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Weekly Newsletter Newsletter - 5/10/2021

Week of May 3, 2021 in Review

The number of job creations didn't bloom as fully as expected in April, as the Bureau of Labor Statistics (BLS) Jobs Report fell well below the million new jobs that were anticipated.

Just 266,000 jobs were created in April, per the BLS. Not only was this a big disappointment, there were also negative combined revisions to February's and March's figures, totaling 78,000 fewer jobs in those months than previously reported. The Unemployment Rate did tick higher from 6% to 6.1%, but the real Unemployment Rate is actually higher than this headline number, as explained below.

Job gains fared better in the private sector, as the ADP Employment Report for April showed a gain of 742,000 jobs, slightly below the 800,000 new jobs expected. On a positive note, March's report was revised higher by 48,000 jobs.

There was also some improvement in weekly Initial Jobless Claims, as the number of people filing for benefits for the first time decreased by 92,000 to 498,000. The number of people continuing to receive regular benefits held steady at around 3.7 million, while those receiving pandemic-related benefits declined. All in all, 16.2 million people are still receiving benefits throughout all programs, though this is 400,000 fewer than the previous week.

Lastly, home prices continue to appreciate nationwide, as CoreLogic reported that home prices increased 2.0% from February to March and 11.3% compared to March of last year. Within the report, the hottest markets were Phoenix (+18.3%), San Diego (+14%) and Denver (12%). Meanwhile, rent prices are on the rise. Don't miss those details below.

April Job Creations Far Short of One Million

The Bureau of Labor Statistics (BLS) reported that there were only 266,000 jobs created in April, which was a big disappointment and much less than the one million job creations that were expected. Making things worse were negative combined revisions to February and March, totaling 78,000 fewer jobs in those months than previously reported.

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Breaking down the numbers, there were some contributing factors to the weak figures. Auto factories selectively shut down auto production in response to the lack of semis and there was no net hiring in construction, possibly due to higher costs and lack of labor. In addition, retail hiring was actually down 15,000, even with businesses reopening. Temporary help dropped a sharp 111,000 and this also contributed to the headline jobs miss. There was a positive development, however, in that 331,000 leisure and hospitality workers were hired.

Note that there are two reports within the Jobs Report and there is a fundamental difference between them. The Business Survey is where the headline job number comes from and it's based predominately on modeling.

The Household Survey, where the Unemployment Rate comes from, is done by actual phone calls to 60,000 homes. The Household Survey also has a job loss or creation component, and it showed there were only 328,000 jobs created. The Unemployment Rate actually moved in the wrong direction, increasing slightly from 6% to 6.1%. While there were only 328,000 job creations, the labor force increased by 430,000. The number of unemployed people increased by 102,000, causing the Unemployment Rate to rise slightly.

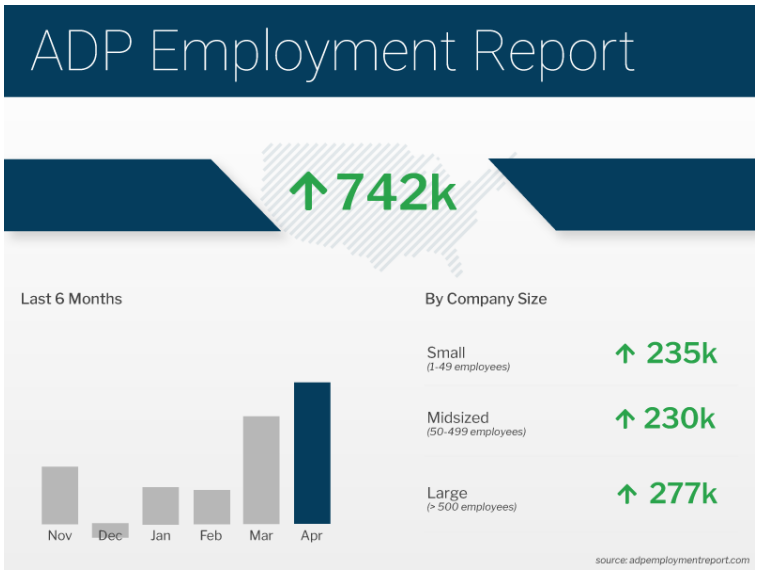
However, it's important to break down these numbers, as the true Unemployment Rate is actually higher than the headline figure. That's because people who are not able to look for work due to pandemic reasons, and who are still unemployed, are not counted. And that number equates to 2.8 million people. When we add this into the calculations, the real Unemployment Rate is 7.8%.

In addition, there has been a lingering misclassification error where people were classified absent from work for other reasons and not marked as unemployed on temporary layoff when they should have been. Without this error, the headline Unemployment Rate would have been 0.3% higher or 6.4%, while the real Unemployment Rate counting those unable to look for work due to pandemic reasons would be closer to 8%.

The all in U6 Unemployment Rate, which includes total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, improved from 10.7% to 10.4%.

Average hourly earnings were up 0.7% compared to last month and are flat year over year. Average weekly earnings, which we focus on more because it measures what people actually take home, rose 1% from last month. On a year over year basis, average weekly earnings fell from 6.7% to 2.7%, but this figure is likely skewed. Earnings spiked last April in the heart of the shutdowns as many people received hazard pay for going into work.

Private Payrolls Slightly Below Expectations

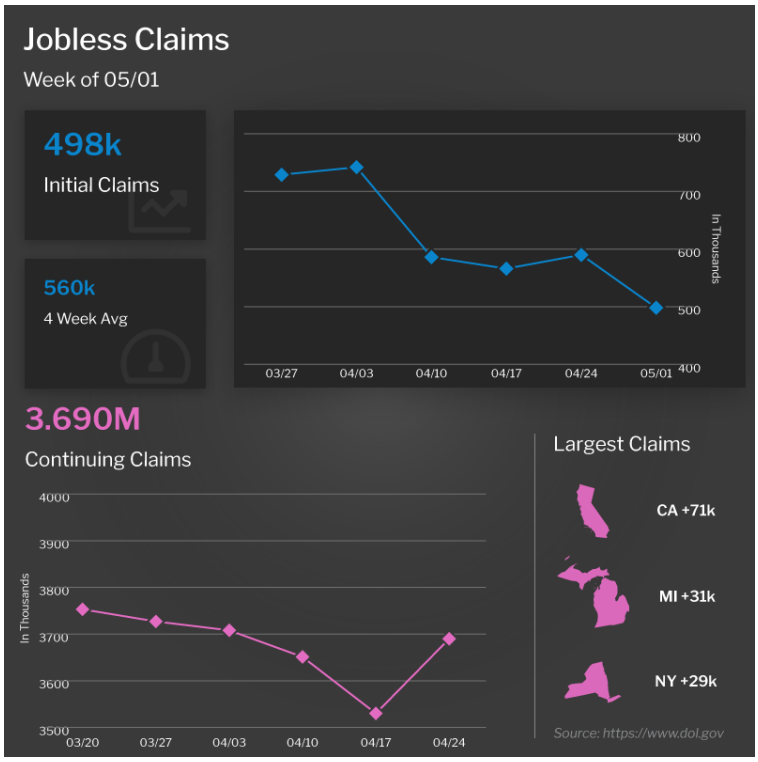


The ADP Employment Report, which measures private sector payrolls, showed that there were 742,000 jobs created in April, which was slightly lower than the 800,000 new jobs expected. However, March's report was revised higher by 48,000 jobs, bringing the total number of job creations in March from 517,000 to 565,000.

Leisure and hospitality led the way with 237,000 new jobs. In total, the service-providing sector added 636,000 new jobs, while the goods-producing sector added 106,000 jobs. Also of note, manufacturing added 55,000 jobs and construction added 41,000.

We did see job gains across all sizes of businesses. Small businesses (1-49 employees) gained 235,000 jobs, mid-sized businesses (50-499 employees) gained 230,000 jobs, and large businesses (500 or more employees) gained 277,000 jobs.

Initial Jobless Claims Show Steady Improvement



The number of people filing for unemployment for the first time fell below 500,000, as Initial Jobless Claims decreased by 92,000 to 498,000. California (+71K), Michigan (+31K) and New York (+29K) reported the largest number of claims.

Continuing Claims, which measure people who continue to receive benefits, was little changed at 3.7 million.

Pandemic Unemployment Assistance Claims (which provide benefits to people who would not usually qualify) and Pandemic Emergency Claims (which extends benefits after regular benefits expire) decreased by a combined 330,000 people.

All in all, 16.2 million people are still receiving benefits throughout all programs, which is down 400,000 from the previous week. As the economy continues to re-open, we should see this number improve and we will likely see significant progress after Labor Day as extended benefits expire.

Home Price Appreciation Continues

CoreLogic released their Home Price Index report for March, which showed that home prices increased 2.0% from February. Prices also rose 11.3% on a year over year basis, which is up from the 10.4% annual gain reported for February.

Within the report, the hottest markets were Phoenix (+18.3%), San Diego (+14%) and Denver (12%).

CoreLogic forecasts that home prices will rise 1.1% in April, which is an increase from their smaller forecasts we've seen in previous months. For instance, CoreLogic had only forecasted a 0.5% rise in home prices in March, but prices actually appreciated 2%. On an annual basis, they're predicting that home prices will rise 3.5% in the year ahead, which is only slightly higher than the 3.2% forecast in their last report and still lower than most forecasts out there.

A Note on Rent Prices

The Apartment List rental index showed that rents went up 1.9% in April. Note this is *not* a year-over-year comparison to April of 2020 but a monthly increase from March of this year. March also saw a monthly rise in prices of 1.4%.

Rents are rising swiftly and this can be important to note as it relates to inflation. Rents make up a significant part of two consumer inflation reports, the Consumer Price Index and Personal Consumption Expenditures, so rising rent prices could impact inflation readings in the months to come. And inflation on a year over year basis is already expected to rise this spring as the readings for the more current months replace the readings from 2020 when much of the economy was shut down due to the pandemic.

Remember, rising inflation is always important to monitor. Inflation is the arch enemy of fixed investments like Mortgage Bonds because it reduces their value. Home loan rates are inversely tied to Mortgage Bonds. Rising inflation can cause Bonds to worsen or move lower, which means home loan rates can rise. Though

many factors influence the markets, I'll be keeping a close eye on inflation headlines since they can have such an impact on Mortgage Bonds and home loan rates.

Family Hack of the Week

This Saturday, May 15 is National Chocolate Chip Day. And this recipe for chocolate chip muffins from our friends at Delish is a perfect way to celebrate the occasion.

Preheat oven to 350 degrees Fahrenheit. Line muffin tins with liners or spray with baking spray.

In a large bowl, whisk 2 cups all-purpose flour, 1 teaspoon Kosher salt, 1 teaspoon baking powder and 1/2 teaspoon baking soda. In another large bowl, beat 1/2 cup (1 stick) softened butter, 1/2 cup granulated sugar and 1/4 cup packed brown sugar with a hand mixer until light and fluffy. Add 1 egg and beat until combined, then add 1 teaspoon vanilla extract.

Next, add half of the dry ingredients to wet ingredients and mix until just combined, then add 1 cup of milk and mix until combined. Add the remaining dry ingredients and mix until combined, then fold in 1 cup of chocolate chips.

Divide batter evenly between muffin liners and bake until a toothpick inserted in the middle comes out clean, approximately 20 to 23 minutes.

What to Look for This Week

Inflation will be the main headline maker in an otherwise relatively quiet week of reports.

On Tuesday, we'll get a read on how small businesses are feeling with the National Federation of Independent Business Small Business Optimism Index for April.

Inflation reports start on Wednesday with April's Consumer Price Index. News on wholesale inflation follows Thursday with the Producer Price Index for April.

Also on Thursday, the latest Jobless Claims figures will be reported. Ending the week on Friday, we'll get an update on Retail Sales for April.

There are also two important auctions to note that could move the markets: Wednesday's 10-year Note and Thursday's 30-year Bond auctions.

Technical Picture

Mortgage Bonds are in the middle of a wide range between support at the 103.752 Fibonacci level and a ceiling of resistance at the 100-day Moving Average. They ended the week around 30bp above this Fibonacci support level, which means there is significant downside risk and not a lot of upside.

The 10-year ended the week at 1.58% after briefly touching 1.49% immediately following the Jobs Report on Friday morning. The 10-year candle pattern is a hammer, which follows a downtrend in yield, and would point to higher yields in the coming days. Thankfully, there is a triple ceiling of resistance nearby, but I'll be watching all of this closely.