Basis Points – June 7, 2022

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Above the Fold

Yes, Good News Can Be Bad News

Jobs continue to get added to the economy and nearly all the jobs "lost" during the pandemic have been refilled, but investors are skittish that too much of a good thing could lead to larger, more protracted interest rate hikes. On the surface, more jobs is good. People are getting back into the workforce and average wages continue to strengthen. This means more people are getting more money and are obviously capable of spending that money. The problem here is that lots of confidence, jobs and expendable cash also fuel inflation, keeping the Federal Reserve's (Fed) (not-so-popular) monetary tightening plans intact.

With the May jobs report exceeding expectations, investors fear this could lead to the Fed acting more severely in their ongoing battle against inflation. Leisure and hospitality jobs saw the biggest jump of all, adding 84,000 jobs. This means that people are traveling and vacationing in larger numbers, despite the rising costs of airfare and hotel rates. Construction jobs went up 36,000 after being stagnant last month, and professional and business services jumped to 75,000 from 49,000 in April. The question on every investor's mind is, "What does this mean for the Fed?"

In addition to slowing job growth, the Fed would also likely need to see the number of job openings per unemployed worker drop in order to reverse its current rate course. Right now, the number of new open jobs is around 500,000 per month. President Biden wrote in an op-ed for The Wall Street Journal that the Fed would need to see that number closer to 150,000 jobs per month for them to be sure that we are "…successfully moving into the next stage of recovery."

Until that happens, the central bank is likely to continue tightening, and interest rates will rise in order to deter people from borrowing and, in turn, slow their spending habits. The Fed aims to slow the labor market with these interest rate hikes to take some of the spending power away from consumers. But, with more jobs available, workers can demand higher pay, which keeps upward pressure on inflation. If the job market can slow significantly in the next couple of months, the Fed may take it as a sign to be less aggressive with their quantitative tightening. Until then, more jobs will likely remain bad news for investors.

Three Things

Several Retailers Stuck With Home Goods and Casual Wear

During the pandemic, people wanted comfortable clothes and home goods to lounge around the house in — retailers responded by stocking up on just that. Now, however, consumers are moving away from casual wear as the world starts returning to normal and retailers are stuck with an excess of these types of goods. They are buying dressier clothes for in-office work and social gatherings that simply weren't a thing two years ago. As a result, retailers like Macy's, Kohl's and Gap are sitting on large quantities of unwanted casual wear and home goods that they now have to get rid of with major markdowns. These discounts could weigh heavily on profit margins throughout the summer.

Tesla Slashing Workforce

Tesla Chief Executive Elon Musk released a memo on Friday saying he plans to cut 10% of his workforce soon. This is following a 45% increase in workers last year. The memo was unclear about which departments the downsizing would involve, but assured that workers building cars, batteries and solar panels would not be affected. In fact, he mentioned that the hourly workforce would increase to ramp up production in the new Texas and Germany assembly plants. Salaried positions are seemingly on the hot seat, despite Musk saying that those positions would remain “fairly flat” throughout the process. It remains unclear exactly which of the departments will bear the brunt of the downsizing, but with material costs continuing to rise, Musk seems to believe this is his best course of action.

Good News: Many Homes STILL Are Not as Expensive as They Were During the Last Housing Bubble

While house prices are rising across the country, there is some good news — 477 U.S. cities are showing the typical home values lower than they were when they peaked before the 2008 housing crisis. When accounting for inflation, homes in cities like Chicago, Detroit and Newark, New Jersey, are well below peak values seen in the early 2000s, according to Zillow. With remote work positions looking like they may be here to stay, this gives homebuyers a great opportunity to cash in on cheap housing if they are willing to make the move. With mortgage rates climbing, it is up to these cities to make homes more appealing to buyers to help inject more money into these communities.

In the Know

You’ll Never Believe Where the Bank Drive-Through Originated

On this day, back in 1962, Switzerland opened its first drive-through bank. Schweizerische Kreditanstalt (SKA) — now known as Credit Suisse — opened its first drive-through in its Zurich location in response to the shift in automotive culture. Some sources claim that the first drive-through bank was in Dallas, Texas, in 1938, while others claim it was in Chicago, Illinois, in 1946. In the United States, drive-through banking remains a popular option, with nearly every major bank offering drive-through options in one way or another. In Switzerland, however, the traffic problem led to the drive-through shutting down in 1983 due to years of not earning a profit for the service.

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