First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
Andrew Opdyke, CFA – *Senior Economist*
Bryce Gill – *Economist*

630-517-7756 • www.ftportfolios.com
June 21, 2021

The "Fake Tight" Labor Market

Is the United States' job market tight? Well, that totally depends on your perspective.

From a national perspective, it certainly isn't tight. Total nonfarm payrolls were 144.9 million in May 2021, still down 7.6 million from February 2020, right before the COVID shutdowns. In addition, when asked, 9.3 million American workers say they are still looking for a job, up 3.6 million during the same timeframe.

The labor force participation rate, which is the share of those age 16+ who are either working or looking for work, was only 61.6% in May. Pre-COVID, you'd have to go back to 1977 to find a level that low. Immediately prior to COVID, the participation rate was 63.3%. In other words, the United States is awash in unemployed and available workers.

But none of this seems to matter if you're an employer. Average hourly earnings are up a rapid 6.4% versus February 2020, while companies have roughly 9.3 million open jobs. Almost 4 million people quit their jobs in April, the highest on record, and a record-high 2.7% of total employment. If you're an employer and, even after raising wages, it's hard to find workers for open positions and keep the workers you have, it certainly is a "tight" labor market.

So, what is going on? Is the job market tight, or not? We think the best way to describe it is "fake tight."

The key problem with the labor market right now is that the government is still giving out unemployment benefits far in excess of what the situation demands. Sending out these jobless benefits might have made sense in the early days of the pandemic, back when the government's shutdown-heavy response to COVID-19 amounted to a "taking" of many people's businesses and livelihoods. That was an incredibly unusual situation. And while we think it was a mistake, if the government "takes" away your job for public health reasons, it's logically consistent to "compensate" you for it.

But, at this point, with the economy open, and baseball stadiums packed with unmasked people in Los Angeles and Chicago, the time for excess benefits has long passed; it's time to get back to normal.

In fact, the entire government response needs to be rethought. The Federal Reserve is still holding interest rates near 0% and buying $120 billion worth of bonds every month, as if the US were still in a financial crisis. If there is a problem with the economy, the Fed is exacerbating it by helping to finance the governments competition with the private sector. The Fed's buying government debt to finance redistribution, perpetuates the unemployment problem and hurts business.

And this may be worse than many investors think. While there are 9.3 million people counted as unemployed, current regular and special pandemic-relief programs are paying 14.8 million people unemployment benefits. The difference is largely due to the special temporary laws allowing people to collect jobless benefits even if they're not looking for work. Usually that's a No-No, but Congress decided to waive the job seeking requirement due to COVID.

No one knows the end result of all these "unprecedented" policies. And since they were started in response to economic shutdowns, they should end as the economy opens up. What the US should do is either cancel them immediately or repurpose this money to "infrastructure" so that economy-killing tax hikes are not part of the current budget plans.

In the meantime, the system is awash in money. This lifts asset values, in spite of problems in the labor market. Moreover, interfering with the dynamics of the labor market reduces output while increasing consumption, which is a recipe for inflation. We think all these problems are easy to see. If the labor market really was "tight," the Fed would not need to be so easy. And a "fake tight" labor market needs less accommodation, too.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-22 / 9:00 am	Existing Home Sales – May	5.710 Mil	**5.790 Mil**		5.850 Mil
6-23 / 9:00 am	New Home Sales – May	0.867 Mil	**0.868 Mil**		0.863 Mil
6-24 / 7:30 am	Initial Claims - Jun 19	380K	**390K**		412K
7:30 am	Q1 GDP Final Report	6.4%	**6.5%**		6.4%
7:30 am	Q1 GDP Chain Price Index	4.3%	**4.3%**		4.3%
7:30 am	Durable Goods – May	+2.8%	**+1.8%**		-1.3%
7:30 am	Durable Goods (Ex-Trans) – May	+0.7%	**+0.7%**		+1.0%
6-25 / 7:30 am	Personal Income – May	-2.6%	**-2.7%**		-13.1%
7:30 am	Personal Spending – May	+0.4%	**+0.2%**		+0.5%
9:00 am	U. Mich Consumer Sentiment- Jun	86.5	**86.4**		86.4