

## **GIAM Macro & Market Research- Market Commentary**

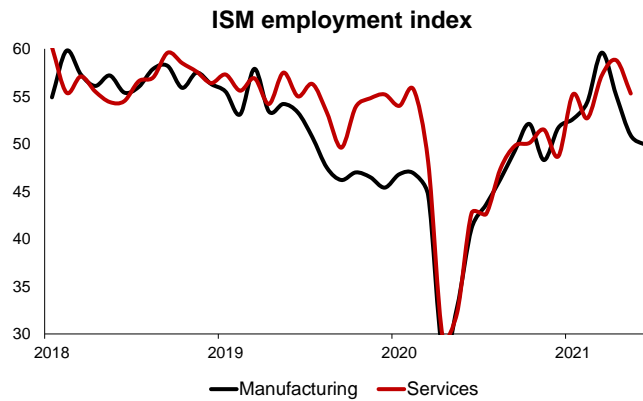
### **US job creation gathers speed, bottlenecks increase wage pressures.**

- **In June, employment growth was above expectations (850k versus 700k) and accelerated from the previous two months. Government employment (+188k) played a big role and sectors whose activity is reopening continued to perform very well. But input shortages curtailed employment growth in automotive.**
- **Yet, the participation rate remained unchanged at a very low reading of 61.6%. Labour shortages are affecting hiring intentions: the employment component of the ISM manufacturing index came in below 50, showing that smooth job growth cannot be taken for granted.**
- **Hourly wage growth rose to 3.6% yoy, with leisure posting a +10% increase. Upside pressures on inflation coming from wages may lead the Fed to a quicker withdrawal of monetary stimulus, implying the risk of a first rate hike earlier than in mid-2023. However, doves may insist to keep accommodation with clear evidence that the constraints pushing up inflation are at the same time hampering activity and employment growth.**

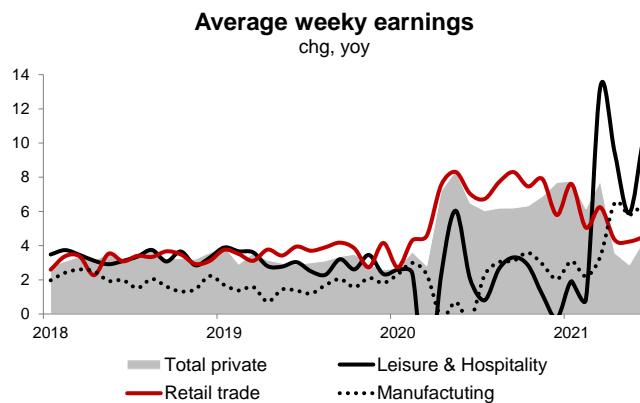
Employment grew strongly in June, but the data continue to highlight the bottlenecks which can add to wage pressures. Nonfarm payrolls grew by 850k after having expanded by 570k on average in the previous two months. The unemployment rate was broadly stable at 5.9%. Job creation was widespread (66% of sectors reported employment gains, up from 63% in May and 60% in April), but owes much to the 188k increase in government employees. Reopening sectors like leisure and hospitality continue to show very strong employment gains. A less rosy note comes from manufacturing. The increase in input prices and limited availability of intermediate goods (like semiconductors) are starting to affect employment, with motor and construction reducing payrolls.

Labour market participation remains low, and this continues to compress job creation. In June it remained at 61.8%. Bottlenecks are weighing on companies' employment prospects acting like a "speed limit" to job creation. Problems in finding employees flagged by small business surveys are showing up also in broader-based surveys like the ISM. In June, the employment component of the manufacturing index dropped back to below the 50 threshold. The slowdown in services should be confirmed by the corresponding ISM index, due next week. June employment figures are a partial relief: job creation has strengthened but a smooth continuation cannot be taken fully for granted.

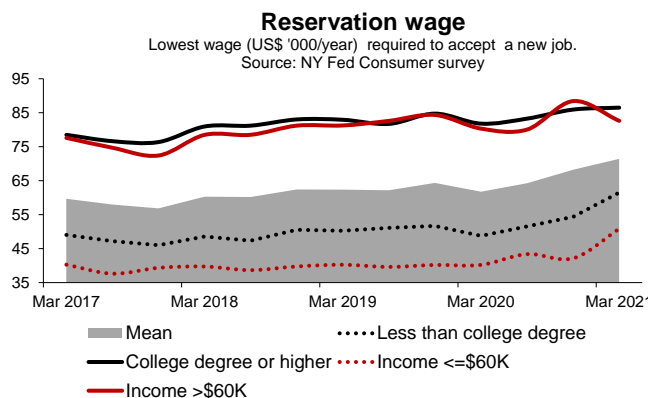
Our labour market dashboard (see bottom table) shows that employment gains are fairly evenly spread, with the notable exception of employment for people without a high school degree, which remains way below the pre-crisis level, the effect of a high incidence of employment in partially restricted sectors and high unemployment benefits limiting job search. Labour market participation remains weak among women.



Wage growth accelerated, with hourly wages up by 3.6% yoy and weekly ones even by 4.2% yoy. It remained strong in manufacturing and swung back up to nearly 10% yoy in leisure and hospitality despite the still large unemployment, showing the impact of low participation set against a fast recovery in available jobs. Low wage, labour intensive sectors like restaurants pass their wage cost (up to ½ of the total) to prices, as the possibility to improve low productivity in the short term is virtually non-existing. This is adding to inflationary pressures, whose length will be then highly related to the duration of the mismatch between labour demand and supply in these sectors.



This is feeding through in wage expectations. The NY Fed Consumer Survey shows that the marked increase in the reservation wage (the minimum annual wage a worker would require to change job) seen since the reopening of the economy is mainly driven by poorer, less educated workers. This underlines the potentially inflationary side of the inclusive employment growth the Fed is pursuing, which is consistent with the Administration's plan to overhaul part of the social security systems, which ultimately would bring workers more bargaining power, potentially giving rise to higher wage expectations.



In our baseline scenario the mismatch between labour demand and supply should prove temporary as the end of restrictions, school reopening and the phasing out of extra unemployment benefits (in September) will prop up labour supply. However, risks are tilted toward a slower reopening, especially if the new virus

mutation turns out to be harmful, requiring further lockdowns, as vaccination seems to have plateaued in many states.

The June employment data are consistent with the optimism on the growth prospects the Fed is advertising, but also with the increasing concerns about how big and long lasting the bout of inflation will be. A prolonged upward wage pressure adds then to the risk of a longer period of high inflation. If this materialises, it could convince the Fed to withdraw stimulus quicker. This may lead to a first rate hike earlier than in mid-2023, which is our baseline scenario. However, the doves within the FOMC may resist this urge if there is clear evidence that the constraints pushing up inflation (like low labour market participation) are also slowing down activity and employment growth.

US Labour Market Dashboard																			
	Pre Covid Avg.*	Jul-21	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21	Dec-20	Nov-20	Oct-20	Sep-20	Aug-20	Jul-20	Jun-20	May-20	Apr-20	Mar-20	Feb-20
<b>Unemployment rate</b>																			
Overall	3.5	NA	5.9	5.8	6.1	6	6.2	6.3	6.7	6.7	6.9	7.8	8.4	10.2	11.1	13.3	14.8	4.4	3.5
Broad	6.9	NA	9.8	10.2	10.4	10.7	11.1	11.1	11.7	12	12.1	12.8	14.2	16.5	18	21.2	22.9	8.8	7
Median duration of un.	9.1	NA	19.8	19.3	19.8	19.7	18.3	15.3	16.8	18.9	19	17.8	16.7	15.1	13.4	7.5	1.9	5.8	9
Prime age (25-54)	3.0	NA	NA	5.2	5.5	5.5	5.7	5.8	5.8	6.1	6.4	7.1	7.5	9.1	9.7	11.5	12.8	3.6	3
Asian	2.7	NA	5.8	5.5	5.7	6	5.1	6.6	5.9	6.7	7.6	8.8	10.6	11.9	13.9	14.9	14.5	4.1	2.4
Black	6.1	NA	9.2	9.1	9.7	9.6	9.9	9.2	9.9	10.3	10.8	12	12.8	14.4	15.3	16.7	16.7	6.8	6
Hispanic	4.3	NA	7.4	7.3	7.9	7.9	8.5	8.6	9.3	8.4	8.8	10.3	10.5	12.7	14.5	17.6	18.9	6	4.4
White	3.0	NA	5.2	5.1	5.3	5.4	5.6	5.7	6	5.9	6	7	7.4	9.2	10.1	12.3	14.1	3.9	3
Men	3.5	NA	6	6	6.3	6.2	6.3	6.4	6.7	6.9	7	7.7	8.3	9.8	10.5	12.2	13.6	4.4	3.5
Women	3.5	NA	5.7	5.5	5.8	5.9	6.1	6.3	6.7	6.4	6.8	8	8.6	10.6	11.7	14.5	16.1	4.4	3.4
Less than high school	5.6	NA	10.2	9.1	9.3	8.2	10.1	9.1	9.8	9.2	9.9	10.7	12.6	15.1	16.4	19.6	21	6.9	5.8
High School	3.6	NA	7	6.8	6.9	6.7	7.2	7.1	7.8	7.8	8.1	9	9.8	10.8	12.2	15.3	17.3	4.3	3.5
College dropout	2.8	NA	5.8	5.9	5.8	5.9	5.9	6.2	6.3	6.3	6.6	8.1	8	9.9	10.9	13.2	15	3.7	3
At least college	1.9	NA	3.5	3.2	3.5	3.7	3.8	4	3.8	4.2	4.2	4.7	5.3	6.7	6.9	7.4	8.4	2.5	1.9
<b>Employment to population</b>																			
Overall	61.1	NA	58	58	57.9	57.8	57.6	57.5	57.4	57.4	57.4	56.6	56.5	55.2	54.6	52.8	51.3	59.9	61.1
Prime age (25-54)	80.4	NA	NA	77.1	76.9	76.8	76.5	76.4	76.3	76	76	75.1	75.3	73.9	73.6	71.3	69.6	79.5	80.4
Asian	62.1	NA	59.6	59.8	59.2	59.3	59	58.6	58.2	58.5	58	57.3	57	56.2	52.9	52	52.1	61.1	62.6
Black	59.1	NA	55.9	55.4	55.3	54.9	54.2	54.7	53.9	54	53.7	52.5	52.5	51.5	50.8	49.6	48.8	57.7	59.3
Hispanic	64.7	NA	60.6	60.5	60.1	60.4	59.9	59.4	59.2	59.9	59.8	58.2	58.5	56.4	55.9	52.9	51.4	63	65
White	61.0	NA	58.4	58.4	58.2	58	57.7	57.3	57.7	58	58.3	57.4	57.2	56.1	55.7	53.6	51.8	60	61
Men	71.3	NA	NA	68.3	68	67.7	67.4	67.1	67.3	67.6	68.1	67.3	67	65.9	65.1	63.2	61.4	70.2	71.3
Women	56.8	NA	NA	53.8	53.8	53.9	53.5	52.9	53.4	53.6	53.4	52.2	51.9	50.8	50.4	48.3	46.9	55.9	57
Less than high school	43.9	NA	39.6	38.9	40.1	40.8	41.2	40.8	40.7	41.4	41.5	38.9	39.3	38.3	36.1	34	34.1	42.7	44.9
High School	56.4	NA	52	51.7	51.5	51.1	50.8	51.3	51.1	51.1	51.3	50.1	49.7	49.6	48.7	46.6	44.9	54.6	56.3
College dropout	62.8	NA	59.4	59.7	59.3	59.6	59	58.4	58.6	58.4	58.3	58.4	59.1	57.4	56.9	55	53	62.1	62.7
At least college	72.1	NA	69.8	70.2	69.6	69.4	69.1	69.3	69.1	69.1	69	68.8	68.8	67.3	67.6	66.7	65.6	71.2	71.8
<b>Labour force participation</b>																			
Overall	63.1	NA	61.6	61.6	61.7	61.5	61.4	61.4	61.5	61.5	61.6	61.4	61.7	61.5	61.4	60.8	60.2	62.6	63.3
Prime age (25-54)	83.0	NA	81.75	81.4	81.45	81.4	81.25	81.25	81.05	80.95	81.35	81	81.5	81.4	81.55	80.65	79.95	82.6	82.95
Asian	69.2	NA	67.5	67.4	67.6	67.3	67.4	67.5	67.4	67.4	67.7	67.6	67.7	67.1	67.2	66.7	66.2	68.5	69.2
Black	57.7	NA	56.3	55.8	55.8	56.2	55.9	55.5	55.9	56	56.1	55.7	56	56.3	56.2	55.1	54.4	57.1	57.9
Hispanic	63.8	NA	63.2	63.4	62.8	63	62.2	62.8	61.8	62.7	62.8	62.9	63.8	63.8	61.4	61.1	60.9	63.8	64.1
White	63.0	NA	61.6	60.9	61.2	60.7	60.1	60.3	59.8	60.2	59.7	60.2	60.2	60	59.6	58.6	61.8	63.1	
Men	67.6	NA	65.5	65.3	65.3	65.6	65.4	65	65.3	65.4	65.6	64.9	65.3	64.7	65.4	64.1	63.3	67	68
Women	63.2	NA	61.3	61.4	61.5	61.4	61.4	61.4	61.6	61.5	61.8	61.6	61.8	61.5	61.6	61	60.3	62.6	63.2
<b>Hours/Wages</b>																			
Hours Worked	34.3	NA	34.7	34.8	34.9	34.9	34.6	35	34.7	34.8	34.8	34.8	34.7	34.6	34.6	34.7	34.2	34.1	34.4
Atlanta Fed wage tracker (yoy %chg)	3.7	NA	NA	3.4	3.5	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.7	3.6	3.7	3.7
- White	3.6	NA	NA	3.4	3.4	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
- Nonwhite	4.3	NA	NA	3.2	3.4	3.4	3.5	3.5	3.6	3.4	3.5	3.5	3.7	3.8	4.1	4.2	4	4.3	4.3
- High Skill	3.7	NA	NA	3.4	3.5	3.5	3.5	3.5	3.6	3.7	3.7	3.7	3.7	3.6	3.6	3.7	3.6	3.7	3.7
- Mid skill	3.6	NA	NA	3.4	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.7	3.8	3.8	3.7	3.6	3.7
- Low skill	3.7	NA	NA	3.4	3.5	3.5	3.2	3	3.1	3.1	3	3	3.1	3.1	3	3.1	3.2	3.3	3.7
- Male	3.9	NA	NA	3.6	3.7	3.7	3.7	3.7	3.7	3.8	3.8	3.7	3.7	3.7	3.7	3.7	3.7	3.8	3.9
- Female	3.5	NA	NA	3.2	3.3	3.3	3.3	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.6	3.6	3.6	3.5	3.6
<b>Expectations</b>																			
NFIB - % planning to raise employment	19.7	NA	NA	26	21	22	18	17	17	21	18	23	21	18	16	8	1	9	21
NFIB - % have raised wages	33.7	NA	NA	34	31	28	25	25	21	24	23	23	18	15	14	14	16	31	38
NFIB - % planning to raise wages	22.3	NA	NA	22	20	17	19	17	14	20	18	16	14	14	13	10	7	16	19
Conf. Board Cons.conf. - Job plentiful	46.7	NA	54.4	48.5	36.3	27.5	23.1	21	21	26.3	26.7	23.6	21.4	22.3	20.5	16.5	18.8	43.3	46.5

\*Average of Dec. 2019, Jan. and Feb. 2020

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