To: Members of the MDP Class of 2021-2022 November 25, 2021
Fr: Andy Davies

"Jobless Claims Fall to *52-Year* Low"

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Positive economic news has banks and experts revising GDP predictions

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The number of Americans filing initial unemployment claims tumbled to 199,000 — the lowest level since November 1969 — the Labor Department reported Wednesday, part of a spate of positive economic news that signaled that many of the wrinkles of the nation's recovery continue to be smoothing out.

It was just the latest bit of good news for the labor market, which remains about 4 million jobs below pre-pandemic levels but has staged a strong recovery, adding about 581,000 jobs a month on average this year.

Separately, the Commerce Department said that consumer spending increased by 1.3 percent in October, its fastest pace since March, in a sign that Americans are continuing to spend.

The rash of positive indicators had many banks and economists revising up their predictions for gross domestic product growth for the last three months of the year, after a disappointing third quarter. JPMorgan Chase revised its estimate to an annualized 7 percent, up from 5 percent on Wednesday. Morgan Stanley moved its forecast up to 8.7 percent from 3 percent.

"The economy is much stronger than what we had originally understood," said Joe Brusuelas, chief economist at RSM, who moved his firm's GDP forecast up to 7.2 percent from 5.6 percent. "The U.S. economy is booming right now. Despite the increase in inflation."

Of particular note were unemployment claims, a proxy for layoffs, which fell more than 71,000 the week ending Nov. 20, compared with the week before. It represented the eighth straight week of declines and a pivotal shift, as claims are now well below pre-pandemic levels. In 2019, average weekly jobless claims hovered around 220,000.

Some economists cautioned that the numbers were likely a product of seasonal adjustments. Still, the drop marks a stark contrast with this time last year, when roughly 700,000 claims were filed. It's also a reflection of the tight labor market, which has companies scrambling to retain and expand their workforces.

"It is fair to say we didn't see that coming," Mark Hamrick, senior economic analyst at Bankrate, said Wednesday in emailed comments to The Washington Post. "Getting new claims below the 200,000 level for the first time since the pandemic began is truly significant, portraying further improvement."

President Biden on Wednesday touted the unemployment report as an example of the "historic economic progress" being made by his administration.

"We have more work to do before our economy is back to normal, including addressing price increases that hurt Americans' pocketbooks and undermine gains in wages and disposable income," Biden said in a statement.

Meanwhile, the trade deficit in goods narrowed 14.6 percent in October, according to a Commerce Department estimate, to $82.9 billion from $97 billion in September. That's its lowest level since October 2020, according to PNC Bank economist Bill Adam.

The trade deficit data was hailed as a positive sign about the potential easing of supply chain disruptions.

"The peak is likely past for the trade deficit," Adam said. "The trade deficit surged as American consumers splurged on consumer goods during 2020's lockdowns, and continued to rise in the summer and autumn of 2021 as the turmoil in global shipping freaked out importers, who front-loaded purchases ahead of the holiday shopping season. The supply chain is coming unclogged now."

Adams said that the cost to ship a freight container from Shanghai to Los Angeles has dropped to the lowest level in the last two weeks since July.

"Shipping costs will likely continue to fall as the seasonal slowdown in China-to-U.S. imports hits in the first quarter, and as energy shortages in Europe and China weigh on demand for industrial commodities over the winter months," he said. "These releases vindicate the argument that the problems that held back the economy in the third quarter were temporary."

Yet the economic picture remains complicated.

Unemployment is still higher than it was before the pandemic, and many more workers have left the workforce entirely because of child-care concerns or other issues — a lingering puzzle for policymakers who are trying to get millions of Americans back to work.

Coronavirus cases, an ever-present threat to the economic's recovery, are rising in many regions of the country — an increase powered by the legions of Americans who have refused to get vaccinated.

And supply chain issues, worker shortages — as many workers are reluctant to return to some types of low-paid work — and rising prices remain unpredictable economic forces.

For the Federal Reserve, concerns about rising inflation remain a challenge for Chair Jerome H. Powell, who on Monday was tapped by Biden for a second term.

Powell has consistently said high prices won't turn out to be a permanent feature of the economy and that the Fed won't try to rein in inflation by raising interest rates until the labor market has fully healed.

But meeting minutes from the Fed's November policy meeting, released on Wednesday, reflect uncertainty at the Fed about the direction of inflation in the coming months. Officials believe that inflation will go down "significantly" next year as supply chains clear their backlogs, according to the minutes. But they indicated that "their uncertainty regarding this assessment had increased."

Looming over Powell and the Fed is when to raise interest rates for the first time since the pandemic. Fed leaders aren't likely to raise rates until next year, and in the meantime, the Fed is dialing back its vast asset purchase program, which has supported the markets through much of the coronavirus pandemic.

The expectation is that the process would be completed by the middle of 2022. But a growing number of Fed leaders have suggested a faster pace given a pickup in hiring — and still-rising prices.

"If things continue to do what they've been doing, then I would completely support an accelerated pace," San Francisco Fed President Mary Daly told Yahoo Finance on Wednesday.

There are signs that officials in Washington are battling a problem that is about perception as much as the situation on the ground. Despite solid signals of the recovery, some 70 percent of Americans surveyed rate the economy negatively, including 38 percent who say it is in "poor" condition, according to a recent Washington Post-ABC poll.

Brusuelas said he believes that the public remains dissatisfied because of rising prices recently, but that the country's bitter partisanship divide, which is refracted through media, is also largely responsible for attitudes about the economy.

"Yes people are upset about rising gasoline and food prices," he said. "But it's not getting in the way of them getting out and working and spending."

The Labor Department's monthly jobs report, which will be released next week, is expected to shed more light on the labor market, which has been improving at a steady clip this year. Overall, the country has gained back some 5.8 million jobs lost in the pandemic this year.

Hiring was strong in October, with 531,000 jobs added, sending the unemployment rate from 4.8 percent to 4.6 percent.

The United States still needs to regain some 4 million jobs to get back to where it was before the pandemic.

And though jobless claims have ticked lower in recent weeks, a record 4.4 million Americans, or roughly 3 percent of the labor force, quit their jobs in September, according to data from the Bureau of Labor Statistics.

The new report had little effect on Wall Street. Investors were more focused on disappointing earning reports from retailers, which are struggling with supply chain issues, inflation and staffing. The three major U.S. indexes were nearly flat Wednesday.

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