ROCKLAND TRUST | Investment Management Group

June 14, 2021

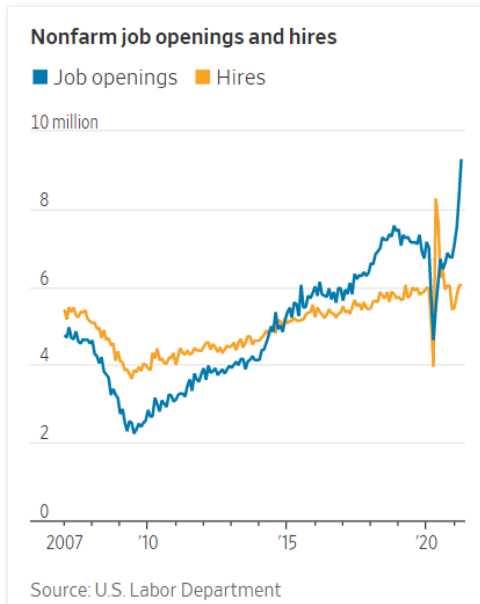
The Markets & the Economy - What We're Watching

Top Theme of the Month:

- Positive job growth but the labor market trails behind

C'est La Vie to masks (for those vaccinated which is nearly 50% of the country) and a return to pseudo normalcy! Additional positive news is being seen in job growth – hiring in the US continues to accelerate as the economic recovery gains strength as states continue to ease Covid-19 restrictions on businesses and more people are vaccinated. Unfortunately however, the labor market remains tight as many unemployed workers stay home possibly because of generous unemployment benefits and childcare concerns. The employment story is an important one because the Federal Reserve monitors the pace of hiring as an indicator of strength in the economy. It is also one of its mandates – promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates. A strong labor market helps contribute to consumer spending which is a primary driver of economic growth in the US.

The Labor Department's Job Openings and Labor Turnover Survey (JOLTS) reported a record 9.3 million job openings in April with a monthly increase of 998,000 jobs in that month. Labor demand was especially strong in accommodation and food services which accounted for 40% of all job openings. Employers were only able to fill about one in fifteen new positions, however the expectations are that labor supply will continue to improve over the coming months as virus fears recede, child care services reopen, and unemployment benefits expire.



Initial jobless claims reported on June 4th continued to edge downward reaching a pandemic low. The Labor Department reported that initial jobless claims fell to 376,000 last week from 385,000 a week earlier. According to the Wall Street Journal the claims data suggests that millions of potential workers are still actively searching for jobs, but unable to land them.

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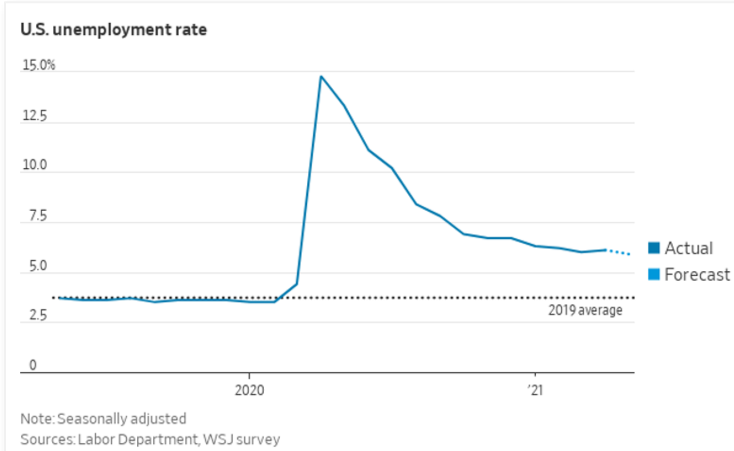

In May, the economy added 559,000 jobs, modestly above the three month average of 533,000 jobs and below consensus expectations of 671,000 jobs. The service sector was the primary driver of job creation in May increasing by 489,000 jobs. The unemployment rate fell to 5.8% while average hourly earnings posted another strong 0.5% month-to-month growth (2% year-over-year growth), reflecting higher wages being paid to attract workers. While the increases in employment are encouraging they are still approximately 7 million jobs below the pre-pandemic peak.

Click **HERE** to watch David Smith, CFA Chief Investment Officer
share insights on the latest jobs report on WTIC talk show *Mornings with Brian and Ray*

Just last week, the US Bureau of Labor Statistics reported that the Headline Consumer Price Index increased 0.6% in May on a seasonally adjusted basis after rising 0.8% in April. Over the last twelve months the Index increased 5.0% before the seasonal adjustment. The index for used cars and trucks continued to rise sharply, increasing 7.3% in May. This increase accounted to about one-third of the overall increase in the index. The Core Consumer Price Index, which excludes the volatile food and energy sectors, rose 0.7% in May after increasing 0.9% in April. Over the last twelve months this index increased by 3.8%. Federal Reserve Governor Lael Brainard recently commented that relative to the entrenched inflation dynamics that existed before the pandemic, the sharp temporary increases in some categories of goods and services seem unlikely to leave an imprint on longer run inflation behavior.

The employment sector continues to show mixed improvement and is one of the final broad economic indicators that has not reached pre-pandemic levels. We intend to monitor its progress as it is a key driver of economic growth. In addition, the potential impact inflation may have on interest rates and changing consumer spending behavior is something we are always tracking. As these data points fluctuate and parts of our economy heals at varying rates, it reinforces the importance of maintaining a well-diversified portfolio that includes asset classes that are not impacted solely by the health of the US economy and the US interest rate environment. Our long-term investing approach weathers uncertainty well and capitalizes on areas that can help achieve your financial goals.

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