ROCKLAND TRUST | Investment Management Group

December 11, 2020

The Markets & the Economy - What We're Watching

Top Theme of the Week:

- Economic progress is showing promise, but the labor market recovery still lags showing more progress is to be made to get back to pre-pandemic levels

This week, broader markets continued their march higher with investors focused on a return to stronger economic growth and healthier corporate earnings in the year ahead. This focus is supported by optimism that the FDA advisory committee will formally approve the Pfizer/BioNTech vaccine for emergency authorization this week meaning, US inoculations could begin as early as next week. In addition, the FDA will meet again next week to evaluate the Moderna vaccine candidate which is expected to quickly secure emergency authorization as well. These are two crucial initial steps in a long path towards a return to "normal" for our country.

Over the past few months, we've used economic and market data to illustrate 'progress' and defined it in alphabet terms. For the most part we have been able to report better than expected recovery metrics lending support to a "V" shaped recovery as opposed to a "W" or "L" shaped in many areas. Progress in equity markets, GDP (Gross Domestic Product), retail sales, housing, manufacturing, and even corporate profits are foreshadowing a full return to pre-pandemic levels in late 2021 to early 2022! While this is positive news, one area that is a key component of our economy that has not experienced the same resiliency is the labor market. The labor market recovery remains fragile with the pace of weekly jobless claims rising this week to 853,000, a nine month high.[1] The labor market recovery is crucial to our continued economic health, as consumer activity represents close to 70% of our economy, and the consumer's ability and willingness to spend hinges significantly on employment.

Since April, the labor market recovery has been stronger than economists had expected with the economy regaining 12 million of the 22 million jobs lost at the onset of the pandemic.[1] While the headline numbers from last week's jobs report pointed to continued job creation - seven consecutive months of job gain - gains are actually at a decelerating pace. Job creation fell well short of economists' predictions with the addition of 245,000 jobs as compared to 610,000 jobs in October.[1] It is important to note that this slowdown took hold before the recent surge in the virus, and further business restrictions could hinder more employment gains.

Another key piece of data is the unemployment rate. In November, there was a decline from 6.9% to 6.7% due to fewer Americans looking for work as opposed to more individuals finding employment.[1] Additional employment metrics bear watching as we monitor the health of the labor market including labor force participation trends, the number of discouraged workers, the duration of unemployment, as well as the rising number of permanent job losses. Currently, each points to a loss of momentum in the labor market and watching the near term trends will be important.

- The labor force participation rate declined in November by 400,000 registering its third decline in the last five months. A growing labor participation rate signals a healthy job market and as of today, the labor force levels are 4,000,000 below pre-pandemic levels.[2]

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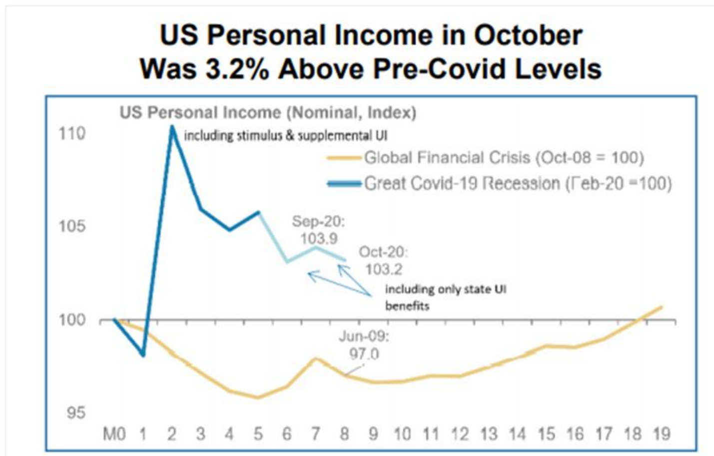
[1] Wall Street Journal
[2] Reuters

- The ranks of discouraged workers, those dropping out of the work force, rose for the third consecutive month in November approaching levels last seen in July when this metric was nearing a five year high.[2]

- Long term unemployment, defined as those out of work for 27 weeks or longer, is a growing concern with 37% of the 10.7 million unemployed Americans out of work for 6 months or longer.[2]

- We are also seeing an increase in permanent job losses. In November, more than 4.7 million people were categorized as "not on temporary layoff" - meaning their job was permanently eliminated or their temporary employment ended - the highest level in seven years.[2]

Despite these current metrics, the consumer remains resilient with consumer spending supported by personal income, savings and wages currently well above pre-pandemic levels.[3] With the backdrop of widely available, highly effective vaccines in the coming year and the likelihood of additional fiscal relief, we remain optimistic that an above trend economic recovery fueled by the pent-up demand for services across our economy may help mitigate these negative employment trends in 2021.



For questions or more information, please contact your local IMG professional. For additional insights from IMG experts, please visit our new website's Insights page and follow us on LinkedIn.

Commentary is reflective as of the close Thursday, December 10, 2020.

[3] Image Source: BEA, Haver Analytics, Morgan Stanley Research estimates