WEEKLY

Economic Commentary

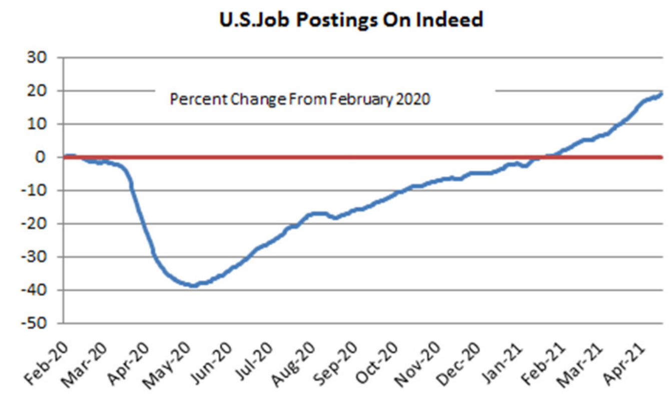
April 23, 2021

Millennium
CORPORATE CREDIT UNION

While it was a light calendar week for key economic data, positive news on the health front, more evidence of an improving job market and the prospect of additional fiscal aid all point to solid growth in coming quarters. To be sure, progress on the health front is not shared globally, as poorer nations are still short of vaccines and suffering rising infection rates. In the U.S. however, the trend is not only positive, with more than half of adult population having received at least one dose, but nearing the point of oversupply; health officials are fretting over the possibility that too many people may refuse to be vaccinated, lengthening the time of reaching herd immunity. That said, at the current pace of inoculations and assuming vaccine hesitance is not as great as feared, herd immunity should be reached within three months.

If so, the vaccine rollout will win the race against encroaching variants of Covid-19 and remove the major obstacle - a setback in defeating the pandemic - that could derail the recovery. Over the near term, the coast is clear for the consumer-driven miniboom now unfolding to continue unabated. Importantly, while the copious amount of fiscal stimulus is understandably getting most of the credit for the upsurge in activity, the economy is starting to run on all cylinders. The labor market is humming, coming off an eye-opening increase in nonfarm payrolls in March and poised to deliver another significant burst of job creation in coming months.

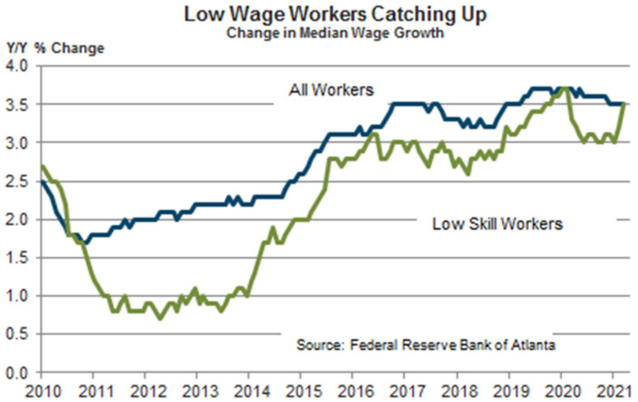
Several employment indicators this week confirm that prospect. As the economy continues to reopen in all 50 states, businesses are holding on to their staffs, extending their hours, and ramping up the search for new workers. Hence, layoffs are falling rapidly, with first-time claims for state unemployment benefits falling to a pandemic low in the first week of April. The 547 thousand newly unemployed workers filing claims in the April 2 week were still more than double the typical number prior to the pandemic, buy they represent a far smaller group than the more than 6 million that swelled the unemployment lines at its peak last April. Meanwhile, job postings are surging; according to the job listing website, Indeed, job postings are running 19 percent above its February 2020 pre-pandemic level.



Make no mistake. Like the vaccination rollout, progress on the labor front has been uneven, with many workers still left behind. Despite progress on the health front, the pandemic continues to take a toll on the job market. In its latest Household Pulse Survey, the Census Bureau reported that more than 4 million unemployed workers are resisting going to work out of fear of catching Covid-19. What's more, while the hiring pace has accelerated, the strongest demand has been for highly-skilled and educated workers. Unemployment rates for workers with no college degree and minority groups are still considerably higher than normal compared to college graduates and white workers. Not only have these workers suffered the biggest job losses during the pandemic, they are also among the lowest paid and received the smallest raises during the recovery.

The good news is that the gap is closing. As the reopening process gains traction, businesses in the service-sector stand to benefit the most, as they were the primary victims of pandemic-related lockdown restrictions. Importantly, it is the service sector that employs most of the aforementioned workers left behind during the earlier stages of the recovery. Leisure and hospitality, which includes restaurants, bars and amusement parks, highlights the dramatic changes in the workplace that are now taking place. This sector employs less than 10 percent of all workers. Yet, in February and March, leisure and hospitality firms accounted for nearly 50 percent of the 1.4 million workers added to payrolls during those months. According to the latest Census Bureau Small Business Pulse Survey, 54.4 percent of firms in the accommodation and food services sector expect to expand payrolls over the next six months compared to a national average of 32.1 percent.

Simply put, service-sector companies continue to exhibit the strongest demand for workers, reflecting warmer weather as well as the ongoing reopening of the economy. At the same time, these companies are having the most difficulty filling open positions for a variety of reasons, including the fact that generous unemployment benefits render low paid jobs less appealing. As a result, employers are fiercely competing for a shortage of workers and offering more attractive pay packages to hire them. The Federal Reserve Bank of Atlanta has a wage gauge that tracks changes in the median pay of workers across occupations and skills. For the first time during the pandemic recovery, low-skilled workers are getting pay raises equal to high-skill workers as well as the median for all workers.



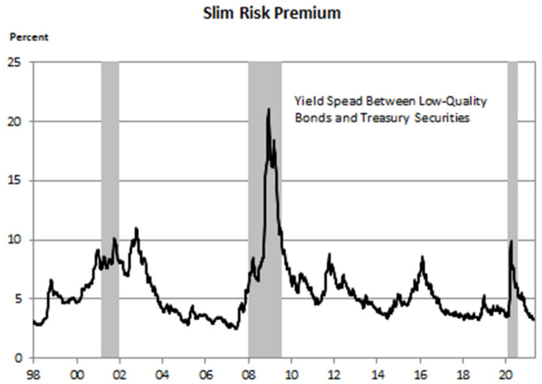
The last time low-skilled workers achieved wage increases comparable with their higher-skilled colleagues, the unemployment rate was at a 50-year low of 3.5 percent in February 2020. The current overall rate is 6.0 percent but for Black and Hispanic workers it is 9.6 percent and 7.9 percent respectively, gaps that are meaningfully wider than they were in February 2020. Hence, there is still a ways to go before the job market achieves maximum and inclusive employment, which is the goal of the Federal Reserve. The fact that low-skilled workers are getting comparable pay raises with other workers reflects more of a supply than a demand influence, as service-sector workers are more deeply impacted by the pandemic. As the vaccination rollout covers more of this segment of the population, the supply of service sector workers should expand and ease the shortage that is putting upward pressure on wages.

Hence, speculation that the Fed would pull the rate-hiking trigger sooner than it currently expects - sometime in 2024 - does not yet have much backing in the financial markets. Investors are still pricing in solid growth in earnings and economic activity for the foreseeable future but not enough of an inflation pick-up that would prod the Fed into a corrective policy stance. President Biden's call for higher capital gains taxes did cause a brief hiccup in the stock market's long rally this week, but the averages showed little change from the previous week. The reflation trade may still have legs and nudge Treasury yields higher over the course of the year. But barring a tantrum that would bring on a more dramatic spike, a gentle upward trend should not impede the recovery, as it would reflect a time-honored correlation with stronger growth.

Fueled by ongoing fiscal support - past, present and future - continued easy monetary policy and upgraded growth expectations, investors retain a strong appetite for risk. That mindset is manifested in the bond as well as the stock market, as credit spreads between junk and Treasury issues continue to shrink dramatically and is currently the narrowest in nearly 15 years. With defaults exceptionally low and investors hungry for yield, new junk bond offerings are soaring, assisted in part by distressed companies merging with special purchase acquisition companies (SPACs),the latest vehicle that has become the darling of Wall Street, but which some skeptics liken to the ill-fated popularity of subprime mortgage -backed securities before the housing crisis.

That said, the swift run-up in Treasury yields this year has stalled in recent weeks, reflecting anchored long-run inflation expectations and strong foreign demand for U.S. government issues. The bellwether

10-year Treasury yield continues to trade comfortably below its nearby peak of 1.75 percent, slipping a few basis points to 1.56 percent this week. The modest reversal has filtered through to the mortgage market, where financing costs are linked to the 10-year issue, leading to a corresponding reduction in mortgage rates. For the first time since February, the 30-year mortgage rate fell below 3.0 percent, partially offsetting the surge in home prices that is eroding housing affordability for a broad swath of potential homebuyers.



Indeed, prices of secondary homes hit a new record in March, jumping 17.2 percent over the past year to $329,100. While this is pushing many first-time homebuyers out of the market, it is not the main impediment to sales. That would be the limited supply of homes on the market, which would be completely sold out in a near record 2.1 months at the current pace of sales. As it is, homes on the market get sold out in 18 days on average, which is the fastest pace on record. The good news is that homeowners are enjoying an expanding cushion of home equity, underpinned by the surge in property values. The bad news is that the slimmest inventory for sale is concentrated at the lower-price points, which is the segment most important to first-time and lower-income families.

KEY FINANCIAL & ECONOMIC INDICATORS

FINANCIAL INDICATORS

INTEREST RATES	April 23	Week Ago	Month Ago	Year Ago
3-month Treasury bill	0.03%	0.02%	0.02%	0.12%
6-month Treasury bill	0.04	0.04	0.04	0.14
3-month LIBOR	0.18	0.19	0.19	1.13
2-year Treasury note	0.16	0.16	0.14	0.22
5-year Treasury note	0.81	0.83	0.85	0.36
10-year Treasury note	1.56	1.58	1.67	0.60
30-year Treasury bond	2.24	2.28	2.37	1.17
30-year fixed mortgage rate	2.97	3.04	3.17	3.33
15-year fixed mortgage rate	2.29	2.35	2.45	2.86
5/1-year adjustable rate	2.83	2.80	2.84	3.28
STOCK MARKET				
Dow Jones Industrial Index	34043.49	34200.67	33072.88	23775.27
S&P 500	4180.17	4185.47	3974.54	2836.74
NASDAQ	14016.81	14052.34	13138.72	8634.52
Commodities				
Gold ($ per troy ounce)	1775.90	1777.30	1731.80	1715.90
Oil ($ per barrel) - Crude Futures (WTI)	62.08	63.07	59.95	3.32

ECONOMIC INDICATORS

	Latest Month/Quarter	Previous Month/Quarter	Two-Months/ Quarters Ago	Average-Past 6 Months or Quarters
Existing Home Sales (March) - 000s	6040	62400	66600	64800
New Home Sales (March) - 000s	1021	846	1010	941

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