Capital Market Review

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The holiday-shortened week ended with the S&P 500 Index in the red by about 1%, roughly the same distance it is away from its all-time high. Although markets are still optimistic, traders took a bit of a pause last week to contemplate the Delta variant of COVID-19 and how the Federal Reserve will approach monetary policy through year-end. The labor market is at the center of both those risks, which may be one of the most critical factors for the economy going forward.

While the labor market has made significant progress in its recovery since the heart of the pandemic, there is still a long way to go. There are currently 8.4 million Americans who remain unemployed, but there are 10.9 million job openings. Even with many companies offering signing bonuses and higher wages, they are still not seeing the demand for open positions. So, what is keeping workers in the unemployment line? One theory is that unemployment benefits make it more financially beneficial to remain unemployed rather than lose the additional benefits. In a recent study, JPMorgan analyzed the correlation between job growth and state unemployment benefits expiring and found "zero correlation" between the two. This data is still limited, and with federal benefits expiring last week, it's still too early to rule this factor out, but we can say it's not a leading cause, at least for now.

Since pre-pandemic, job postings on Indeed.com are up about 40%. Great for the current labor picture, right? Well, we need to look at where these jobs are available. Most of the job openings growth was in remote positions in health care, advertising, and finance, or jobs requiring specific education and training. Most people who lost their jobs due to the pandemic are in service-oriented sectors that cannot be done remotely. Industries like childcare and beauty services have seen a decline in postings, while construction and restaurant growth are only slightly positive. Consequently, part of the disconnect between the number of workers available and job openings can be attributed to the type of positions available.

During this recovery, a factor often overlooked is how the world has changed in just the past 18 months. We started to see services sectors rebound in the spring and early summer, but as summer progressed and the Delta variant of COVID-19 became a bigger factor, growth slowed. If some of these workers lost their job for a second time in just a little over a year, will they ever come back? Many may be furthering education to become qualified for numerous available remote positions, and some may view childcare as a larger priority, leaving the labor force to focus on their family. These factors take one parent away from the labor force and apply additional pressure to childcare jobs where demand has diminished. While the recovery's growth rate will change throughout, we are still moving in a positive direction and witnessing a change in the labor landscape that was not even considered a short time ago.