

WEEKLY

Economic Commentary

April 2, 2021

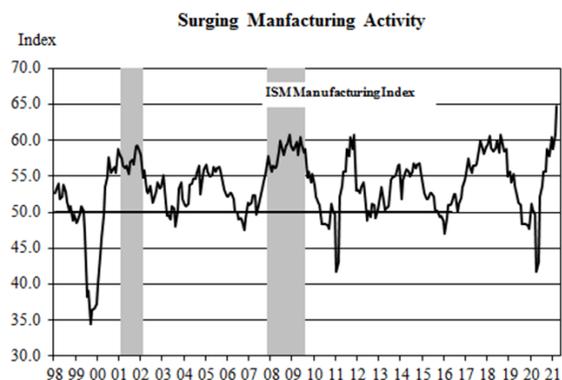
Most of us remember the quote from the Obama administration during the Great Recession but it was actually Sir Winston Churchill who first said, "Never let a good crisis go to waste." The phrase has not yet been reused by the Biden administration, but its spirit is clearly being honored. Following up on February's \$1.9 trillion American Rescue plan, the White House is pursuing one of the most ambitious spending initiatives since the 1950s with its \$2.3 trillion infrastructure bill (dubbed the American Jobs Plan) announced this week. Although the bill is not specifically linked to the pandemic, by exposing the nation's many vulnerabilities the health crisis has no doubt made Americans more amenable to a greater amount of government intervention than would otherwise be the case. While the focus this time is infrastructure, the administration is prepping for another sizeable trillion dollar plus plan aimed at addressing the more socially oriented issues in the nation.

How much of the administration's ambitious agenda actually get through a deeply divided Congress remains to be seen. For sure, this is not a bottomless well that the White House can plumb forever. The deficit hawks have been relatively quiet over the past year, muzzled by Covid-19 that posed an existential threat to millions of Americans who desperately needed a fiscally generous policy to tide them over to safety. Now that the health crisis is nearing its endgame, critics of the expansionist bias underpinning the Biden administration are speaking up. Republicans are complaining about the tax increases that will clearly be needed to finance much of the spending, and even some moderate Democrats are voicing reservations. On the other side are the more progressive legislators who believe government should play an even greater role in correcting the nations' ills. More than others, they are adhering to the spirit of Churchill's admonition, believing that the health crisis makes the time ripe for bold action.

The White House will probably have to push through the American Jobs Plan without Republican support using the reconciliation process it employed to pass the American Rescue plan last month. But given the reservations of some Democrats, the AJP will un-

doubtedly undergo some changes before reaching the president's desk for signing. That said, some version of it will likely be passed later this year. Importantly, unlike the American Rescue Plan and the other Covid-relief bills passed in 2020, this proposal is not intended to jump-start the economy's growth engine, but rather to affect structural changes in the economy. Spending on the AJP is projected to be spread out over an eight-year period and the tax revenues will be raised over fifteen years.

That's important because many would argue that the economy does not need more stimulus now, thanks to improving health conditions and the growth-boosting impact of past stimulus measures. Indeed, after the weather-related hiccup in February, the economy experienced a jolt of activity in March that far exceeded expectations. The first inkling of this development was revealed in the Institute for Supply Management's report on manufacturing activity. The ISM index of manufacturing activity jumped 3.9 points during the month to the highest level since 1983. If not for the supply-chain disruptions, which slowed delivery times and led to critical input shortages in a number of industries, activity would have been even stronger. Even so, a burst in new orders indicates that the factory sector will be humming through at least the spring and summer months, providing more heft to a GDP growth rate that we expect will rise into double-digit territory during the second quarter.



To be sure, the ISM index, being a diffusion metric, measures the breadth not the magnitude of the gains exhibited in the manufacturing sector. But

there should be no question that the spurt in factory activity was as strong as it was broad; we will get a better sense of the strength when the industrial production report is released later this month. But the sizeable gain in the report's employment index in March has already received support in the monthly jobs report released on Friday. During the month, manufacturing payrolls increased by 53 thousand, the largest gain in six months and up from 18 thousand in February. Of course, manufacturing has been a pillar of strength in the economy throughout the pandemic. Indeed, households have actually stepped up their purchases of factory-made goods, which were not deterred by stay-at-home mandates thanks largely to the Internet-enabled burst of shopping undertaken by consumers.

While that certainly cushioned the blow on the economy from the pandemic, the goods-producing sector is far less important than the services sector in driving growth. Thankfully, a cocktail of fiscal stimulus, warmer weather, the reopening of businesses and the ebbing of the pandemic is bringing the service sector back to life, spurring a remarkable surge in hiring last month. According to Friday's employment report, the economy added an astonishing 916 thousand new jobs, which was well ahead of consensus expectations and the strongest pace of job creation in seven months. Adding to the upbeat tone, payrolls for January and February were revised up by a cumulative 156 thousand. Hence, after being sidetracked by worsening health conditions, a temporary lapse of fiscal aid and harsh weather this winter, the jobs recovery has finally hopped onto a firmer trend.

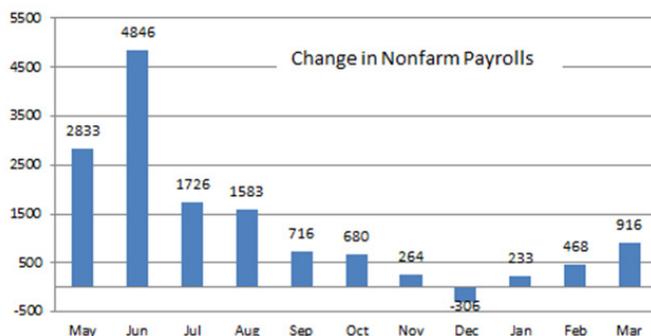
Importantly, service sector employment led the advance in March, with a strong 597 thousand increase in payrolls following an upwardly revised 602 thousand February gain. Nearly half of the job creation was concentrated in the leisure and hospitality sector, which recouped another 280 thousand jobs and added a cumulative 664 thousand jobs over the past two months. The advance was mostly driven by a 176 thousand increase in employment at food and drinking places while employment in the entertainment and recreation sector also showed signs of life by adding the most jobs since September 2020. While more than a third of the workers who lost their jobs in the leisure and hospitality industry remain out of work, the wider reopening of the economy should continue to boost hiring in the sector in the coming months.

The strong payroll gain over the past two months opens the door for the unemployed to return to work. Make no mistake; there is still a long road to hoe. In March, the unemployment rate fell by 0.2 percentage points to 6.0 percent. The decline took place even as the labor force participation rate rose 0.1 percentage point to 61.5 percent (which puts upward pressure on the unemployment rate). Labor force participation nonetheless remains near the lowest level since the 1970s, and includes an estimated 3.9 million workers who gave up looking for a job since the onset of the pandemic.

Looking ahead, we expect the stronger economy to gradually pull many of these workers back into the workforce as labor demand heats up and childcare challenges start to ease. Indeed, women accounted for the entire increase in the labor force participation rate over the past two months, as they account for a larger proportion of service sector workers than men. We expect the participation rate to continue its slow ascent and reach 62.2 percent by year-end and a peak of 62.6 percent by the end of next year. While this is lower than the pre-pandemic rate just above 63 percent, the shortfall will mostly reflect the aging of the population as boomers increasingly retire and drop out of the labor force.

While these figures represents another step in the right direction, it's important to note that the unem-

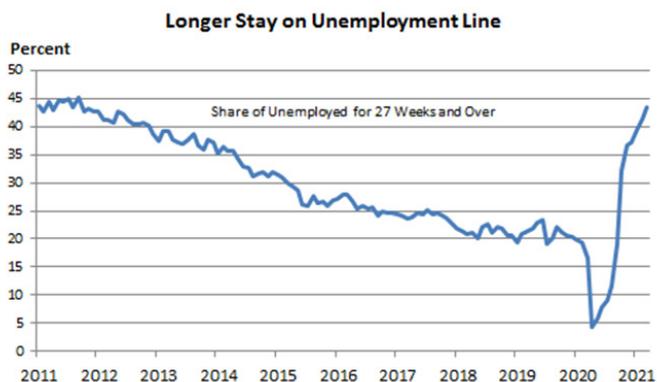
Job Market Continues to Heal



ployment rate continues to understate the true level of unemployment. When adjusting for the people that have dropped out of the labor force, by choice or obligation, and the lingering misclassification of workers, the unemployment rate remains around 9.0 percent. And the broader U-6 underemployment rate, which captures the marginally attached workers, fell 0.4 percentage points to a still-high 10.7 percent in March. Meanwhile, the employment-to-population ratio edged up 0.2 percentage points, but to a still low 57.8 percent. Just prior to the pandemic, this ratio stood at 61.1 percent. That difference translates into 6 million fewer workers counted in the household survey.

Encouragingly, the share of permanent unemployed workers declined for the first time in three months, down from 43.6 percent to 43.1 percent. Conversely, the duration of unemployment, is lengthening as the share of those unemployed for over 27 weeks has jumped to 43.4 percent from 41.5 percent in February - the highest since 2011. Despite the brightening outlook, there is still a risk that scarring effects could weigh on the overall economic recovery and weaken the attachment of unemployed workers to the labor market for years to come. Hence, reaching a broad-based and inclusive full employment will be a multi-year process and something that policy makers will not want to impede.

earnings actually slipped by 0.1 percent in March. As such, the Fed should retain its very dovish policy stance for the foreseeable future. At its March policy meeting, the median forecast of Fed officials was for no change in the federal funds rate at least until the end of 2023. Nothing in the latest jobs report should change that assessment.



We suspect that the Federal Reserve will be more encouraged than alarmed by the strong employment gains over the last two months. Clearly, there is no wage inflation yet to be seen, as average hourly

KEY FINANCIAL & ECONOMIC INDICATORS

FINANCIAL INDICATORS

	April 2	Week Ago	Month Ago	Year Ago
INTEREST RATES				
3-month Treasury bill	0.02%	0.02%	0.04%	0.00%
6-month Treasury bill	0.04	0.04	0.07	0.01
3-month LIBOR	0.20	0.19	0.18	1.37
2-year Treasury note	0.19	0.14	0.14	0.25
5-year Treasury note	0.98	0.87	0.80	0.40
10-year Treasury note	1.72	1.69	1.56	0.68
30-year Treasury bond	2.36	2.39	2.30	1.27
30-year fixed mortgage rate	3.18	3.17	3.02	3.50
15-year fixed mortgage rate	2.45	2.45	2.34	2.92
5/1-year adjustable rate	2.84	2.84	2.73	3.34
STOCK MARKET				
Dow Jones Industrial Index	33153.21	33072.88	31496.30	21636.78
S&P 500	4019.87	3974.54	3841.94	2541.47
NASDAQ	13480.11	13138.72	12920.15	7502.38
Commodities				
Gold (\$ per troy ounce)	1730.30	1731.40	1698.60	1630.60
Oil (\$ per barrel) - Crude Futures (WTI)	61.24	60.74	66.73	21.84

ECONOMIC INDICATORS

	Latest	Previous	Two-Months/ Quarters Ago	Average-Past 6 Months or Quarters
	Month/Quarter	Month/Quarter		
ISM Manufacturing Index (March)	64.7	60.8	58.7	60.2
Nonfarm Payrolls (March) - 000s	916	468	233	376
Unemployment Rate (March) - Percent	6.0	6.2	6.3	6.5
Average Hourly Earnings (March) - % Change	-0.1	0.3	0.0	0.3

Millennium Corporate Credit Union
8615 West Frazier Street
Wichita, Kansas 67212