First Trust
Monday Morning OUTLOOK

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No Hurricane, Yet

JP Morgan CEO Jamie Dimon caused a stir lately when he talked about a "hurricane" hitting the US economy. We think he may eventually be right, but is way too early. The employment report for May confirmed that the US economy continues to grow.

Both major measures of jobs went up in May: nonfarm payrolls rose 390,000, while civilian employment increased 321,000. Total hours worked expanded 0.3%. Has a recession already started? Certainly not.

Notably, there is some evidence of a transition in the economy away from goods and toward services. Retail payrolls are still up from where they were pre-COVID, but dropped 61,000 in May. With the exception of the initial onset of COVID-related lockdowns in 2020, that's the steepest drop for any month since 2009. Meanwhile, jobs in leisure & hospitality increased 84,000, the seventeenth consecutive monthly gain.

In turn, this fits with recent activity on the stock market, where companies that specialize in retail goods have suffered relative to those, like theaters and airlines, which provide services. More people want to be out and about, getting back toward normal.

The worst part of the jobs report was for wages, where average hourly earnings rose 0.3%. In a normal economy, a 0.3% gain would be perfectly fine. But with consumer prices up an estimated 0.7% in May, that's no bueno for workers.

The funny part is that some politicians are now trying to take credit for the job growth. The President says he's created about 600,000 "new" manufacturing jobs, for example. It's true that is (nearly) how much manufacturing jobs are up since January 2021, but total manufacturing jobs are still 17,000 below the pre-COVID peak. Politicians want to take credit for good news and blame others for bad news. We are forced to take data at face value with no political point of view. The economy is still climbing out of the COVID lockdown hole. That means jobs will grow in 2022 in spite of the Fed raising rates.

In spite of this problem, consumer cash flow and balance sheets remain healthy. The financial obligations ratio finished 2021 at 14.0%. That's the share of consumers' after-tax incomes that they need to use on debt obligations (like mortgage payments and car loans) as well as recurring payments such as property taxes, homeowners' insurance, and car lease payments. To put that in perspective, from 1980 (when the data start) to the end of 2019, the ratio was never lower than 14.7%.

Meanwhile, household net worth finished last year at more than eight times annual after-tax income, the highest ratio on record. Americans had $1.2 trillion in checkable deposits and currency before COVID. At year end 2021 they had $4.1 trillion.

The bottom line is that loose money from the Federal Reserve has inflated everything. Moreover, monetary policy remains loose and the lag between loose money and the economy is long and variable. Put it all together and it means some sort of hurricane is on the radar, but it isn't very close.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-7 / 7:30 am	Int'l Trade Balance – Apr	-$89.5 Bil	**-$90.4 Bil**		-$109.8 Bil
2:00 pm	Consumer Credit – Apr	$35.0 Bil	**$30.5 Bil**		$52.4 Bil
6-9 / 7:30 am	Initial Claims – June 4	208K	**203K**		200K
6-10 / 7:30 am	CPI – May	+0.7%	**+0.7%**		+0.3%
7:30 am	"Core" CPI – May	+0.5%	**+0.5%**		+0.6%
9:00 am	U. Mich Consumer Sentiment – Jun	58.3	**58.9**		58.4

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.