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A Closer Look At The U.S. Jobs Market

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Summary

- Baby boomer retirement does not explain persistent, record-low labor force participation.
- Adjusting for boomers, normalized participation suggest real unemployment rate is still above 10%.
- Meaningful and sustainable real wage growth almost 4 years away at 250K jobs per month.

We have pointed to demographic trends, high and rising sovereign debt levels and the absence of a capital-friendly US tax and regulatory landscape conducive to growth spending in the private sector over the past fourteen years, particularly the last six, as key factors behind significantly below-trend GDP growth over that period. But what if the US economy simply reached a level of productivity - the result of outsourcing and technology-driven capital substitution for labor - at which today's record-low ratio of headcount per unit of output is the new normal? It appears all of these factors have conspired to yield the worst 14-year (and counting) real-growth run, 1.8% compounded, since WWII (see article here).

US real GDP/employee rose in each year of the recent recession because jobs were cut faster than the economy's decline. If the US could have only matched the *previous*-worst 14-year growth period (2.5% compounded over the 14 years ended in 1982), 2014 GDP would have been higher by *10%* or *$1.6 trillion*. Despite being a recovery off of a very low starting point - bottom of the worst recession since the Great Depression - the compounded growth over the last six years for the US economy has not only been the worst *recovery* of the post-WWII era, it ranks as the 11th worst growth over *any* 6-year period since 1948. That is historic weakness.

Guess how many times the US economy experienced consecutive years of net jobs declines since WWII? Answer: ZERO. Except until three consecutive annual declines from 2007 to 2010. Moreover, every instance of jobs declines since WWII was followed by a surge in jobs growth in the following recovery years, typically taking 13 months from the employment trough back to peak. The recovery from 2010 to 2014 took 57 months to reach pre-recession peak employment, during which another 10 million additional civilians entered the labor force, notwithstanding official numbers failing to account for multi-decade lows in participation rates.

Even in 2014, cheered by many as a strong jobs year, jobs *growth* has been middle-of-the-pack historically. US productivity has continued to march on, albeit in a far different way. The long and symbiotic trend of both steady jobs growth and increased labor productivity has been replaced by an initial shock in net-employment (-5.9% drop in jobs, the worst since WWII, by far), followed by the sluggish jobs growth cited. The result?

• Millions of unemployed and under-employed workers, many uncounted in official labor statistics owing to record low labor force participation.

• Household incomes stagnant at 1990s levels.

• Record corporate profit margins, earnings and cash levels produced by lower production costs exceeding slower sales growth.

• Lower rates of capital reinvestment - the engine of production and job growth - in private sector.

• Slower earnings growth.

Baby Boomer Retirement Does Not Explain Persistent, Record-Low Labor Force Participation

The labor force participation rate (PR) *should* be gradually declining with the retirement of baby boomers, as an age cohort with a historically much lower PR becomes a larger portion of the overall population. But this factor does not explain the magnitude of historically low levels of labor force PR. For starters, PR for the above-55 crowd has *risen* from less than 30% to 40.5%

between 1992 and 2012. Higher participation rates and higher absolute numbers in the 55-and-older age cohort help explain higher unemployment rates in younger age cohorts, but not lower *participation rates* in those younger cohorts.

When we recast PRs using historical levels for each age cohort other than the 55+ population, the pro forma total PR goes from 63.7% reported in 2012 (last available breakdown by age cohort) to 66%. This PR provides a more realistic estimate of the real labor force and suggests 16.5 million unemployed (compared to 7.6 million unemployed prior to financial crisis (equivalent to nearer 8.7 million today). The latter figure represents the approximate number of workforce participants in between jobs or otherwise temporarily not working for reasons other than the absence of jobs (see Chart 1) and an unemployment rate above 10%, in stark contrast to the official 5.5% reported (see Chart 2). Historically, unemployment of 5.3% reflects a sufficient level of labor scarcity to yield significant, sustained real income growth (see Chart 3). Median household income peaked in real terms in 1999 (nearly reached again in 2007, the last year of full employment), bottomed out in 2012 at levels not seen since 1995-1997, and has bounced along that depressed level since.

Chart 1 Real Median Household Income and Unemployment Rate

(click to enlarge)

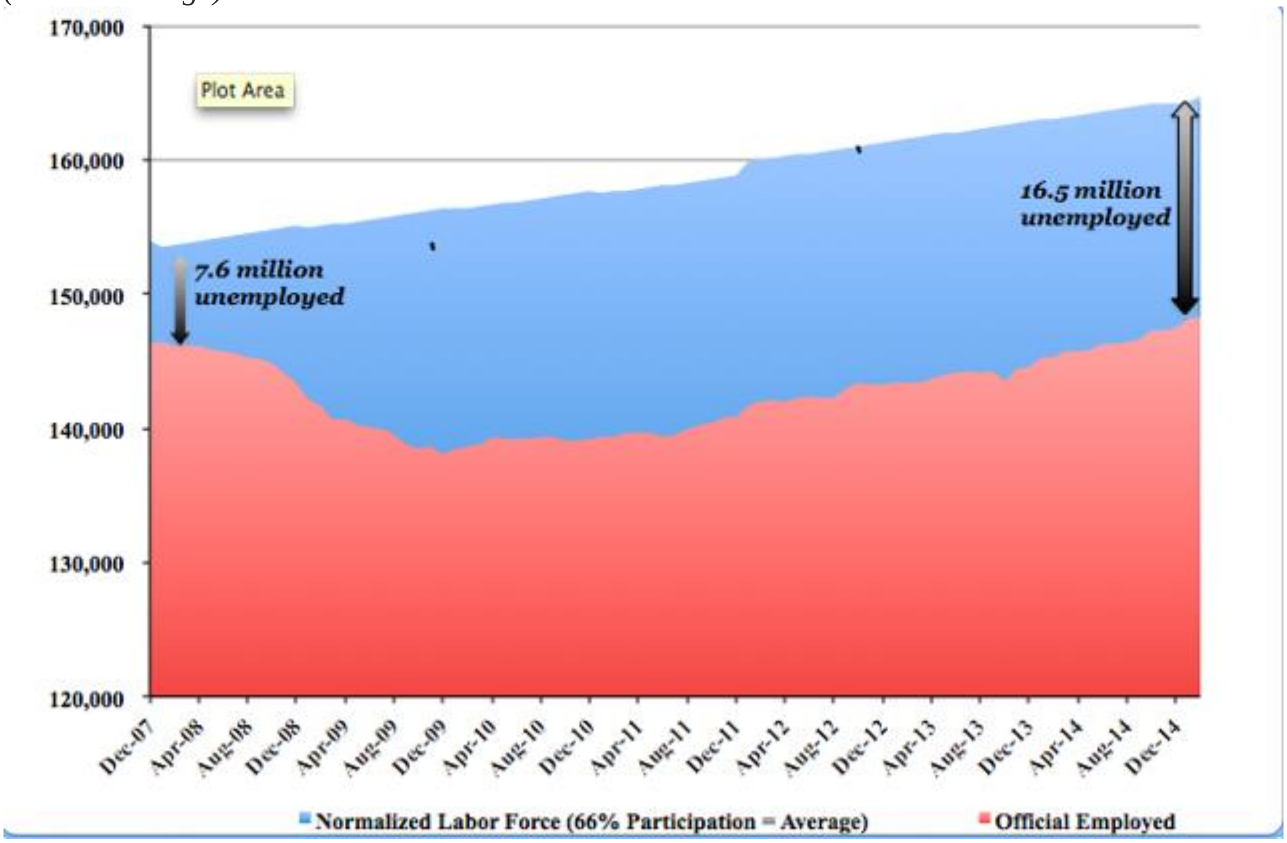


Chart 2 Unemployment Rate Under Normalized Labor Participation

(click to enlarge)

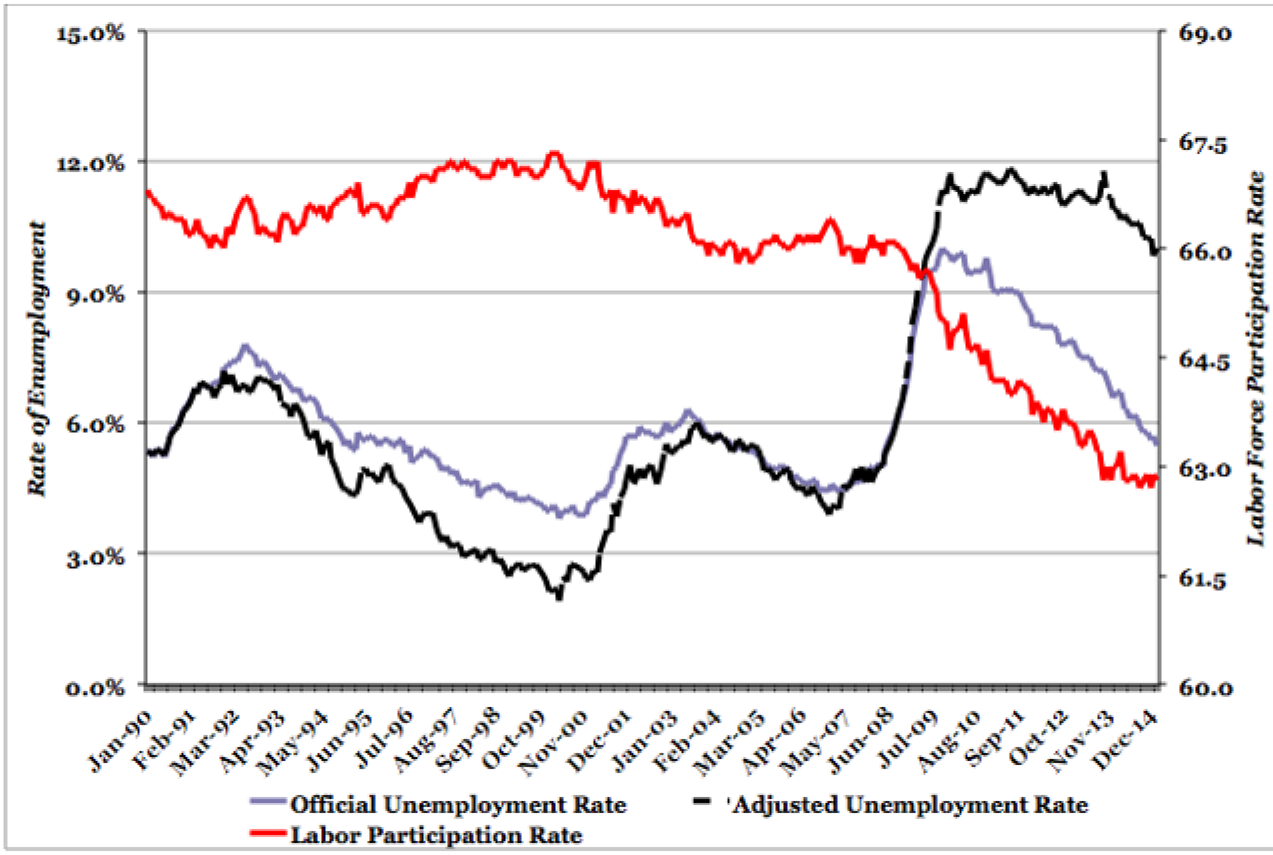
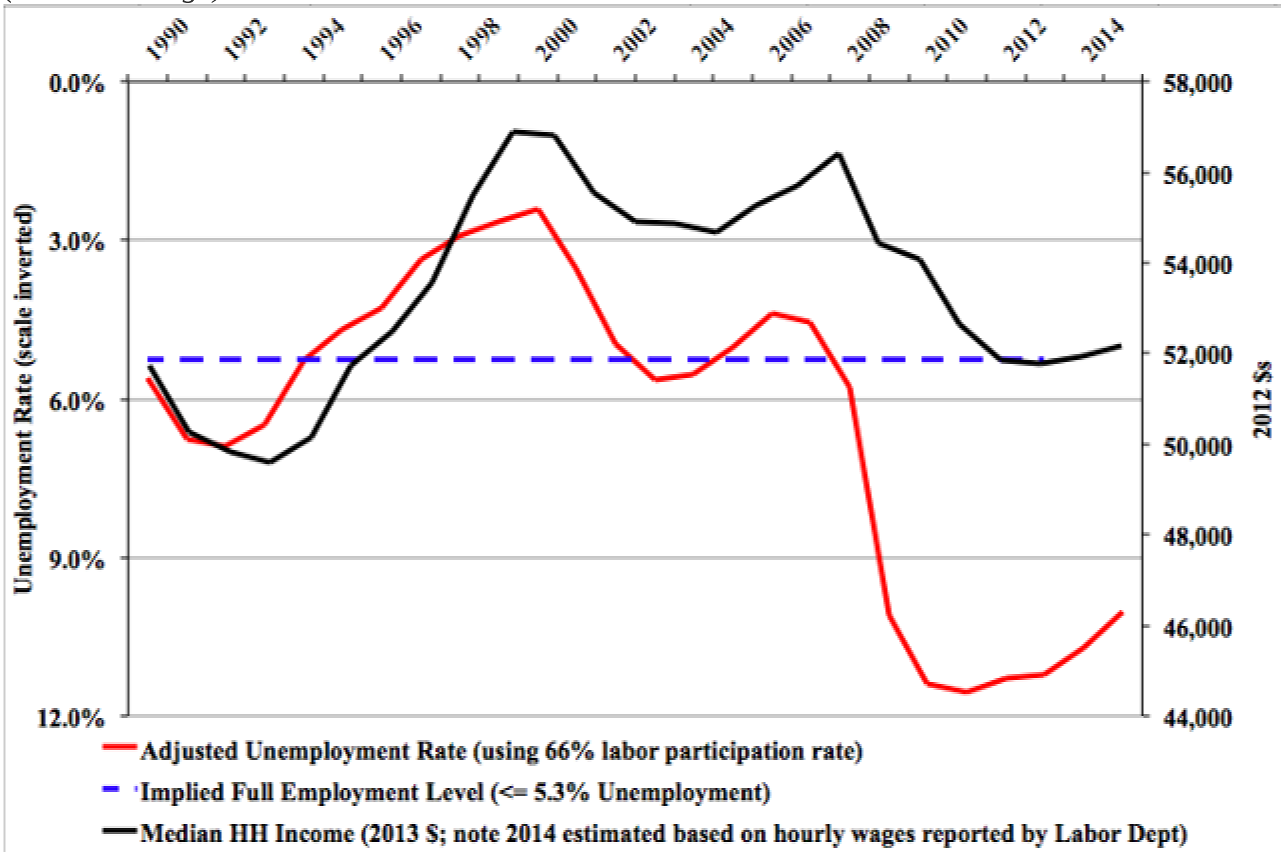


Chart 3 Real Median Household Income and Unemployment Rate

(click to enlarge)



Assuming modest increases to the labor force ([70,000 per month]), 250,000 net new jobs per month would take *43 months* to reach full employment and stimulate meaningful, sustained wage growth. The entire labor market conversation, including Fed Governor comments, has devolved into optimistic emphasis on the monthly job creation streak exceeding 200,000, sans the context that level is only average growth on the current employment base and entirely inadequate if reaching full employment in timely fashion is the objective.

[According to James Altucher], an irreverent, well-connected and very incisive entrepreneur and writer:

Most jobs that existed 20 years ago aren't needed now. Maybe they never were needed. The entire first decade of this century was spent with CEOs in their Park Avenue clubs crying through their cigars, "how are we going to fire all this dead weight?" 2008 finally gave them the chance. "It was the economy!" they said. The country has been out of a recession since 2009. Four years now. But the jobs have not come back. I asked many of these CEOs: did you just use that as an excuse to fire people, and they would wink and say, "let's just leave it at that."

Altucher writes passionately and persuasively about choosing oneself rather than persisting on the discouraging and interminable path of finding a scarce job with an established company or even convincing an existing employer to increase ones compensation by more than the inflation rate. A healthier, more vibrant US economy may not be enough to accelerate hiring by companies, but it is still key to maximizing opportunities for entrepreneurial success. The social and economic implications of the current jobless recovery being a permanent, structural condition are sobering, yet few are talking about it, let alone doing something about it.

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  Good article. I would have thought the boomers would be a greater percentage of the difference, but productivity (or more likely outsourcing) is the real issue.