THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP®

Jacob A McClure CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com

jake@tpwc.com

April 23, 2021

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index was basically flat for the week after hitting an all-time intraday high a couple of times but ended down 0.13% for the week to 4180.17. It sagged mid-week when a plan for higher capital gains taxes was announced but then bounced back when traders realized it would only apply to incomes above $1 million per year. It is now up 11.3% year-to-date. The CRSP US Mid-Cap Value Index was up 0.35% for the week and has now risen 17.41% in 2021. The slow rotation to smaller, value-based stocks appears to be continuing.

The yield on the benchmark 10-year Treasury note fell 1.3% to 1.564% as inflation fears continued to abate. There has been a significant increase in cash flow from Chinese government bonds into the U.S. Treasury market in the last month, effectively lowering yields, as the U.S. economy continues to show signs of health. West Texas Intermediate crude oil (WTI) followed stocks and yields down 1.65% to $62.04 per barrel, still at a very profitable level for producers.

The Economy

The leading U.S. economic news was a report from the Labor Department that new unemployment claims reported by the states fell 39,000 to 547,000. Those who have been following this issue will remember that the weekly numbers have remained stubbornly above 700,000 for months despite other signs of an improving economy. Yes, the pre-pandemic average was 218,000, but the number is finally moving, and in the right direction.

Speaking of unemployment, there is a clear conundrum in the employment numbers. Some of the numbers are pretty straight forward. According to the DOL household survey, there are about 8.4 million workers, or about 6% of the workforce who have recently looked for work but are currently unemployed. There are also about 7.4 million job openings according to the latest report. Simple but incomplete logic would suggest that if those unemployed people would take the jobs offered, the unemployment problem would be solved. Of course, many of the jobs available are at a higher skill level than the job seeker, and the location of the openings may not coincide with the location of the seeker but that doesn't solve the whole problem. Over the last year, again, according to the DOL, hires totaled 72.3 million and separations were 80.9 million for a net employment loss of 8.6 million. So, the numbers seem to add up logically. Additionally, about 3.5% of the former labor force has dropped out.

The problem arises when we get out and note that there are "now hiring" signs up at many businesses and the Federal Reserve Beige Book and other surveys note that employers across the country are limited by a lack of workers to fill jobs, particularly for entry level openings. So, we did some quick calculations to look at the personal economics of being unemployed, particularly for low wage workers. First, the national average for state unemployment weekly benefit is $320. In Texas, a laid off $15 per hour worker is eligible for UI payments of $312 per week. Add in the federal $300 per week supplement, and the worker who was making about $555 per week, after payroll taxes, when working, is now making $612 per week as long as he or she is applying for jobs. Suddenly it is understandable why employers are reporting accepting as many as 20 employees from applications and interviews at the entry level, but they are lucky if one shows up to actually work. Still, with 6% of the workforce unemployed only 2.6% of that workforce are drawing unemployment benefits. That leaves 3.4% or about 5.5 million without income and looking for work. This is a complex issue. Come September, when the federal benefit runs out, we will see the true state of employment situation in the United States.

Meanwhile, the economic survey firm, IHS Markit announced Friday that its U.S. services index rose to 63.1 in April from March's 60.4 on a scale where numbers above 50 indicate growth. That is the highest reading for the index since the data-collection for the index began. At the same time, the IHS purchasing manager's index for manufacturing climbed to 60.6, another record high. Both sectors are reporting that they are having trouble meeting demand in the face of a limited qualified labor supply and slow supply chains. Despite their complaints, employers do not appear to be raising wages faster than they did pre-pandemic, so the prime inflation driver is not present, but that will bear watching.

We are not out of the woods yet, but daylight is showing between the trees as the U.S. economy appears to be coming back strongly. This recovery has all the earmarks of becoming the base for a longer-term expansion that could take us well beyond anything we dreamed of back in 2019. If we can find enough qualified workers and beef up our infrastructure and supply chains, we can envision this expansion lasting for the rest of the decade.

Until next week we remain hard at work trying to do what we do for you better with each passing week!

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®