

Economic Update, June 4, 2021
Submitted by Kevin Vanzant

Summary: All eyes were on the May jobs report this week. Total nonfarm employment rose by 559,000 in May, almost double the increase in jobs from April but short of the [671,000 jobs expected](#) by economists. ADP’s report on private payrolls, unlike the jobs report, did beat expectations, measuring an increase of 978,000 jobs in private-sector employment in May. Because more Americans who were searching for work found jobs, the unemployment rate fell to 5.8 percent, but the labor force participation rate, the share of adults working or looking for work, edged slightly lower to 61.6 percent, [suggesting](#) that “ample open jobs and some improvement in wages didn’t draw more workers off the sidelines in May,” according to the Wall Street Journal. Initial unemployment claims decreased by 20,000 from the previous week to 385,000, the lowest level for initial claims since March 14, 2020. Various indicators released this week suggest the economy is growing, while also raising concerns about supply chain disruptions and growing inflation. Much of this was [reflected](#) in the Federal Reserve’s Beige Book, which described the economy as growing at a moderate pace, while noting an increase in consumer spending, an increase in manufacturing activity despite notable supply chain challenges, and growing inflation pressures.

Federal Government Indicators and Reports:

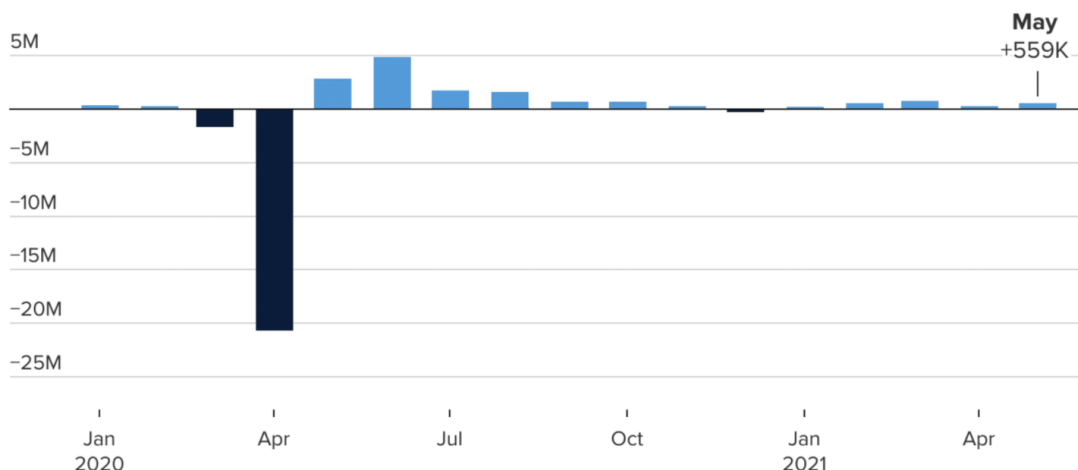
Bureau of Labor Statistics

Thursday, [Productivity and Costs](#): “Nonfarm business sector labor productivity increased 5.4 percent in the first quarter of 2021 . . . as output increased 8.6 percent and hours worked increased 3.0 percent. . . . Unit labor costs in the nonfarm business sector increased at an annual rate of 1.7 percent in the first quarter of 2021, the combined effect of a 7.2-percent increase in hourly compensation and a 5.4-percent increase in productivity. Unit labor costs increased 4.1 percent over the last four quarters, as hourly compensation increased 8.3 percent and productivity increased 4.1 percent.”

Friday, [May Jobs Report](#): “Total nonfarm payroll employment rose by 559,000 in May, and the unemployment rate declined by 0.3 percentage point to 5.8 percent. . . . Notable job gains occurred in leisure and hospitality, in public and private education, and in health care and social assistance.”

U.S. job growth

Total nonfarm payrolls, change from previous month



Source for figure: [CNBC](#)

Department of Labor

Thursday, [Weekly Unemployment Insurance Claims](#): “In the week ending May 29, the advance figure for seasonally adjusted initial claims was 385,000, a decrease of 20,000 from the previous week’s revised level. This is the lowest level for initial claims since March 14, 2020 when it was 256,000. . . . The 4-week moving average was 428,000, a decrease of 30,500 from the previous week’s revised average. This is the lowest level for this average since March 14, 2020 when it was 225,500.”

Federal Reserve Board

Wednesday, [Beige Book](#): “The national economy expanded at a moderate pace from early April to late May, a somewhat faster rate than the prior reporting period. Several Districts cited the positive effects on the economy of increased vaccination rates and relaxed social distancing measures, while they also noted the adverse impacts of supply chain disruptions. . . . Staffing levels increased at a relatively steady pace, with two-thirds of Districts reporting modest employment growth over the reporting period and the remainder indicating employment gains were moderate. . . . It remained difficult for many firms to hire new workers, especially low-wage hourly workers, truck drivers, and skilled tradespeople. The lack of job candidates prevented some firms from increasing output and, less commonly, led some businesses to reduce their hours of operation. . . . On balance, overall price pressures increased further since the last report. Selling prices increased moderately, while input costs rose more briskly. Input costs have continued to increase across the board, with many contacts noting sharp increases in construction and manufacturing raw materials prices. . . . Strengthening demand, however, allowed some businesses, particularly manufacturers, builders, and transportation companies, to pass through much of the cost increases to their customers. Looking forward, contacts anticipate facing cost increases and charging higher prices in coming months.”

Census Bureau

Friday, [Factory Orders](#): “New orders for manufactured goods in April, down following eleven consecutive monthly increases, decreased \$2.9 billion or 0.6 percent to \$485.2 billion. . . . Shipments, up eleven of the last twelve months, increased \$1.8 billion or 0.4 percent to \$487.8 billion. . . . Unfilled orders, up three consecutive months, increased \$1.8 billion or 0.2 percent to \$1,196.9 billion. . . . The unfilled orders-to-shipments ratio was 6.84, down from 7.00 in March. Inventories, up ten of the last eleven months, increased \$2.4 billion or 0.3 percent to \$723.6 billion. . . . The inventories-to-shipments ratio was 1.48, unchanged from March.”

Economic Indicators and Confidence:

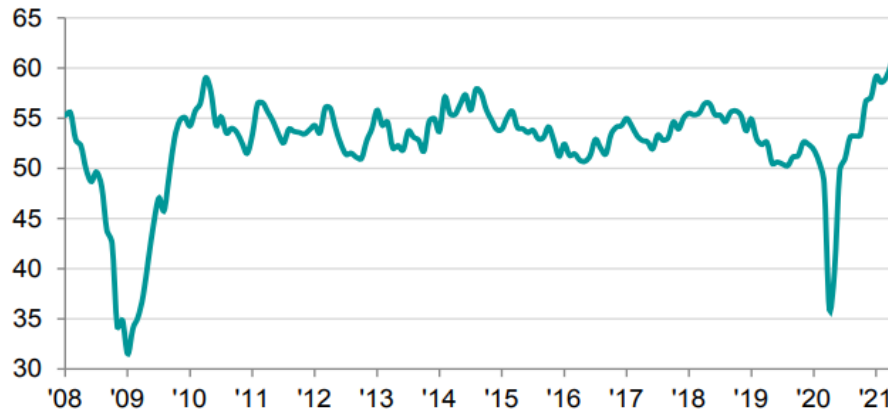
IHS Markit

Tuesday, [U.S. Manufacturing PMI](#): The index “posted 62.1 in May, up from 60.5 in April. . . . The increase in business activity signaled among U.S. manufacturers was among the strongest in the 14-year series history.” The increase “indicated a substantial improvement in the health of the U.S. manufacturing sector, with the rate of overall growth accelerating to a fresh record high. The upturn was supported by stronger expansions in output and new orders, with the pace of the latter reaching the fastest on record. Nonetheless, constraints on production capacity were exacerbated further during the month, as severe supply-chain disruptions led to a marked accumulation of backlogs of work and one of the fastest rises in input prices since data collection began in May 2007. Although firms were

able to partially pass on higher cost burdens, supply shortages and the potential for future strain on capacity pushed output expectations down to their lowest for seven months.

U.S. Manufacturing PMI

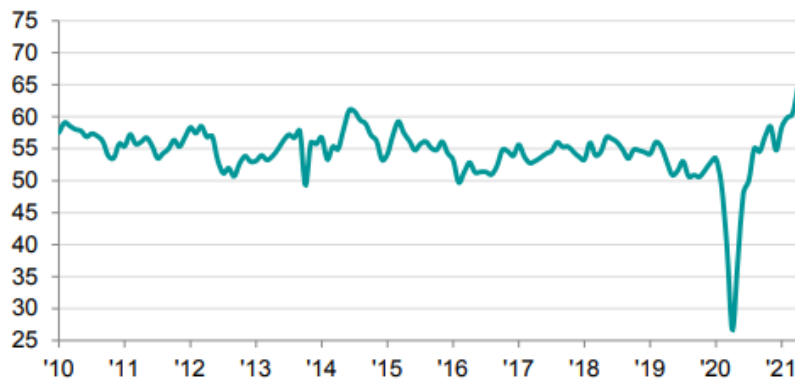
sa, >50 = improvement since previous month



Thursday, [U.S. Services PMI](#): The index “registered 70.4 in May, up from 64.7 in April.” The data “indicated the fastest rise in business activity since data collection for the series began in October 2009. The unprecedented expansion in output was supported by a marked increase in new business, in turn buoyed by the quickest rise in new export orders for nine months. Greater business requirements resulted in a further sharp rise in employment. That said, the pace of job creation softened as firms reported difficulties filling vacancies. Strain on capacity was also reflected in another monthly rise in backlogs of work. At the same time, the rate of input cost inflation accelerated to a series high amid ongoing supplier price hikes. In an effort to pass on greater costs, service providers raised their charges at an unprecedented pace.”

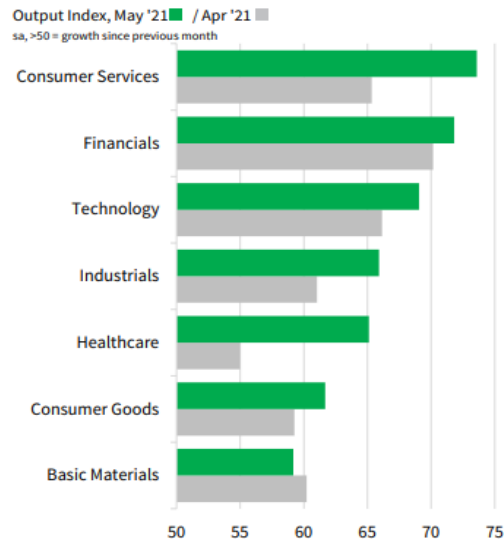
U.S. Services PMI Business Activity Index

sa, >50 = growth since previous month



Thursday, [U.S. Sector PMI](#): “May data indicated sharp increases in business activity across all seven broad categories monitored by the US Sector PMI series. Moreover, four sectors posted survey-record rates of output expansion: Consumer Services (index at 73.6), Financials (71.8), Technology (69.1) and Industrials (65.9). . . . Survey respondents overwhelmingly cited looser pandemic restrictions and a

surge in domestic consumer demand. The reopening of the US economy also resulted in sharp and accelerated rises in activity across the Financials, Technology and Industrials sectors during May.”



Institute for Supply Management (ISM)

Tuesday, [ISM Manufacturing PMI](#): “The May Manufacturing PMI registered 61.2 percent, an increase of 0.5 percentage point from the April reading of 60.7 percent. This figure indicates expansion in the overall economy for the 12th month in a row after contraction in April 2020. . . . Business Survey Committee panelists reported that their companies and suppliers continue to struggle to meet increasing levels of demand. Record-long lead times, wide-scale shortages of critical basic materials, rising commodities prices and difficulties in transporting products are continuing to affect all segments of the manufacturing economy. Worker absenteeism, short-term shutdowns due to part shortages, and difficulties in filling open positions continue to be issues that limit manufacturing-growth potential.”

Thursday, [ISM Services PMI](#): “The Services PMI reached another all-time high in May, registering 64 percent, which is 1.3 percentage points higher than April’s reading of 62.7 percent. . . . The May reading indicates the 12th straight month of growth for the services sector, which has expanded for all but two of the last 136 months. . . . The Prices Index registered 80.6 percent, which is 3.8 percentage points higher than the April reading of 76.8 percent, indicating that prices increased in May, and at a faster rate. The last time the Prices Index was this elevated was when it registered 77.4 percent in July 2008; the all-time high is 83.5 percent in September 2005.”

Challenger, Gray, & Christmas, Inc.

Thursday, [Job Cuts](#): “Job cuts announced by U.S.-based employers rose 7% in May to 24,586 from the 22,913 announced in April. Last month’s total is down 93.8% from May 2020, when employers announced 397,016 cuts. . . . So far this year, employers have announced plans to cut 192,185 jobs from their payrolls, down 86% from the 1,414,828 jobs eliminated through the same period last year. ‘Many employers, especially those hit hard during the pandemic, such as Retailers and Hospitality and Leisure companies, are having a difficult time finding workers. Many are offering signing bonuses or higher

wages to attract workers,' said Andrew Challenger, Senior Vice President of Challenger, Gray & Christmas, Inc."

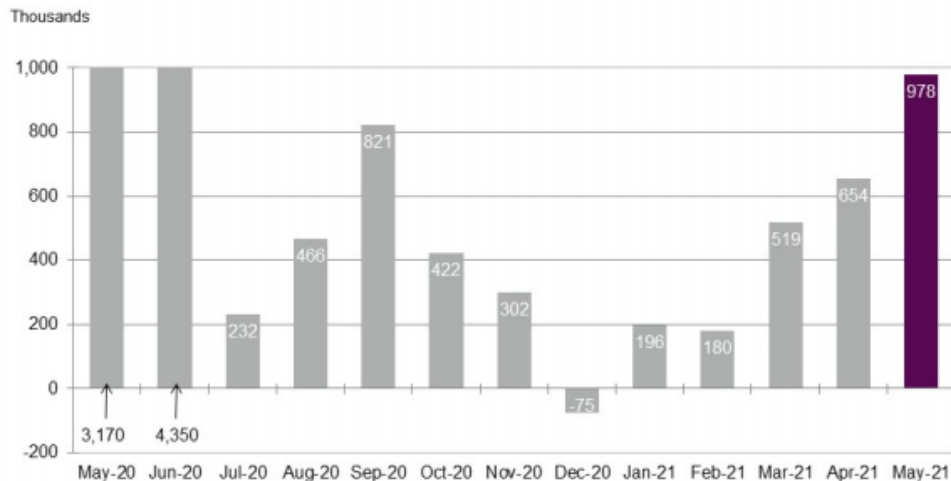
JOB CUTS BY REGION, STATE

SOUTH	May-21	YTD 2021	YTD 2020
Alabama		504	4,477
Arkansas		22	1,831
Florida	998	7,155	112,237
Georgia	1,560	6,238	14,422
Kentucky	42	648	25,641
Louisiana	14	266	5,161
Mississippi		1,223	357
North Carolina	715	2,348	22,957
South Carolina		1,519	10,869
Tennessee	273	7,068	43,597
Virginia	761	2,837	7,714
West Virginia		0	4,487
TOTAL	4,363	29,828	253,750

ADP Research Institute

Thursday, [National Employment Report](#): "Private sector employment increased by 978,000 jobs from April to May."

Change in Total Nonfarm Private Employment



Mortgages and Housing Markets:

Census Bureau

Tuesday, [Monthly Construction Spending, April](#): "Construction spending during April 2021 was estimated at a seasonally adjusted annual rate of \$1,524.2 billion, 0.2 percent above the revised March estimate of \$1,521.0 billion. . . . Spending on private construction was at a seasonally adjusted annual rate of \$1,180.7 billion, 0.4 percent above the revised March estimate of \$1,175.4 billion. . . . The estimated seasonally adjusted annual rate of public construction spending was \$343.5 billion, 0.6 percent below the revised March estimate of \$345.6 billion."

Mortgage Bankers Association

Wednesday, [Mortgage Applications](#): "Mortgage applications decreased 4.0 percent from one week earlier . . . for the week ending May 28, 2021. . . . 'Mortgage applications decreased for the second week in a row, with the overall index reaching its lowest level since February 2020,' said Joel Kan, MBA's

Associate Vice President of Economic and Industry Forecasting. 'Tight housing inventory, obstacles to a faster rate of new construction, and rapidly rising home prices continue to hold back purchase activity. . . . Refinance activity dropped for the second straight week, even as the 30-year fixed rate decreased slightly to 3.17 percent. Even though rates have been below 3.20 percent over the past month, they are still around 20-30 basis points higher than the record lows in late 2020.'"