John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday December 8, 2021

It doesn't happen very often. One economist called the November jobs reports a "tale of two surveys." The Labor Department said in its monthly payroll report that payrolls in November rose by just 210,000, well below the 550,000 expected and below 546,000 in October and 379,000 in September. The November disappointment suggests that the U.S. labor market has run into difficulties even as Covid cases declined nationwide.

However, The Labor Department's report also said that the unemployment rate dropped to 4.2% and the labor force participation rate rose to 61.8%. How could that be? It turns out that there are other surveys that measure monthly job creation. ADP's private payroll report showed a November jobs gain of 534,000. The labor force grew by 594,000 and overall employment increased by 1.1 million.

While such a large difference between establishment and government surveys doesn't happen very often, when it does, they tend to converge over time. That means the Labor Department in future reports will most likely revise its November jobs numbers upward.

The bottom line on the labor market is that the U.S. is still short 3.6 million workers and 3.9 million jobs from before the pandemic. Businesses still say finding the right workers is their main concern. NFIB, the small business lobby, reports that 29% of owners say employee quality is their top problem, a 48-year high.

A major impediment to finding workers has been the generous transfer payments, including the $300 weekly unemployment bonus, $300 monthly per child allowances, food stamps, rental assistance, and others. Fortunately, the unemployment bonus has expired, including in Democrat-run states. Continuing claims for unemployment benefits have since plunged, down by 9.6 million.

With the labor market issues being resolved, that leaves inflation as a major economic issue. When you look at prices today versus 2 years ago, to iron out distortions from the pandemic, the result is that they are up 8%. Considerably above the current measures - around 6%. The Biden Administration and its economic allies argue that the U.S. inflation is part of a global phenomenon and not the result of domestic policies. The problem with that argument is that the 8% U.S. inflation measure is twice the rate in the euro area and the U.S. annual federal deficit - at 14% of GDP - is higher than any other G-7 country.

There are things the Biden Administration could do to reduce the upward pressure on inflation. Releasing 50 barrels of oil from our national reserve is not one of them. That, at best, is a temporary help in relieving oil and gasoline shortages. Likewise, the Administration's "action plan" to expand port capacity won't be of much help because that could take years to implement. The President could take other steps that would be of immediate help. For example, he could cut tariffs on Chinese goods. That would immediately reduce import prices. But, of course, that would look like a win for China, a politically unacceptable position currently for the Biden Administration. And of course the President could urge Congress to ease up on the spending stimulus.

Failing corrective policy changes from the Congress and the Biden Administration, the inflation fight will be in the hands of the Federal Reserve. And there is talk among Federal Reserve policy makers of moving faster to taper the monthly bond buying program. Fed Chair Powell for his part has abandoned the word “transitory” when it comes to inflation. He said: “Perhaps it is time for the Fed to “retire” the word and “try to explain more clearly what we mean.” Clearly there is change brewing at the Federal Reserve. For now, we should expect an end to the bond buying or quantitative easing sooner that previously expected. My guess is that the bond buying will end in the first half of next year. Interest rate increases are not on the table at this time. Whether they become an issue will depend on how the economy and inflation behave next year.

Morgan Stanley in its latest monthly report sees the U.S. economy growing 5.5% this year and slowing to 4.6% in 2022. On the inflation front their prediction is that U.S. CPI inflation will fall from 6.6% this year to 3.0% next year. That would mean inflation next year modestly above the Fed’s 2% target and not so high as to warrant any dramatic moves on interest rates. The end of bond buying might be enough to keep inflation in check.

The really good fundamental news is the financial strength of American households. According to data from the Federal Reserve, at the end of the second quarter of 2021, total net worth across all U.S. households and nonprofit organizations hit an all-time high of $142 trillion. Household net worth is now more than six times annual GDP, which is also a record. Through the first half of 2021, household net worth has increased more than 20% year over year, the largest annual growth rate in the history of the Fed’s data set, which goes back to the 1940s. In addition, over the past year, the household debt service ratio, which presents household debt payments as a percent of disposable income, has fallen to an all-time low. This means that Americans have strengthened their balance sheets to a point where further debt reduction is unnecessary. In other words, American consumers are in excellent shape to keep buying goods and services. Consumers account for roughly two-thirds of economic activity.

Stocks fell sharply on news of the Omicron Covid variant. But it remains to be seen how this variant behaves. So far it looks like symptoms are mild and not life threatening. Morgan Stanley thinks Omicron was an excuse, not a reason, for the stock market sell-off. After all, stocks have been doing quite well. Profit taking is to be expected.

I will have the next market review and update for you one week from today on Wednesday December 15, 2021

All the best,

John Dessauer