrolls added. September 6 marked the end of the federal pandemic enhanced unemployment benefits, and the wave of Delta cases should be peaking, so we believe the pace of hiring will accelerate again as we head into the fall months.

The bigger issue is do those that left the labor force 18 months ago return, and will wage gains moderate or continue to accelerate, leading to additional inflationary pressures. The labor force participation rate, those working or looking for work divided by those in the working age population, was in the mid- to upper-60s through much of the 2000s but fell to a low of 62.4% during the recovery from the Financial Crisis. Due to the pandemic it fell further, to a historic low of 60.2% in April of 2021 but has only recovered to 61.7% compared to its pre-pandemic level of 63.4%, which equates to roughly over 3 million Americans still not back in the labor force. On the other side, wages rose 0.6% in August, a very strong monthly gain, driven by higher wages in many of the lower paying jobs. Leisure and hospitality jobs saw a 1.3% increase in wages in the month and the sector has now seen wages 10.3% higher than a year ago. In aggregate, wages were 4.3% higher than a year ago. This is something to keep an eye on because typically higher wages will push employers to increase prices rather than eating the costs, and therefore leading to higher and more persistent inflation.

Many of the progressive Democrats have recently called on President Biden to replace Jerome Powell as chairman of the Federal Reserve. A statement issued by the group called for a makeover of the Fed in effort to focus more on “eliminating climate risk and advancing racial and economic justice.” Powell’s term expires in February and Biden can choose to extend his term or nominate a new chairman. Powell was nominated to the Fed as a board member back in 2011 under Obama, and nominated as chairman by Trump in 2018. Powell during his time has focused on more transparency from the Fed, including a press conference after every FOMC meeting, and moving slow when it comes to removing accommodation to the economy. The Fed has a dual mandate under Congress to achieve stable prices and maximum sustainable employment. Although the Fed has no mandate to incorporate climate change or inequality, the Fed under Powell has communicated it has taken these issues more seriously in recent appearances.

Joe Manchin, the Democrat Senator from West Virginia, called for Congress to take a pause on the reconciliation legislation to focus on the extraordinary high level of spending the plan calls for, in an op-ed to the WSJ. Manchin does not directly say the range he supports but implies he would like the bill fully paid for – to close the gap between the expected revenue gained from tax increases and the additional spending under increasing the deficit. Sen. Manchin’s op-ed is significant because Democrats need all 50 of its Senators on board the reconciliation legislation for it to pass. We expect Democrats will negotiate a smaller reconciliation package while keeping many of the tax increases in the package and still be able to pass something through Congress, which will extend the timeline.

The U.S. recession triggered by the Covid pandemic last year caused the trustees of the Social Security Trust Fund to say in its annual report that the trust fund will be unable to pay full benefits starting in 2034, one year earlier than previously estimated. In addition, it said its Medicare hospital insurance fund will run out of funds by 2026. Contributing to these estimates was a drop in revenue due to lower employment, resulting in lower payroll tax revenue, but not as much as many forecasters originally expected. Somewhat offsetting this was a higher mortality rates, especially among older individuals, resulting in less near-term outflows from the program. Other things contributing to the shortfall is lower immigration, lower births this year and next, lower economic output, and higher inflation this year which will boost benefit payments in 2022. Once reserves are depleted, benefits would need to be automatically reduced unless Congress acts and increases taxes, adjust the age to be eligible for retirement benefits, or permanently reduce benefits. This report is another reminder of the importance of planning for retirement and reviewing that plan periodically.

## Company News

- Shares of Zoom Video declined after its earnings report last Monday. The company said its revenues grew 54% from a year ago but said it is seeing a post-Covid transition period and a drop off in business from its small customers which impacted its third quarter forecast. Small customers account for 36% of Zoom’s revenue.
- Medical supplies maker Baxter International said it has agreed to acquire competitor Hill-Rom Holdings for \$156 per share, or about \$10.5 billion, implying a 26% premium to Hill-Rom’s stock prior to the announcement.
- Shares of DocuSign rose Friday after reporting its quarterly results and a 50% y/y increase in revenues. The company also increase its third quarter and full year forecast. Its CEO said its \$2 billion in annual revenue only represents 5% penetration in the overall market and company has “years of growth ahead.”

## The Week Ahead

The economic and earnings calendar will be quiet for this holiday shortened week. The first economic report comes Wednesday in the job openings and labor turnover survey where job openings surged to record highs in July and is expected to stay there in Augusts at around 10 million. We will also see the weekly jobless claims report. The federal enhanced unemployment benefits ended on Monday, but data for claims lags by several weeks so we will not see the impact on this for another two weeks at least. Finally, on Friday the producer price index is released with an expectation of a 0.6% rise in prices at the producer’s level in August and a 8.3% rise compared to a year ago. On the earnings calendar there will be a small number of companies reporting this week with notable earnings reports including; Coupa Software on Tuesday; GameStop, Lululemon, and RH on Wednesday; Academy Sports and Affirm Holdings on Thursday; and Kroger on Friday.

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.