Markets Rally on Shocking Payroll Miss

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The experts were in agreement: non-farm payrolls would surge again in April. *They were wrong.* In perhaps the biggest economic data disappointment in months, just +266k jobs were added to company payrolls, while March payrolls were revised downward from +916k to +770k and the February count increased from +468k to +536k. When the revisions are factored in, the net payroll add was just +188k. The miss was enormous as the median Bloomberg forecast called for one million jobs to be added during the month and at least one prominent economist expected 2.1 million.

The numbers make even less sense considering that leisure and hospitality jobs were responsible for the entire net gain in April (+331k). Notable losses were concentrated in temporary help services (-111k), courier and messenger services (-77k) and manufacturing (-18k). The drop in factory jobs can be attributed to the global microchip shortage.

The headline unemployment rate, expected to fall to 5.8%, actually rose from 6.0% to 6.1%, the first increase in 12 months. The U6, or underemployment rate, dropped from 10.7% to 10.4% in April. This broader measure captures those working part-time but preferring fulltime, as well as anyone not actively looking for work, but presumably willing to accept a suitable job if it were presented to them.

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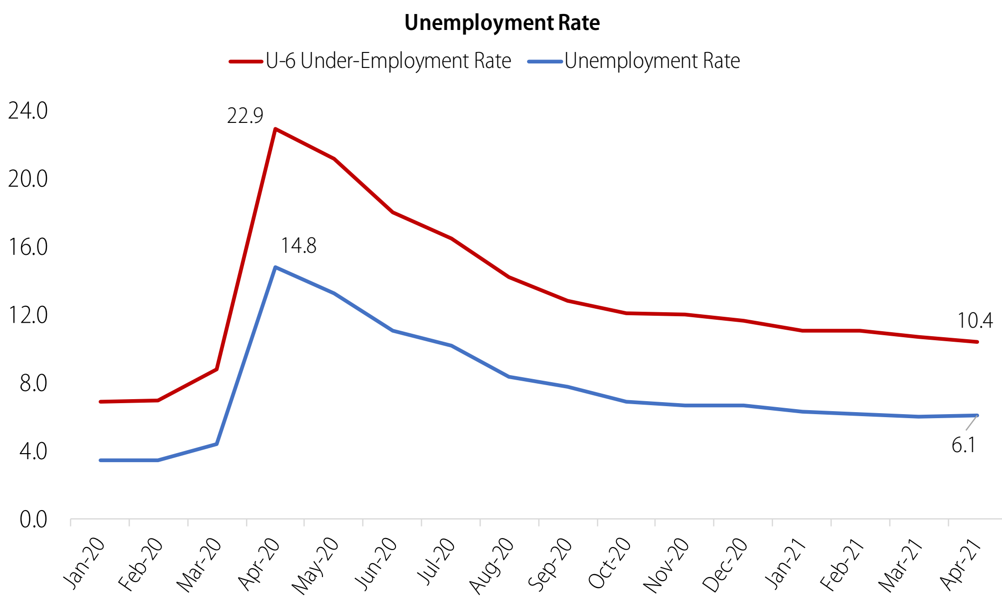
Progress on unemployment has stalled



Source: Bureau of Labor Statistics.

Average hourly earnings (expected to be flat) actually rose by +0.7% as many employers were forced to increase pay to attract workers.

There were a few positive signs pointing to future growth, *although it seems disingenuous to be anything other than completely disappointed in this morning's report.* The labor market participation rate climbed from 61.5% to 61.7% in April as more Americans resumed their job hunts, but remains well below the 63.4% pre-pandemic level from January 2020. The average workweek rose by 0.1 to 35 hours, equaling the highest level in the 15 year history of the series, suggesting a need to add additional workers.

The best explanation for the softening hiring numbers (amid evidence of labor shortages in many sectors of the economy) is that enhanced federal unemployment benefits are providing a disincentive to work. In many cases, job earnings would fall well short of benefits provided under the CARES Act, which were recently extended through early September.

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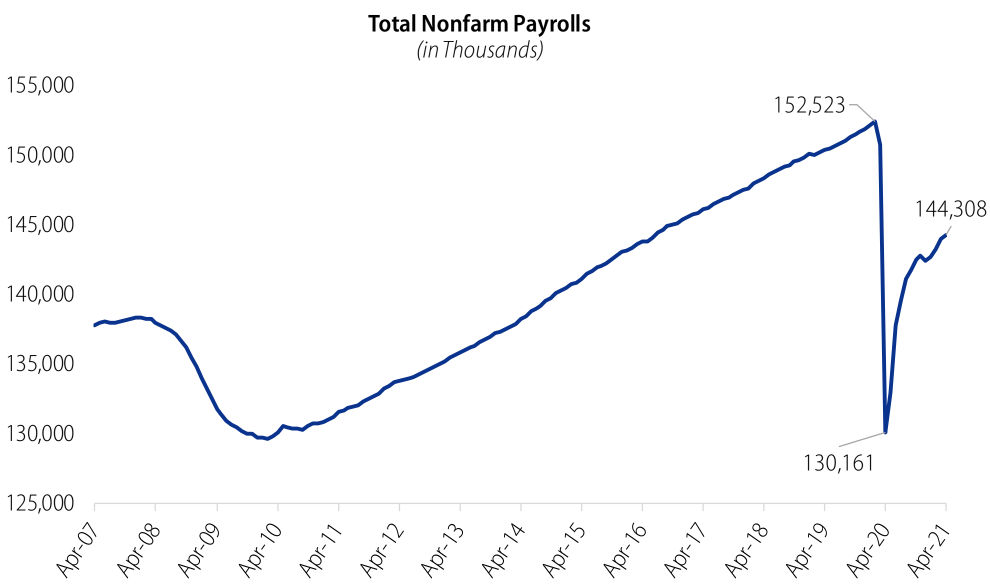

Source: Bureau of Labor Statistics

The financial markets are reacting as expected with both stocks and bonds (on the short to intermediate end of the curve) rallying.

Market Indications as of 9:40 A.M. Central Time

DOW	Up 134 to 34,684 (NEW HIGH)
NASDAQ	Up 176 to 13,809 (HIGH: 14,139)
S&P 500	Up 32 to 4,233 (NEW HIGH)
1-Yr T-bill	current yield 0.05%; opening yield 0.04%
2-Yr T-note	current yield 0.14%; opening yield 0.15%
3-Yr T-note	current yield 0.28%; opening yield 0.31%
5-Yr T-note	current yield 0.75%; opening yield 0.80%
10-Yr T-note	current yield 1.54%; opening yield 1.56%
30-Yr T-bond	current yield 2.24%; opening yield 2.24%