FISCHER STRALEM
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Dear Client:

We have focused recent comments on investor concerns that a brisk U.S. economic re-opening is likely to push inflation inexorably higher. The past month saw this anxiety merge with a growing debate about whether there are enough willing workers to actually power faster economic growth. As the post-pandemic economy unfurls, unemployment remains high, yet businesses across diverse sectors including manufacturing, hospitality, and construction complain that they can't find -- or entice -- enough workers to meet the growing demand. This seems incongruous when weekly jobless claims still hover ~550k and it is a genuine paradox. The employment recovery is not simply about bringing back the same workers to the same jobs -- the complexities and considerations are worth examination.

Employers of course are wondering why, with so many unemployed, they can't yet find one on the cheap. There is a loud and growing chorus picked up on quarterly earnings calls and business surveys that blame stimulus checks and generous unemployment benefits for hampering hiring efforts. While this may be true in certain industries, we need to clarify what they're talking about. Many of these job openings are blue collar: electricians, plumbers, pipefitters, carpenters, cleaning staff. According to Bank of America economists, anyone who previously made less than $32,000 per year is better off financially receiving these relatively plentiful unemployment benefits, which amounts to ~$15/hour. But fiscal stimulus is not the only problem.

Treasury Secretary Yellen notes that if unemployment bonuses were impacting hiring, we would expect lower job growth in states where benefits are particularly high but, in fact, this has not occurred. The Secretary rightly points to larger factors impacting worker availability, including lack of childcare (businesses are reopening ahead of schools/daycare) and ongoing fears of Covid exposure at work. At its root, the pandemic created a displaced workforce that could not afford to endure extended layoffs and had to earn a steady income elsewhere. So, the market for labor has changed and it has become more difficult to refill certain roles.

It is also germane to recall that the pandemic exacerbated a trend well under way prior to Covid: shortages of skilled workers in industries like manufacturing, construction, and agriculture that can be traced to the prior administration's war on migrant and immigrant employees. And, unsaid but particularly relevant today as before: many unfilled jobs, especially in restaurants and retail, underscore the fact that employers aren't paying adequate wages, giving workers enough hours, or protecting their health.

Like with any government policy, there are winners and losers, but there is *always* the law of unintended consequences. The measure of a healthy economy isn't the availability of a limitless supply of people willing to work for $2.25/ hour (plus tips). In a market based economy, if you need to hire but are unsuccessful, you must increase wages; if you want to hire but cannot increase wages, you must offer a compelling workplace and benefits, or prepare for unfilled positions and higher than normal turnover. Employers are not competing against unemployment insurance; but rather they are competing against each other for a valuable resource (talent) and must be ready to invest in their businesses accordingly. This new reality will impact the duration and rate of recovery and, while we are not certain how it will resolve itself, we are confident that the most well-run businesses will adapt to the challenge.

Regards,

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Chief Investment Officer
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