THE ECONOMY

Are We Overstimulated? Soft Jobs Report Says Yes

By Lisa Beilfuss

There is a conundrum facing the U.S. economy: The very stimulus that has prompted a faster-than-expected recovery seems to be undermining it.

That is one interpretation of the April jobs report released Friday, which showed employers added only a fraction of the jobs Wall Street expected and hired at the slowest pace since January. Economists called the report puzzling; some said it should be ignored. After all, demand has been booming as vaccination rates increase and reopenings continue, and survey data show consumers themselves say jobs are increasingly plentiful.

It's possible seasonal factors or statistical distortions explain the massive miss and there's an upward revision next month. Or the explanation may be more straightforward: There is a labor shortage.

Employers across the country have been facing supply shortages in everything from lumber to steel for months. In his press conference late last month, Federal Reserve Chairman Jerome Powell acknowledged bottlenecks, what he called "a temporary blockage or restriction in the supply chain for a particular good or goods...that will be resolved as workers and businesses adapt."

Maybe the Fed is looking at the wrong bottleneck. Companies say workers are increasingly hard to find, and the big, unexpected jump in April wages alongside cooler hiring suggests companies are starting to pay up for labor. With the wage increase came a slightly longer workweek and a shift in part-time workers to full-time status, suggesting demand isn't the issue.

"The risk," says Apollo Global Management Chief Economist Torsten Sløk, "is that we transition from 'bottlenecks' and are back to a late-1960s scenario," referring to the start of the Great Inflation.

Worth noting is the fact that the 0.7% increase in average hourly earnings from March doesn't include the sign-on bonuses employers are using to attract labor, meaning the reality is wage inflation is already much hotter. Consider, for example, one Maryland school district that is offering a $1,500 signing bonus and up to $29.82 an hour for a school bus driver.

On the surface, two details of the April jobs report might appear to undercut the labor-shortage explanation. Retailers, manufacturers, and transportation companies didn't slow hiring—they cut jobs. And more people entered the workforce, meaning they are actively looking for work, than those who were hired. It isn't a stretch, however, to similarly attribute those developments to a labor shortage.

Ultra-accommodative monetary policy and aggressive fiscal stimulus have pulled the economy out of a big hole. Investors saw late last month that gross domestic product rose 6.4% in the first quarter, thanks in large part to government stimulus that drove personal income up 59% higher and personal consumption 11% higher. At the same time, unemployed workers are receiving an extra $300 a week in relief through September, raising the bar for some workers to return to work at a time when many are still struggling with child care and health concerns.

By virtue of generous policy, workers are gaining pricing power. Some companies can't or won't pay up, and it's possible the areas that cut jobs did so because they are finding it difficult to market, make, and move their goods. The Institute for Supply Management said as much in its April manufacturing report released Monday. The survey's employment index expanded for the fifth straight month, "but panelists continue to note significant difficulties in attracting and retaining labor at their companies' and suppliers' facilities."

Sometimes solving one problem leads to another. It's worth considering whether the U.S. economy is at a point where stimulus measures are becoming self-defeating. B