Basis Points – May 5, 2022

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Above the Fold

We Are Nearly Half-Way to Recession, but Not According to the Labor Market …

Job openings, and the number of jobs quit were higher than ever before in the month of March. Even with a recession looming, Americans seem to be unafraid of leaving their employer and finding either a new one or going on their own. As the number of job openings continues to exceed the number of unemployed workers, the job seeker market is the strongest it has ever been. On Tuesday, the Department of Labor reported a seasonally adjusted 11.5 million job openings for March, a slight increase from the month before. In the meantime, actual hiring has slowed to 6.7 million.

The demand for labor is showing few signs of slowing anytime soon, with nearly two job openings for every unemployed worker. This allows workers the freedom to look for higher-paying jobs and leaves employers no choice but to accommodate. Keeping the wage pressure high is one of the contributing factors to the rising inflation rates, but it also gives the labor market a resilience never seen before. “There is little sign of cooling in the greatest job seekers’ market of all time,” said Julia Pollak, chief economist of ZipRecruiter, a popular jobs site. “As businesses continue to face high turnover, and the gap between demand for labor and supply widens further, businesses will continue to experience upward pressure on wages.”

The tight labor market has helped facilitate record gains in compensation for workers. Switching jobs in the first quarter of the year has garnered double-digit pay increases for workers. Even workers staying with their current jobs are seeing pay increases as employers fight to keep quality work in-house. The average wage of a worker in the private sector has gone up 5.6% from March of last year. This is quite a bit higher than the rate of 3% before the pandemic began in March 2020. These wage increases continue to put pressure on inflation as the Fed signals interest rate hikes for the rest of the year.

Three Things

Fed Executes First 50-Basis-Point Hike in 22 Years

The Federal Reserve approved an uncommon half-point interest rate increase and announced plans to reduce its $9 trillion asset portfolio starting next month. The reduction plan (also called quantitative tightening) will allow up to $30 billion in Treasuries and $17.5 billion in mortgage bonds to roll off every month in June, July and August, then increasing in the following months to $60 billion and $35 billion, respectively.

Paramount+ and Peacock Reveal Streaming Strength

Shortly after streaming giant Netflix reported a declining customer base for the first time in decades, Paramount+ and Peacock reveal steady increases in subscribers. Peacock saw a Q1 30% increase in paid subscribers, while Paramount+ subscriber numbers jumped 20%, adding 6.8 million subscribers with the releases of “Halo” and “Star Trek: Picard” being received generally well by viewers. The inclusion of NFL games and cheaper ad-supported subscription plans give both Paramount+ and Peacock a slight edge over Netflix. As more studios create their own streaming platforms, Netflix may be forced to relinquish rights to some fan favorites. The good news is that Netflix produces great content and has a new potential revenue source in the millions of password “sharers” that could become paying customers.

Continued Bond Rout Pushes 10-Year Yield Above 3%

The yield on a 10-Year Treasury hit 3% on Monday, something that hasn’t happened since 2018. In what is being considered the worst bond rout in decades, the yield has jumped from 1.495% at the end of last year. The 10-year is a common reference for everything from student loans to mortgages. Bond yields reflect the expectations of short-term interest rates over the life of a bond.

In the Know

Inflation Might Be High, but We’ve Experienced Much Worse

Since the United States declared independence in 1776, the highest year-over-year inflation rate observed was 29.78% in 1778. But that reading was slightly “unofficial.” In the period of time since 1913, when the CPI (Consumer Price Index) was introduced, the highest inflation rate observed was 19.66% in 1917.

In the late ’70s, inflation became a major issue, again. Presidents Gerald Ford and Jimmy Carter both tried and failed to bring prices under control. Ford’s efforts included a “Whip Inflation Now,” or WIN campaign (complete with shiny little red buttons), that did virtually nothing to help with prices. Inflation hit 12.2% in late 1974, soon after Ford took office. Inflation hit a record high of 14.6% in March and April of 1980. Today, the annual inflation rate stands at an unadjusted 7.1%, the highest 12-month change since June 1982.