APRIL JOBS MISS EXPECTATIONS

MAY 2021

Equities reached new highs in April, the Federal Reserve re-confirmed its commitment to supporting the economy, and first-quarter economic growth hit a 6.4% annualized rate. However, surprisingly weak jobs growth in April took economy-watchers by surprise.

What happened? Let's take a closer look.

QUICK TAKE

Jobs numbers missed expectations by a long way—instead of the estimated 1 million or so new jobs, the U.S. economy only added 266,000. There are a number of possible reasons, from childcare issues to virus fears and the possible impact of unemployment benefits. We've also seen some prices and wages rise in recent months as businesses pass higher costs onto consumers. In both cases, we caution against overreaction: these are short-term data points in a highly unusual point in history. Prudence, as ever, remains our recommendation.

Jobs Growth Stalls

Expectations were that jobs growth would come in at just shy of 1 million in April, according to Bloomberg, and at 900,000 according to Moody's Analytics. March jobs growth was initially announced at 916,000; the U.S. economy added 1.3 million jobs between February and March, and about 1 million jobs over the preceding five months.[1]

In other words, expectations were that this momentum would continue.

Index Returns
(April 2021 and Year To Date)

Bloomberg Barclays Aggregate Bond Index US investment grade bonds	0.79% for April*	-2.61% for the year*
S&P 500 Index Large US Equities	5.24% for April*	11.32% for the year*
MSCI World Index Large/mid developed world equities (ex-US, CAN)	4.70% for April*	9.98% for the year*
MSCI Europe Index Large/mid developed european equities	4.68% for April*	9.09% for the year*
MSCI Emerging Markets Index Global emerging market equities	2.50% for April*	4.90% for the year*

* As of April 30, 2021

Instead, April employment figures showed just 266,000 new jobs and the unemployment rate ticked up slightly, to 6.1%.[2] However, more people also entered the workforce in April—with more people looking for jobs, it makes sense that this number would move a bit higher.

Overall, the U.S. is still 8 million jobs short of pre-pandemic levels. At the same time, there are a large number of unfilled jobs, and some corporate officials have stated that they're having trouble finding workers.[3]

A Complicated Return to Work

Federal Reserve Chair Jerome Powell cited a few possible reasons: namely, a skills gap in open jobs, ongoing childcare obligations where schools are still virtual, and continued fears about being at work and COVID-19 exposure.[4] The family/childcare impact is difficult to hone in on, but women dropped out of the workforce in April for the first time since January, after months of steady improvement.[5]

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Others have pointed to the potential impact of unemployment benefits and stimulus on workers' desire to return to work.[6] Neel Kashkari, president of the Federal Reserve Bank of Minneapolis, pointed to federal unemployment benefits as a possible "disincentive" for workers to return. The Wall Street Journal estimates that with additional federal benefits, the average person receiving unemployment benefits earns more than they would full-time at $15 per hour.

All in all, this does indicate that the recovery may not be as smooth as we would all hope—there are so many factors and possible implications of the pandemic that we may not even be aware of yet.

There are also indications that wages might be rising—both wages and hours worked increased in April, a possible sign that companies are paying more to lure workers back to open jobs.

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As we've indicated before, we think it makes sense to continue to be optimistic but prudent, and to, as always, not let the highs get us too high or the lows get us too low. There is no roadmap for this recovery, which means there could be more surprises.

What About Inflation?

You may have noticed some prices going up—the Consumer Price Index rose 2.6% for the year ending in March 2021. Nearly half of this jump is related to gas prices, which have endured significant production problems due to winter weather.[7]

As we've noted before, the Fed expects a temporary increase in inflation this year as a result of the recovery and pent-up demand.[8] Fed Chairman Powell has stated that the Fed would need to see sustained inflation of over 2% before raising rates—both to help ensure that the recovery has truly taken hold and to compensate for a decade of below-target inflation.

Higher costs are also being driven by supply chain issues, materials shortages, and to make up for last year—some manufacturers didn't pass their own higher costs onto consumers during 2020.[9]

Again, the road map here is, to a degree, uncertain. We don't think it's a good idea to assume that we know what's coming next, but rather to focus on prudent and cautious planning that accounts for various possibilities.

Please note, amended 1099s may now be available for certain accounts. We are also quickly approaching May 17, 2021 - the extended IRS 2020 federal tax filing date for individuals as well as the contribution deadline for IRAs. If you have any questions, contact us at the office.

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In observance of Shavuot, JSF will be closed on Monday, May 17, 2021. However, we will still have a small team in the office that day for any immediate needs or questions. For assistance, please call the office at 323.866.0833 and ask for an operations team member.

As always, we encourage you to reach out to our office with your questions and concerns, whether about markets or the economy. We're here to help you navigate this unprecedented moment in history for yourself and your family.

Don't Miss Our Next Webinar!

We'll be looking back at President Biden's first 100 days in office with John Emerson, Vice Chairman of the Capital Group and former ambassador to Germany. Mr. Emerson is an exceptional public servant and speaker, and we look forward to this unique opportunity to welcome him for an in-depth conversation with Jeff.

Keep an eye out for your invitation!

Asset Allocation and Diversification do not guarantee a profit or protect against a loss.

The Bloomberg Barclays U.S. Aggregate Bond Index measures the investment-grade U.S. dollar-denominated, fixed-rate taxable bond market and includes Treasury securities, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

The S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market.

The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Europe Index captures large and mid-cap representation across 15 developed markets countries in Europe and covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 emerging markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period. GDP is the most commonly used measure of economic activity.

SOURCES

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Performance table sources:

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MSCI: https://www.msci.com/end-of-day-data-search