Economic highlights from the week ending on July 2, 2021

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Job growth was stronger than expected in June. U.S. nonfarm payrolls increased by 850,000, versus the Bloomberg consensus forecast of 720,000. May payrolls were also revised up by 24,000 to 583,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 567,000 and 543,000 per month, respectively, which is indicative of a steady recovery in the labor market. The leisure and hospitality sector continues to drive the job gains in June and increased by 343,000. Government payrolls also posted a solid increase of 188,000 in June. The labor participation rate was unchanged at 61.6% in June and is 1.7% lower than the pre-pandemic level. The employment-population ratio was also unchanged in the month at 58.0% and is 3.1% below the pre-pandemic level. The unemployment rate ticked higher to 5.9% in June from 5.8% in May and remains well above the pre-pandemic low of 3.5% in February 2020. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, declined to 9.8% in June from 10.2% in May (versus 7.0% in February 2020). The index of aggregate private weekly payrolls was up 2.8% in June from February 2020, suggesting a solid increase in aggregate wages. Still, nearly 9.5 million people remained unemployed in June (up from 9.3 in May) and 42% of those had been unemployed for more than 27 weeks.

Overall, we believe today's employment report confirms that the labor market continues to recover but remains a long way from a full recovery. We believe supply chain constraints continue to weigh on the labor market, as indicated by the ongoing decline in construction payrolls and decline in motor vehicle and parts payrolls in June. Nevertheless, we believe these pressures should abate in the coming quarters and believe the labor market is generally poised for an accelerated pace of recovery in the second half of this year. We believe several factors are likely to lure workers back into the labor pool over the coming months including wage growth, continued increases in vaccination rates, the end of expanded unemployment benefits, and the reopening of schools this fall.

Other economic data was strong this week, including robust readings on home prices and a solid increase in consumer confidence. Overall, we believe the outlook for economic growth in the second half of the year remains strong. However, we continue to believe the Fed is likely to remain on the sidelines in the near-term. We believe the Fed will proceed with caution, in terms of policy changes, particularly given the high number of people who remain unemployed and continued uncertainty about the pandemic and impact of COVID-19 variants. While nearly 55% of people in the U.S. have received at least one dose of a COVID-19 vaccine (according to the Centers for Disease Control and Prevention), only 23.7% of the world population has received at least one dose (according to Our World in Data). Should the U.S. economy remain on its current trajectory, and global vaccination rates improve meaningfully, we believe there is a high probability that the Fed will begin tapering its asset purchases during the first half of next year.

Next Week

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