WEEKLY MARKET COMMENTS – OCTOBER 12, 2021

Last week saw the major indices put in a good performance as things settled down after the S&P had moved by more than 1% for four consecutive days, but this volatility ended on Monday. As a result, the Dow put in its best weekly showing since June 25th and the S&P did the best for a week since August. This was despite the fact that crude oil prices continued to advance to just short of $80 a barrel and bond yields continued to rise with the 10-year Note up to 1.60% which was the highest since June.

The week was topped off by on Friday by the September non-farm payroll report which showed that the U.S. economy created jobs at a much slower-than-expected pace in September, a pessimistic sign about the state of the economy though the total was held back substantially by a sharp drop in government employment.

Nonfarm payrolls rose by just 194,000 in the month, compared with estimates of around 475,000. The unemployment rate fell to 4.8%, better than the expectation for 5.1% and the lowest since February 2020.

The headline number was hurt by a 123,000 decline in government payrolls, mainly due to the loss in education jobs while private payrolls increased by 317,000 and the prior two months were revised upward by 164,000.

The drop in the jobless rate came as the labor force participation rate edged lower, meaning more people who were sidelined during the coronavirus pandemic have returned to the workforce. A more encompassing number that also includes so-called discouraged workers and those holding part-time jobs for economic reasons declined to 8.5%, also a pandemic-era low. The report showed that demand for workers is strong and millions of people want to return to work, but employment growth has yet to find its footing.

Despite the weak jobs total, wages increased sharply. The monthly gain of 0.6% pushed the year-over-year rise to 4.6% as companies use wage increases to combat the persistent labor shortage. The available workforce declined by 183,000 in September and is 3.1 million shy of where it was in February 2020, just before the pandemic was declared.

Labor shortages are continuing to put severe upward pressure on wages at a time when the return of low-wage leisure and hospitality workers should be depressing the average.

Leisure and hospitality again led job creation, adding 74,000 positions, as the unemployment rate for the sector plunged to 7.7% from 9.1%. Professional and business services contributed 60,000 while retail increased by 56,000.

Job gains were spread across a variety of other sectors such as transportation and warehousing (47,000), information technology (32,000), social assistance (30,000), manufacturing (26,000), construction (22,000) and wholesale trade (17,000).

Local government education jobs fell by 144,000, which may have been due to seasonal adjustments in the numbers as children returned to schools.

The survey week of September 12^{th} came just as Covid cases were peaking in the U.S. The delta variant spread since has cooled, with new cases dropping below less than 100,000 a day which means that the 7-day average has declined to a 2 ¼ month low.

As mentioned above, there was some good news in Friday's report from previous months as July's already-strong gains were revised higher by 38,000 to 1.0913 million, while August's big letdown also was revised up, to 366,000 from the initially reported 235,000.

The employment-to-population level increased to 58.7%, its highest since March 2020.

The report comes at a critical time for the economy, with recent data showing solid consumer spending despite rising prices, growth in the manufacturing and services sector, and surging housing costs.

Federal Reserve officials are watching the jobs numbers closely. The central bank recently has indicated that it is ready to start easing back on some of the extraordinary help it has provided during the pandemic crisis, primarily because inflation has met and exceeded the Fed's 2% goal.

However, officials have said they see the jobs market still well short of full employment, a prerequisite for interest rate hikes. Market pricing currently indicates the first rate increase likely will come in November 2022.

The take-away from this report is that after looking like almost a done deal, the jobs number has thrown expectations for tapering into uncertainty. The Fed doesn't seem to need much to convince it that tapering should begin soon, but at just 194,000, jobs numbers are suggesting that the labor market is further from hitting the substantial progress goal than they had anticipated.

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Disclosures:

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