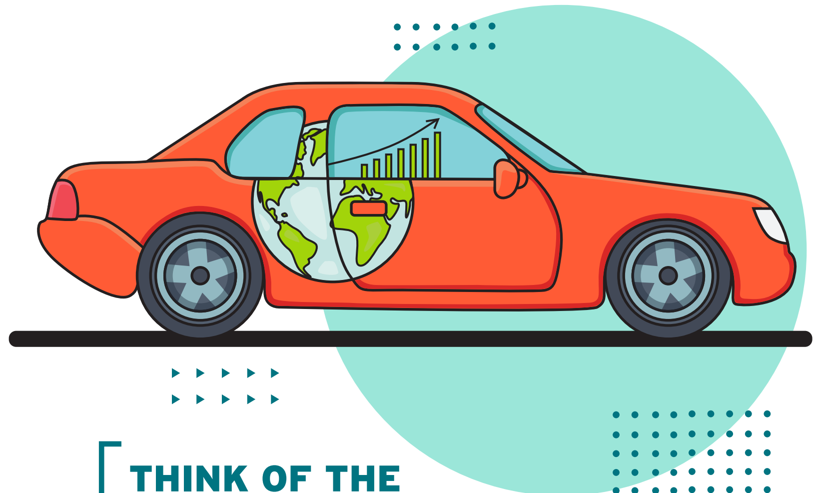
THE CURRENT STATE OF THE

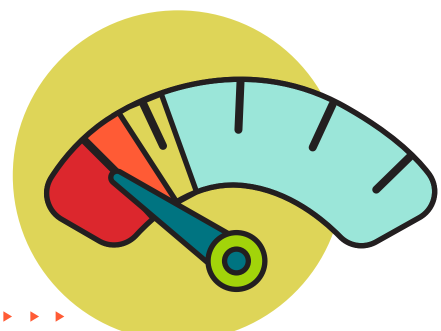
2021 ECONOMY

What's going on in the economy?

There isn't a clear-cut answer of what's going on in the economy right now. All anyone knows is that it's affecting every single business. Especially when it comes to labor. The New York Times broke down three potential theories of what's happening, and here's what we know.



THINK OF THE ECONOMY RIGHT NOW AS A CAR.



Theory 1: Ramping up the Speed

The economy is trying to get back up to highway speeds. But maybe we're still on the road and **we're not ready to get on the highway going 70 mph.**

a.

Employers in the U.S. added 559,000 in May, unemployment declined to 5.8 percent, and even with that, some businesses have struggled to fill openings according to The Wall Street Journal and the U.S. Bureau of Labor Statistics.

b.

On the other side, there's a lot of evidence that we're getting back to normal, and quickly. People are getting on airplanes, going out to eat, and returning to everyday activities. According to the Bureau of Labor Statistics, May showed strong gains with over 559K jobs added. Manufacturing employment rose by 23,000 in May. Transportation and warehousing added 23,000 jobs in May.

Theory 2: The Tricky Merger

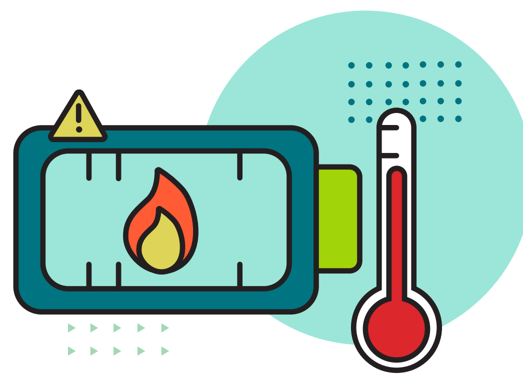
We're up to speed on the highway, the economy is recovering quickly. But right now, we're in a highway merge moment. Think of trying to **merge lanes during rush hour, it's tricky.**

a. With businesses trying to reopen and staff up quickly, there is an abundance of job openings. The U.S. Bureau of Labor Statistics reported the number of job openings reaching new highs.

What does this mean? Expect a couple months of outlandish quantities of job openings, with a limited supply of workers to fill open positions.

Theory 3: Jamming the Accelerator and Overheating

We're already on the highway, and we're jamming the accelerator. The economy has emerged from most pandemic restrictions, leading to **pushing the engine beyond what it can handle**. We are risking overheating the engine, overheating the economy, and ultimately ending up in worse shape than if we backed off the accelerator and allowed the economy to continue on its own.



a. When the economy is weak (people don't have jobs and people don't have money to spend), the standard economic approach is to give people money. If we pump too much money into the economy all at once, then it risks overwhelming the system.

b. If we're in a moment when factories are already producing as much as they can produce, handing out money doesn't increase activity. It doesn't lead to more spending, rather it leads to more competition to buy the stuff that's available. Which ultimately leads to higher prices, which then leads to inflation.

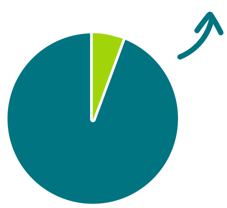
With the current economic state, **what does that tell us about the current labor market and the shortages your business is experiencing daily?**

THE DEBATE AROUND WORKER SHORTAGE

“We can’t find enough workers,”

a phrase we’ve heard multiple times a day by anyone who’s hiring. Which is surprising on the surface:

unemployment rate is a bit over **6%,**



which is down a lot from where it was last spring but it’s a lot higher than what we’d associate with a strong economy.

The tricky merger theorist would say that there are a lot a variables, such as **childcare**, that make it tough for people to come back to work. Parents of young children are facing roadblocks from **schools not being back to in person,** or they are open erratically with varying covid procedures and irregular hours. Along with issues from childcare and schooling, when the job data was collected in early-to-mid April, there was still widespread **health concerns around covid,** causing working mothers to bow out of the workforce for fear of injecting harm into their families. Vaccine distribution hadn’t reached its peak in the early April timeframe as most individuals were in the middle of getting the first vaccine dose.

Alternatively, the third theory – *the economy is jamming the accelerator and overheating* – **blames unemployment benefits for the worker shortage.** During the pandemic, unemployment benefits have expanded, allowing aid to last longer, expanding the base of people who qualify and increasing the monetary gain an individual receives.

The Federal Reserve has made it clear that they are not changing policy based on a few months of data. Several state governments will be cutting extended unemployment benefits and some will keep them. For economists, states doing this will be beneficial to getting a better picture of the root cause of the worker shortage:

1. If the unemployment benefits get cut off and a surge of people go to work that’s a good indication that the benefits lead to people staying home from work.

2. If the unemployment benefits get cut and we see a decrease of spending activity, that gives the indication that the real problem is that the economy isn’t ready for the support to be removed.

Federal unemployment benefits are giving **$300 a week on top of normal benefits**—which makes it more profitable to stay home and be selective with job opportunities. Other factors include:

- Short-term reliance on employment / stimulus benefits
- Furthering education to place in higher-paying jobs
- Resistance to fill jobs with covid-related uncertainty (food service / retail)
- Earlier retirement in less-educated brackets vs. historical levels
- Least-educated brackets have slowest unemployment recovery due to above reasons

The Consumer Price Index estimates the prices of a variety of goods and services that consumers pay, will increase in items such as beef, bread, air travel, and cars to name a few. Experts expect that prices will continue to increase **four times** win a variety of sectors. For example, used car prices **went up 10%** as supply was diminishing with an influx of demand. The conventional theory is that the current economic trends are **short term "transitory" events** going on and inflation will eventually settle back down.

At the current time, the most viable solution is to **enact aggressive, short term increase of base pay** to attract and retain talent. The already constricted market— which was already an employee's market to begin with since April 2020— combined with the candidate expectation for higher wages in basic labor/jobs, will continue to pose a severe constraint in the near term if no action is taken.

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