Schulz Wealth Economic Overview- Q2 2021

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Employment/ Wage Rises

As Q1 ended in March with the blowout employment numbers of over 900k jobs filled, Wall Street had extremely high expectations for April and the start of Q2. When the report posted, there was severe disappointment with the 266k jobs added in March. As hiring growth slowed significantly in April, the conversations began to brew about enticing those currently receiving unemployment back to work. Different states are starting to cut the amount of unemployment income handed out, but we have also seen wages rise. Large employers have raised their starting salaries, thus creating a domino effect that causes many other employers fighting in the same pool of applicants to do the same. The results are job increases in May of 583k and in June of 850k.

While employment numbers have been increasing, the US job openings, measured by an employer hoping to fill a position in the next 30 days, have reached over 9 million. The highest number we have seen this century. However, the employment number is still 6.8 million below pre-pandemic highs. It is clear at this point that demand for workers is far outpacing supply. Hopefully, as incentives to remain unemployed continue to fall, employment will continue to rise.

The rise in starting wages is a significant carrot to new hires. Seeing the strong wage growth at the lower end of the income scale could be a long-term benefit for the economy. Individuals in that range of income spend the dollars they make at a higher rate than the rest of the income scale, benefitting many companies. If the wage pressure persists at this strong of a rate over a more extended period, that would be concerning.

Inflation Concerns

The headline number of 5% on the 12-month change in the Consumer Price Index (the widely accepted measure of inflation) for May is much higher than we have seen in a while. If inflation stayed in that range for the long term, it would cause some massive problems. The biggest debate on inflation has been whether it will persist longer term or be transitory, as the Fed has suggested. A short-term spike followed by a steady rise has been the general consensus. A wage and inflation spike followed by a stable, predictable rise could temper many economic concerns.

When I look into the details of the CPI numbers, inflation looks much more transitory in nature to me. For example, one input into the CPI number is gas prices. The 12-month change in gas prices was 55%, but that reflects the crazy and temporary inversion of oil to **-30 dollars a barrel** we saw a year ago. It is reasonable not to expect it to continue rising at a rate even close to that.

Other significant increases are in car and construction-related sales, which frankly only affect a tiny part of the population. Supply chain issues are the cause of the massive inflation pressures in these areas. There have been chip shortages for cars, and there have been multiple issues in the construction industry, with lumber prices grabbing most of the headlines. When the supply chain in many industries ground to a halt a year ago, the backlog began to pile up. Couple that with the current high demand, and price increases will follow. However as these issues work themselves out, used car prices cannot increase at 30% as we advance.

Market Reaction

There is not much of a surprise in how the stock market has responded to these numbers. Initially, after inflation numbers were released, some short-term volatility ensued in the stock and bond markets, but it all settled out a week or so later. The bond market does not think long-term high inflation is in the cards as we have not seen a meaningful rise in interest rates. The stock market has continued its strong run into 2021. It will be important to watch earnings moving forward to see if all of this strong economic data translates into company profits.

Reading Review

I recently had a great family beach vacation where I got to spend some quality reading time. One of my favorite reads over this time was Maximize Business Value by Tom Bronson. It is a great book, and a must-read for anyone who owns or wants to own their own business. Highly suggest checking it out!

I hope these thoughts have been beneficial. Let me know if you have any questions or comments!

-Austin Smith, CFA
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