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BLOG POST

Help “Desperately” Needed

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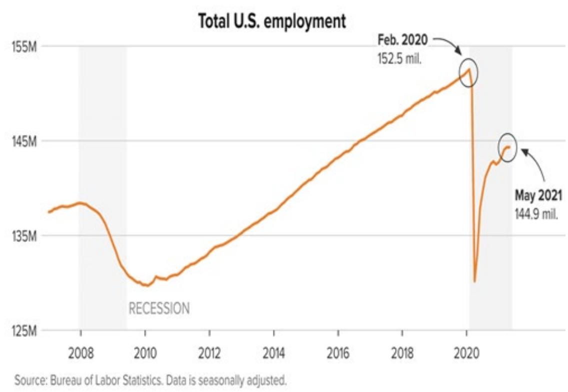
The old Help Wanted pages are being replaced by Help Needed for many businesses today trying to escape the impact of COVID-19 on the economy. The latest labor data has many economists scratching their heads, trying to make sense of current labor conditions. The current unemployment rate is 5.8%, but is expected to drop to 4.5% by the end of 2021. The National Federation of Independent Business’ (NFIB) latest report showed 42% of small businesses had job openings they could not fill. The debate over why so few people seem to be hired back has grown quite political.

In a move that some have described as a “cruel move,” 25 States have opted out of the additional $300 per week Federal government unemployment stipend passed as part of the American Rescue Plan. These States have argued that the additional benefits coming from the government are providing a disincentive for people to return to work. The math likely supports that claim.

State unemployment provides a replacement for 55% of a worker’s pay up to $649 per week. For example, an employee who makes $15/hour would receive $8.25/hour or $330/week from the State they live in. When you add the additional $300 benefit (equals $7.50 per hour), the employee can make $15.75/hour or $630 per week. Why would an employee return to work for 40 hours a week to make less money than they receive by staying home (or working a side job for cash)?

The scarcity of labor is making it very difficult for small businesses, crushed by shut downs due to the pandemic, to return to profitability. The economy is clearly growing based on the latest JOLTs report. The Job Openings and Labor Turnover report tells us each month how many job openings, how many new hires, how many people quit their job, and how many were laid off. The June report shows a staggering 9.3 million job openings in the U.S. This surprised many because we are only 7.5 million fewer workers with jobs today than before the pandemic. The quits rate in June was 2.7% while the percentage of employees laid off was only 1%.



Pew Research has provided some insight into the lackluster hiring of new employees and the large number of unfilled positions, particularly in the service sector such as accommodation, food service, entertainment, and transportation. Pew shows that personal income in the U.S. grew at a rate of 9.7% in 2020. In a year where 40 million people lost a job at least temporarily and the economy was shuttered for much of the year, personal income grew almost double-digits? Worker earnings actually fell by $860 billion but that was replaced with an increase of $2.55 trillion in government transfer payments. Massachusetts topped the growth list in 2020 with personal incomes rising 16.6%, largely due to an increase of 150.9% in government transfer payments, according to Pew.

Government policies are not the only reason people are remaining out of the work force at this time. Many school districts have not reopened to students in the classroom, creating problems for workers who need childcare. The JOLTs report also identified that 27% of small businesses state they cannot find employees with the necessary skill set to fill openings. The economic disruption caused by COVID-19 has forced many to relocate and has left many employers without qualified labor. Lastly, legal immigration is part of the problem companies are having with hiring. We see the headlines about illegal immigration regularly, but many are unaware that in the 2nd half of fiscal 2020, legal immigration fell by 87% compared the prior 6-month period and the most on record. Legal immigration is also lower in the first half of 2021 than during the same period one year ago. The workforce relies upon legal immigration to fill jobs, and resulting reduction has negatively impacted many companies, especially small businesses.

Consumption has remained very high as a result of the transfer payments and is likely the reason the stock market is at all-time highs. The supplemental unemployment benefits are scheduled to end on September 6 of this year, potentially creating a drop in disposable income for many. The Fed is also having to justify why interest rates remain at 0% and bond buying by the billions (see section on Fixed Income) continues to occur when inflation is obviously above the stated 2% target. Unless some cures for these ills can be identified quickly, the conditions that have allowed stocks to rise and valuations to soar could evaporate and the markets could fall precipitously.