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## Weekly Market Flash

### Another Strange Jobs Report

*October 8, 2021*

In case you haven't heard, the labor market is in a very strange place, both here at home and around the world. If you happened to glance at a British newspaper or magazine any time in the past couple weeks you would have seen long lines at gas (sorry, petrol) stations reminiscent of the oil crisis days of the 1970s. But those lines had more to do with the acute shortage of truck (sorry, lorry) drivers delivering supplies to retail outlets than to other factors.

Transportation markets face similar disruptions in the US, with the phenomenon of cargo ships sitting idle in ports, unable to offload their goods because those goods have no one on shore able to get them to warehouses and then off to their final destinations. Unfortunately, not many people expect these problems to be solved by the time the holiday season gets into full gear in a month or so. Presents under the tree this year may come in the form of little pieces of paper with the message "coming sometime next year" rather than the new bike or kitchen appliance or hot toy of the recipient's dreams.

#### Fewer Jobs, Fewer Jobless?

This brings us to this morning's report, the monthly read on the US employment situation courtesy of the Bureau of Labor Statistics. There are two headline numbers analysts pay attention to in the BLS report: the unemployment rate, and the payroll gains in nonfarm employment. Before the report comes out, a poll of economists' forecasts will set expectations around these two numbers. Going into this morning's report, the consensus forecast was for payroll gains of 479,000 and an unemployment rate of 5.1 percent.

The actual numbers, then, came as something of a surprise: 194,000 payroll gains (much worse than expected), and an unemployment rate of 4.8 percent (much better than expected). On its face that seems counter-intuitive: if the labor market produced fewer new jobs than expected, why did the unemployment rate fall by so much more than expected? Put another way, where did all those until-now unemployed people go if they didn't go into a new job?

We'll circle back to that question. The fact that new payroll gains were lower than expected is actually not entirely surprising. It had to do with the confluence of two factors: the impact of the Covid delta variant, and the timing of back-to-school dynamics. The BLS survey happens in the first half of the month prior to the report's release; in this instance, that would coincide with the first couple weeks after Labor Day.

One thing that became evident during this period was that increases in post-pandemic rebound sectors like retail, hospitality and entertainment were much lower than expected as the virus impacted the normal course of business for these areas. At the same time, there was a notable drop in employment in local public education – basically, fewer new teachers and school administrators coming back to work. The net effect of these two trends accounted for much of that disparity in payroll gains.

#### Where Did All the People Go?

But that still doesn't account for the lower unemployment number, and this brings us back to our opening paragraph about disappearing truck drivers and the like. In order to be considered "unemployed" by the BLS for purposes of that number in its report, a person has to be actively looking for a job. Presumably, a

large cohort of the people who would otherwise either have found a job or be knocking on doors and sending out resumes to find one were, instead, willingly not participating in the labor market. The really interesting question will be to see if that number changes significantly next month. The enhanced unemployment benefits originally implemented early in the pandemic finally ran out in late September. The impending termination of those benefits doesn't seem to have roused too many people to dust off their resumes last month, but perhaps they are doing so now. We'll find out more about this on November 5, when the next BLS report comes out.

It would be helpful to see more people come back to work, because those dysfunctional supply chains making a mess of the global production, transportation and distribution of goods in high demand won't be fully worked out until they do. What is becoming clear, though, is that both the pandemic and the fiscal relief efforts put in place to mitigate the effects of the pandemic have produced unintended consequences. We expect there are more unintended consequences to come.

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