UNDERSTANDING INVESTMENTS
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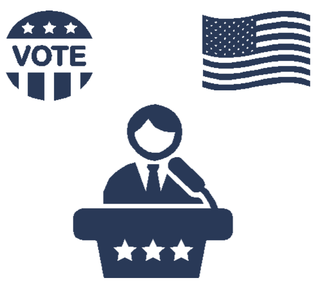
Job Market:

2020 Update to Breaking Down the Numbers

By Kevin Chambers



As is common in election years, economic indicators are under close scrutiny. President Trump has made the unemployment rate a primary point of his re-election campaign. The federal reserve uses employment numbers as a keys data point in determining the level of interest rates. The release of the latest data on the job market is being watched closely by many pundits and investors. In this report, we will break down how the job market works, how the numbers are calculated, and what they mean.

Job Market Basics:

The job market, or the labor market, is the ethereal place where employers try to find employees. It is obviously not a physical marketplace, like for stocks or fish, but refers to the entire economy and the ability of people to find jobs. The most well-known data point concerning the labor market is unemployment. Unemployment is a straight forward calculation. It is the percentage of people looking for work that are not employed. From theory, the unemployment rate can never be zero. There are a few different types of unemployment, so to start off, we will go over some of the basic definitions.

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Basic Unemployment Definitions:

Frictional Unemployment:

Frictional unemployment is unemployment caused by the time it takes people to find jobs. As new graduates or former stay-at-home spouses enter the job market, they are looking for work, but not employed. It also catches people that get laid off or quit and are looking for their next job. The internet and ease of employers and employees to communicate have lessened the effect of frictional unemployment on the overall rate, but it is still a factor.

Structural Unemployment:

Structural unemployment refers to the difficulty of employers to find qualified workers. This unemployment is harder to measure and is created by an increase in technology or an economic shift. With the current rise in technology and the lack of training in the US workforce, this has been an important factor in the past 20 years. Structural unemployment usually affects rural areas more than urban.

Natural Rate:

The natural rate of unemployment is the amount of unemployment attributable to both frictional and structural. There is no set level for the natural rate, and it is a topic of much debate for economists and policymakers. The natural rate is the lowest level of unemployment that can be reached in an economy, and is the reason unemployment can never reach zero.

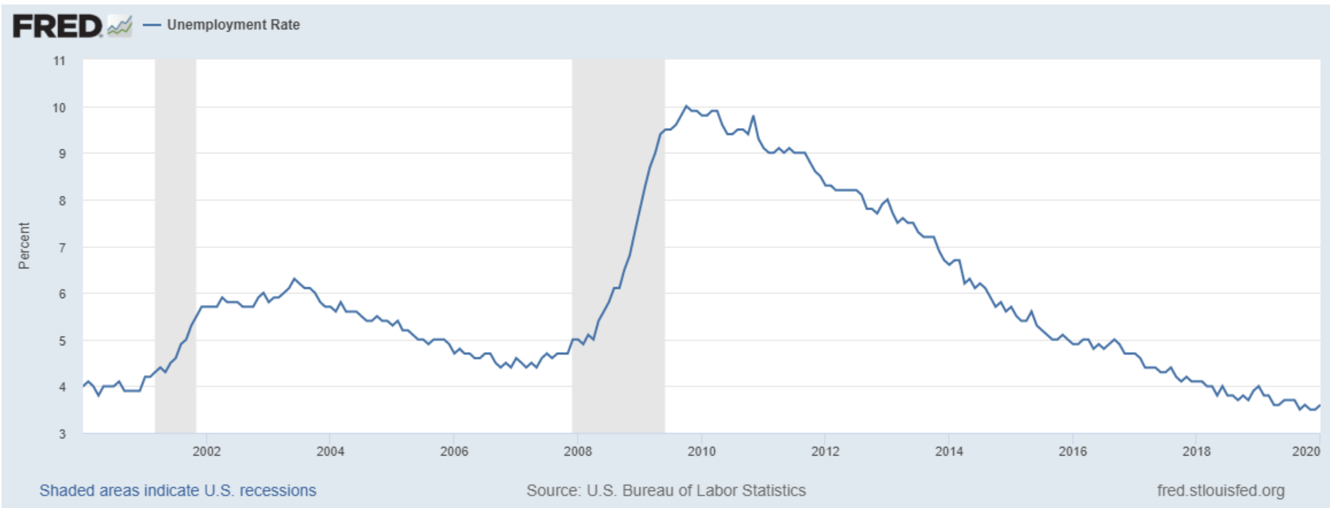
Deficient Job Market:

When there is unemployment that is beyond the natural rate, the job market is considered deficient. In other words, there are not enough jobs in the economy to support the number of people that want them. This is the state of the market during a recession or downturn. When the deficient market level is zero, economists consider the market at "full employment."

Major Data Points:

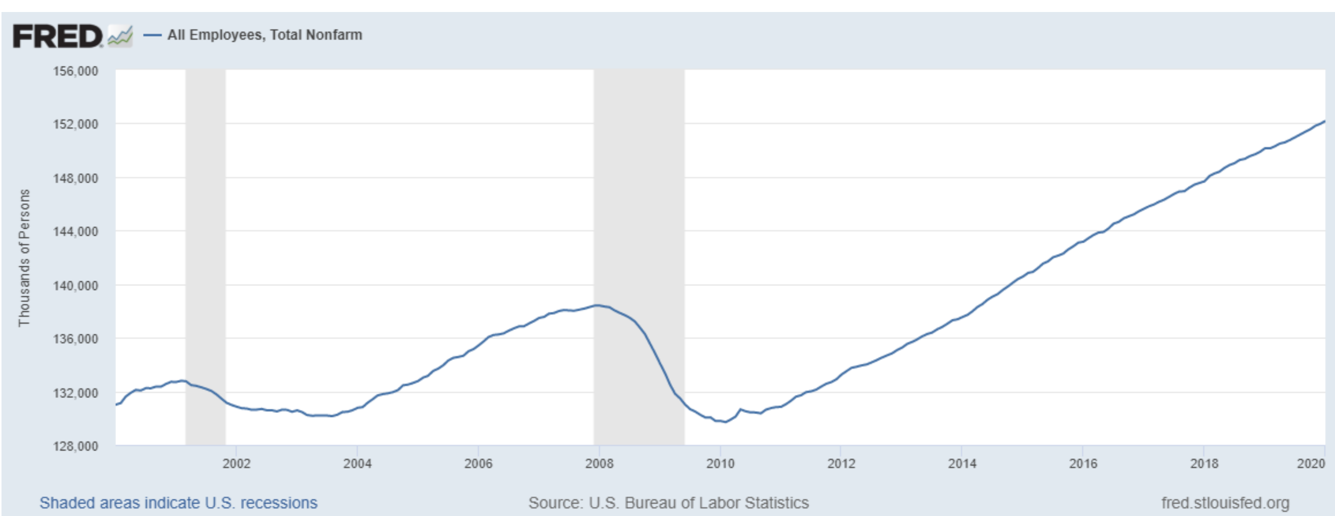
Civilian Unemployment:

This is the most commonly reported unemployment number. It represents the number of unemployed as a percentage of the labor force. Labor force data are restricted to people 16 years of age and older, who currently reside in 1 of the 50 states or the District of Columbia, who do not reside in institutions (e.g., penal and mental facilities, homes for the aged), and who are not on active duty in the Armed Force.



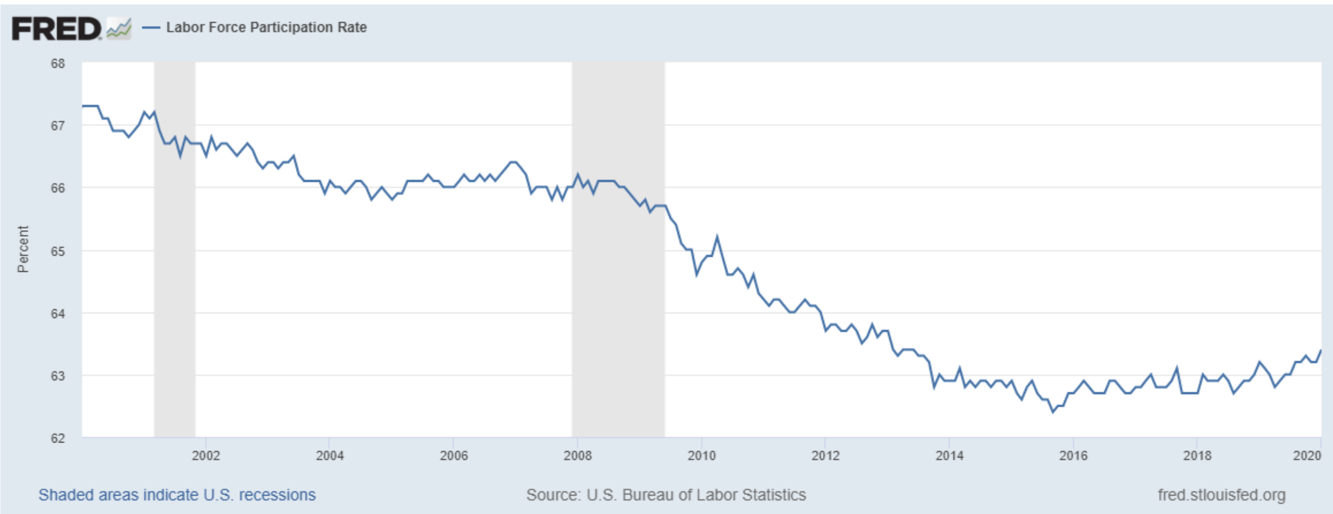
Non-Farm Payrolls:

This is probably the most common data point, along with unemployment, that is reported and watched. Total Non-Farm Payroll is a measure of the number of U.S. workers in the economy that excludes proprietors, private household employees, unpaid volunteers, farm employees, and the unincorporated self-employed. This measure accounts for approximately 80 percent of the workers who contribute to the Gross Domestic Product (GDP).



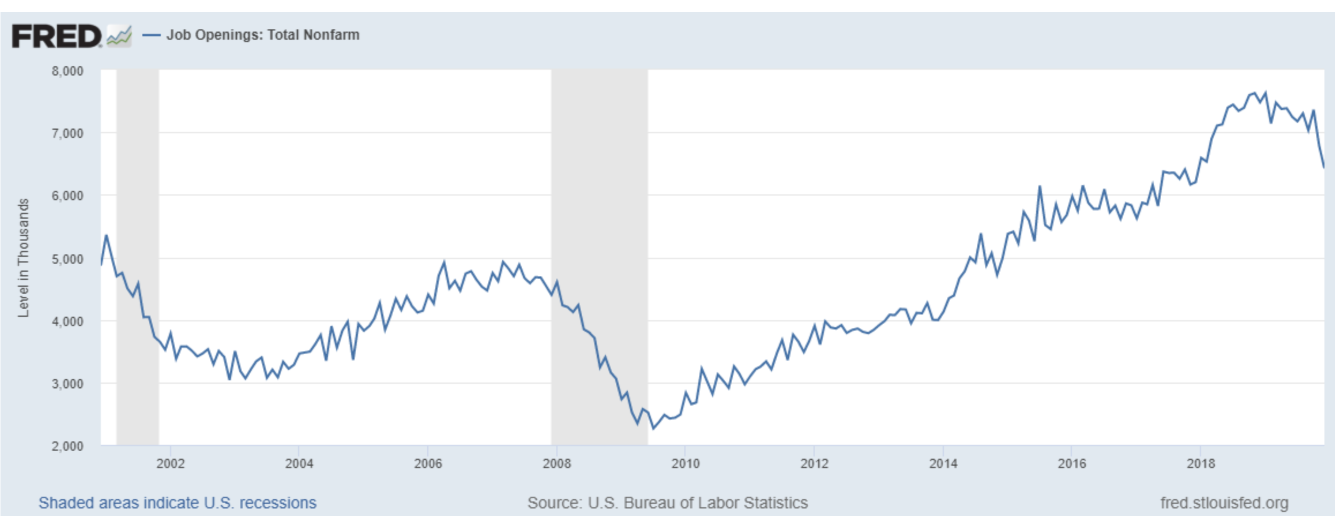
Participation Rate:

The Participation Rate is the number of people in the economy who either have a job or are looking for a job. This data point is most often analyzed through its inverse, not the headline. The Participation Rate shows how many people are not included in the unemployment number. For example, if the Participation Rate is 60%, then we know that 40% of the country is not included in the unemployment numbers. However, it is essential to remember that the 40% includes non-working spouses, college students, and the retired. The Participation Rate and Unemployment Rate data can be used together to get a better idea of the overall labor market.



Job Openings Rate:

The measure of the number of job openings requires that: 1) a specific position exists and there is work available for that position; 2) work could start within 30 days whether or not the employer found a suitable candidate; and 3) the employer is actively recruiting from outside the establishment to fill the position. The Job Openings Rate is computed by dividing the number of job openings by the sum of employment and job openings. This rate is used to help measure the amount of frictional and structural unemployment.



Wages:

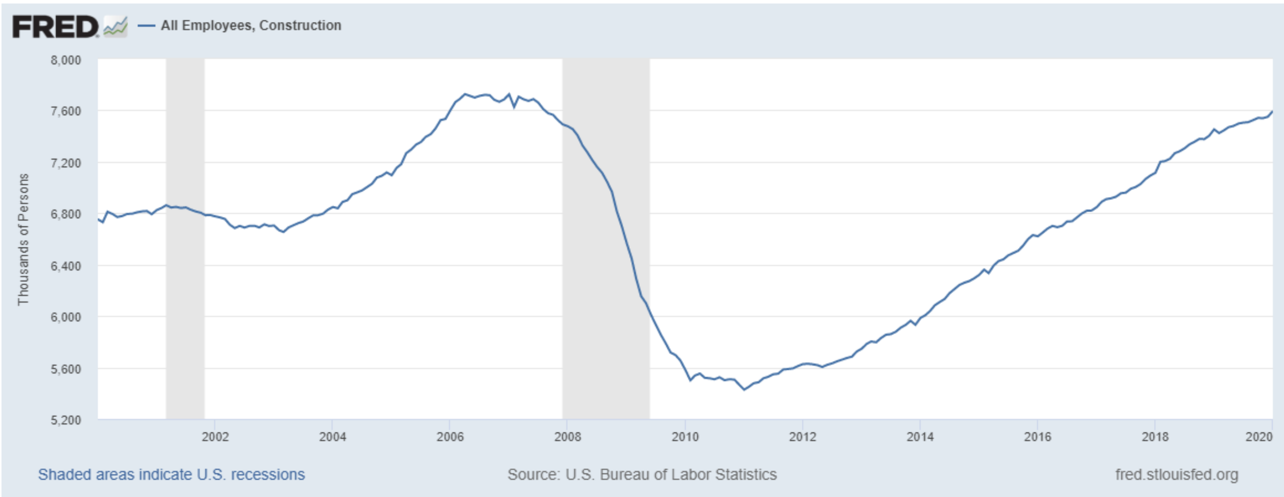
Several data points try to set a level of wages in the United States. Two common numbers that are used are "median usual weekly real earnings" and the "total compensation rate." The median wage is the weekly earnings of wage and salary workers. Wage and salary workers are workers who receive wages, salaries, commissions, tips, payment in kind, or piece rates. The group includes employees in both the private and public sectors but, for the purposes of the earnings series, it excludes all self-employed persons. It is adjusted for inflation and is reported in 1982-84 dollars. The total compensation rate is the 12-month trailing percent change in the compensation of all civilian workers.

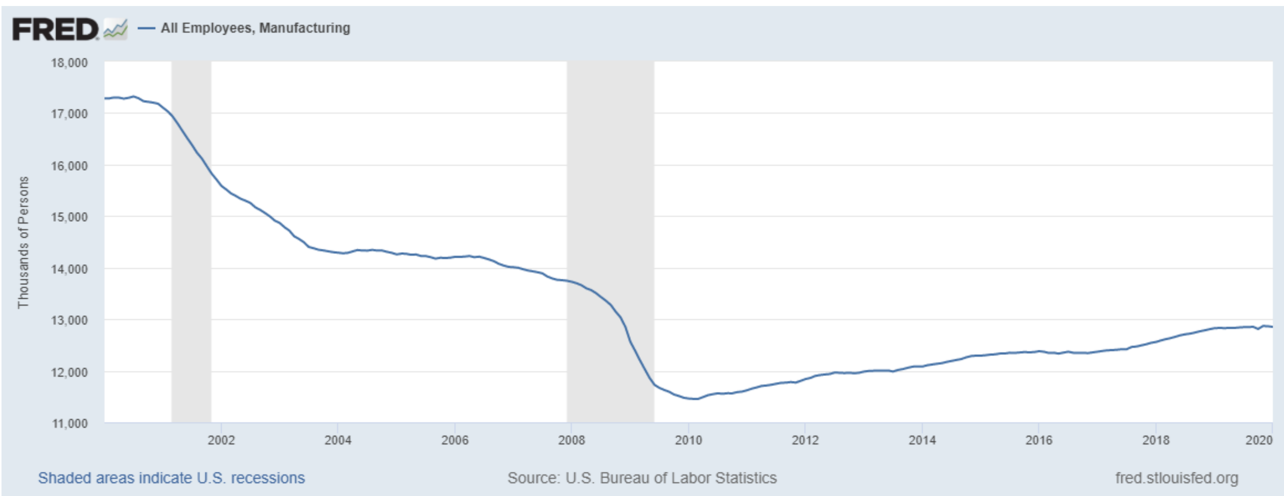
Recent History:

It will be no surprise to anyone that the most significant event in recent history for the labor market was the 2008 crisis. Most of the major indicators took a hit in the years following 2007-2008. Unemployment peaked at 10%, job openings fell to 1.7%, wages fell to $330 a week, over 8.5 million jobs were lost, and wage growth stagnated. The recession was very difficult for many people, especially those at the lower end of the wage spectrum (Lowery, 2013).

Since the recession, most of those same indicators have recovered. Unemployment is below 4%. Total jobs are now well above pre-recession levels. There are more job openings, indicating companies are hiring. The rate of job openings is almost a whole percentage point higher than before the collapse. This means there may be higher rates of structural unemployment affecting the economy currently. Wages have recovered to their 2008 highs.

The participation rate has been slowly decreasing for the last 15 years. There was a slight uptick during the





recession; however, nothing very significant. Most likely, the most substantial factor influencing the participation rate is the retirement of the baby boomers (Fujita, 2014). Of those not participating, 44% are retired, 18% are in school, 19% are disabled, and about 15% are stay-at-home parents. That leaves about 3.5% of the population that is not working but not participating in a job hunt for other reasons (Hipple, 2015).

Jobs are also being created in the sectors that have struggled the most out of the recession. Blue-collar industries have seen a recent upturn in employment. Manufacturing jobs have stabilized, but are still well below pre-crisis highs. This trend is also correlated with many companies outsourcing manufacturing out of the country. Construction jobs have steadily multiplied. They are almost back to pre-2008 levels. Construction and manufacturing sectors are less important than they used to be, but strength in those industries is essential because they offer some of the highest paid jobs for working Americans (Schwartz, 2016).

Conclusion:

The job market looks to be relatively healthy. The long term full employment level of 4.6% unemployment is expected to be reached as early as this summer (Geewax, 2016). The recent and comparatively dramatic turnaround of wages points to a tightening in the market. The balance of power is shifting back into the favor of employees and new hires, as companies are having to pay more for talent. Looking at the numbers, conditions appear favorable for the United States economy going forward. There is still a chance the U.S. could catch the global slowdown bug. However, this seems increasingly unlikely as employment numbers have been trending in the right direction.

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About the Author

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In the multifaceted role of Managing Partner and Lead Advisor, Kevin manages new and current client relationships, forms firm strategy, and breaks down the team's research into understandable and enlightening commentary. He shares this knowledge as a public speaker on financial and economic topics.

Kevin earned his BA with a double major in Economics and International Political Economy from the University of Puget Sound in Tacoma, Washington. While completing Willamette University's MBA for Professionals, he wrote a capstone on how to better serve non-profits as an advisor.

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