

Wentz Weekly

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Jobs Are Open, But Where Are the Workers???



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Despite the steep decline in the unemployment rate – down to 4.6% in the latest reading from the high-water mark of 14.7% in April 2020 – there are still 3.1 million less people in the labor force and 4.72 million less people employed in October compared to the pre-pandemic levels from February 2020. The labor force participation rate was 61.6% in October and is trending at its lowest levels since the mid-1970s, and much lower than the highest levels of 67.3% in the early 2000s. The question is, with the economy roaring back, where are the workers?

The issue is not a lack of open jobs. Last week the Bureau of Labor Statistics said there were 10.44 million job openings as of the last day of October, almost 50% higher than pre-pandemic levels and just off the record high number of 11.1 million in July. Economists are trying to figure out why the labor force has not recovered from the depths of the pandemic in an economy where activity has blown past pre-pandemic levels. One of the most obvious reasons is the pandemic and peoples' fear of returning back to work due to the Covid and potential health concerns. But this does not explain it all – the DOL's household survey shows 1.3 million were prevented from going back into the labor force due to the pandemic. In addition, fiscal transfer payments (direct stimulus checks to individuals from the government) likely weighed on participation, but that should be fading as those benefits expired in September and any excess savings will likely be spent down over the coming weeks. Another possible explanation could be from early retirements. A large amount of the 3.1 million that are not back in the labor force are those over 55 years old, which partially reflects individuals opting to retire early. Surveys indicate childcare issues with some parents, preventing them from returning to work and data also indicates more people took the entrepreneurship route and have started their own business.

With all these reasonings, one thing does stand out – there is nobody saying they want a job right now and cannot find one. Employees have the upper hand for the first time in a long time. This can, and we think will, continue to lead to higher wage pressures and the potential to turn the temporary or transitory inflation issue into a systemic one. The average wage is up 4.9% from a year ago and outside of the pandemic-inflated increases last spring, is the largest annual increase since tracking of the data began in 2006. The last thing the economy needs right now is wages to spiral out of control, further complicating the inflation issue and the path of Fed policy. While we are cautious on the broader markets overall on a short-term basis, we still believe there are opportunities, particularly in small caps and cyclical US equities.

The Consumer Price Index (CPI), which measures the price changes of a large basket of goods and services, accelerated again in October after registering a 0.9% increase in the month, doubling expectations, according to the Bureau of Labor Statistics. Compared to October 2020, the index is up 6.3%, representing the largest increase since 1990 and has been above a 5% rate for six consecutive months, further complicating the Fed's transitory argument. More significant is the price increases are becoming broader based. The largest contributor was a 30% increase in energy prices and a 26% increase in used vehicle prices, but price increases in categories such as shelter (the largest CPI component), food, apparel, home goods, and transportation have accelerated in recent months. Much of the inflationary pressures are driven by supply chain issues and bottlenecks, which will eventually ease, but the fact that inflation is becoming more broad and consistent is changing the narrative that inflationary pressures will be transitory but rather more persistent and around longer than previously expected.

The inflation situation is not expected to improve over the next couple months. Bottlenecks are still occurring in our supply chains and especially at US ports. The amount of cargo ships off the coast of the US largest ports continue to increase with the Port of Los Angeles and Long Beach now seeing over 80 ships anchored waiting to be unloaded, up from 37 in August. These two west coast ports handle approximately 40% of US imports and in a typical environment will see none or very few containerships waiting to be unloaded. The next issue is getting the ships unloaded and finding trucks to ship them to the warehouse. In some instances the containers will sit for days or even weeks waiting for the next step to reach the warehouses for distribution. This has led to a substantial increase in shipping costs, and some have begun to pass that cost onto the consumer with higher prices.

Consumer sentiment fell to a 10-year low despite a stock market that continues to post new record highs. According to a widely followed monthly consumer survey conducted by the University of Michigan the index of consumer sentiment fell to 66.8 in November from 71.7 the month prior, driven almost entirely by escalating inflation. In the survey, one in four Americans said inflation was negatively impacting their living standards with rising prices on goods reported more frequent than any other time in the survey's history going back over 50 years. Going a step further, another consumer concern was no effective policies have been developed to reduce the damage from higher inflation. The index for current economic conditions fell to 73.2 from 77.7 while the index for consumer expectations fell to 62.8 from 67.9.

Company News

- GE announced it plans to split into three public companies focused on its main areas of healthcare, energy and aviation. GE Healthcare will be the first to spin off sometime in early 2023, followed by GE Energy and power sometime early 2024. That leaves the legacy business with the aviation segment. CEO Larry Culp said the split was due to accountability and operational reasons and will allow the company to focus on their respective businesses.
- Johnson & Johnson said it will break into two companies, separating its consumer products business – with products such as Band-Aid, Tylenol, and Baby Powder – into a standalone publicly traded company sometime 2023. The other company will focus on its less predictable prescription drug and medical device businesses.
- A report from Reuters says Boeing is concerned it could be facing a large worker shortage after 11,000 of its employees are seeking a vaccine exemption. The federal vaccine mandate for large employers is expected to go into effect sometime in January.

The Week Ahead

In the corporate world there will be a handful of company presentations, with notable ones from Qualcomm, Bristol Myers Squibb, Teladoc, and Johnson & Johnson, in addition to the Las Vegas Auto Show. Also, third quarter earnings reports continue next week with a bulk of the retail sector set to report the next two weeks. Notable reports on the calendar this week include Advance Auto Parts, Tyson Foods, and Warner Music on Monday, Walmart and Home Depot on Tuesday, Target, Lowe's, TJX, Cisco, and Nvidia on Wednesday, Macy's, Kohl's, Alibaba, JD.com, Workday, and Palo Alto Networks on Thursday, and Foot Locker on Friday. The economic calendar sees several key reports out this week with the highlight the retail sales report on Tuesday where economists are expecting another strong 1.0% increase in sales for October. Other notable reports include several manufacturing survey reports on Monday and Thursday, industrial production on Tuesday, housing starts and permits on Wednesday and the weekly jobless claims on Thursday. On the political front, President Biden is scheduled to meet with China's Xi Jinping for the first time as President in a virtual meeting. Expectations are low with no major announcements or post-meeting statements expected.

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. This is not a recommendation to purchase or sell the stocks of the companies pictured/mentioned.