

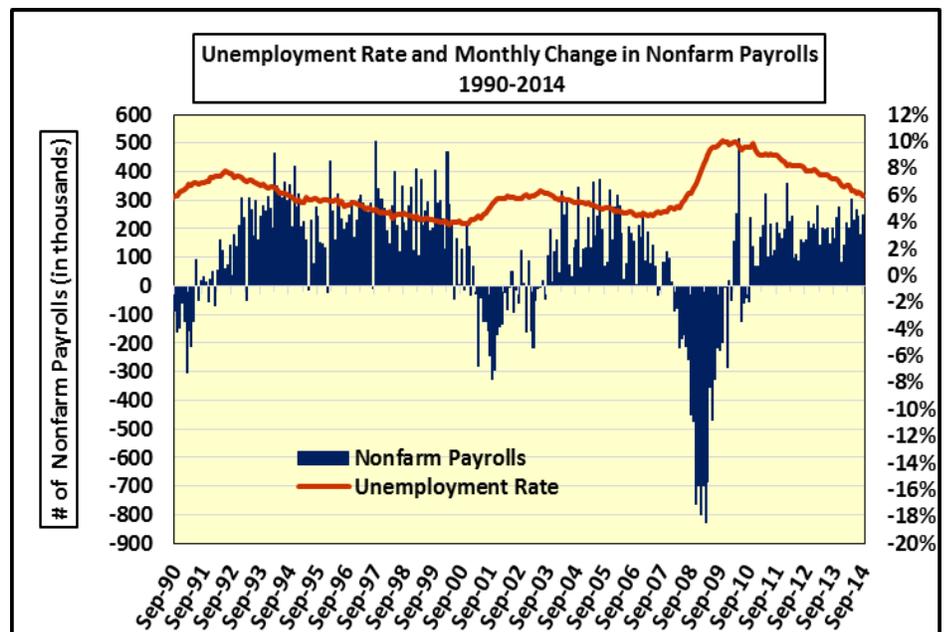
Jobs and Economic Growth

One of the most talked about issues during the past few election cycles has been jobs. Candidates are being asked what they will do to “get people working again”. “Good middle class jobs” is one of the most often used terms in elections all over the country.

The consumer accounts for 70% of the U.S. economy. With the U.S. mired in an extended slow growth environment it is important to understand how the employment climate is affecting the consumer’s ability to spend.

The headlines tell us that the employment picture is getting better. The U.S. economy is adding jobs every month and the “official” unemployment rate just dipped below 6%. Yet in August, Janet Yellen, Chair of the Federal Reserve stated that “significant structural factors have affected the labor market” and then goes on to say that the “Federal Reserve Board staff developed a labor market conditions index from 19 labor market indicators...” [1] From her comments it appears the Federal Reserve Board is trying to understand the labor markets in more detail.

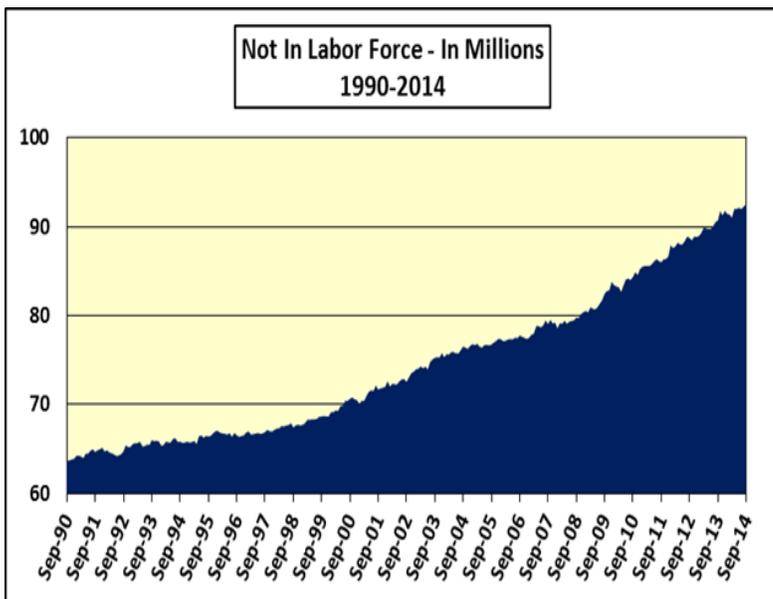
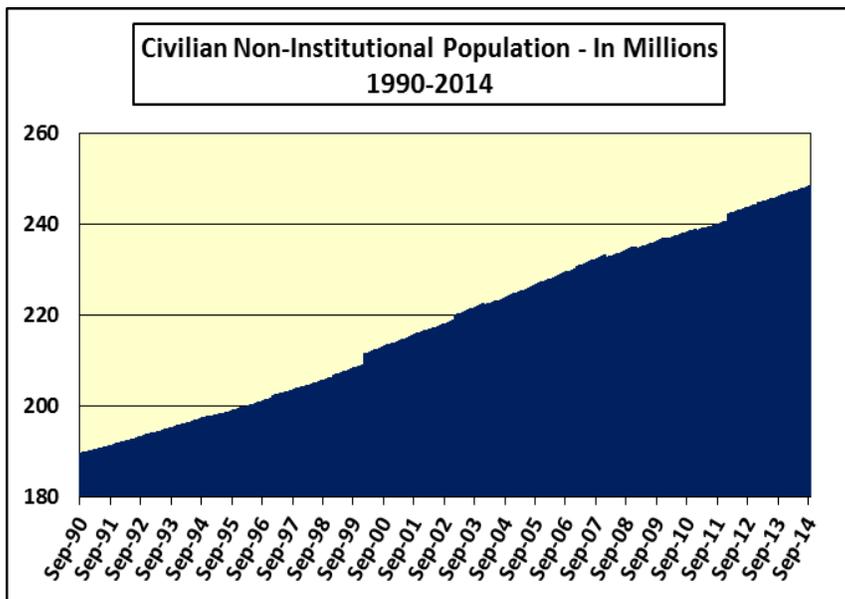
Getting a handle on the employment data is a step towards understanding just what has been happening in the job market in the U.S. The federal Bureau of Labor Statistics (BLS) is the keeper of the U.S. employment information. [2] The current data needs to be put in perspective with (a) long term trends (b) the beginning of the last recession - December 2007 and (c) the end of the last recession - June 2009.



In order to “peel the onion” we will break the data into the following areas: (1) how many people are employed (2) how much are the employed actually working and (3) how much are the employed earning.

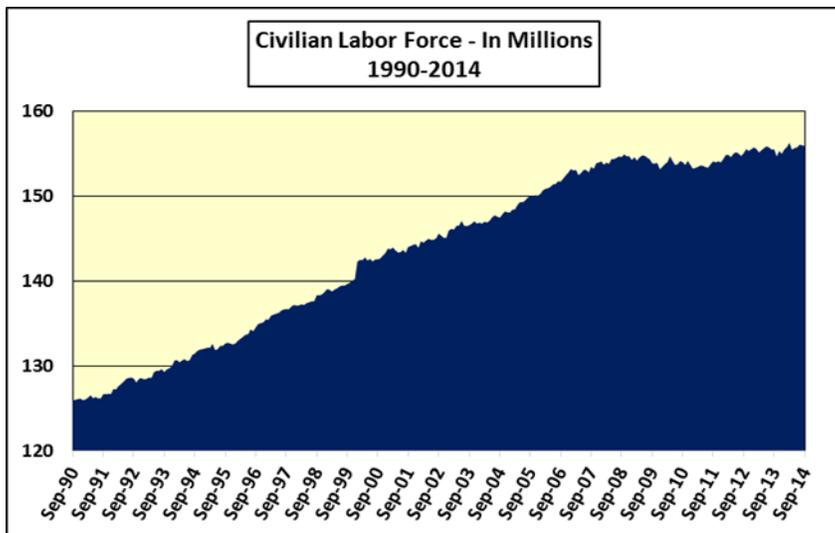
How many people are employed:

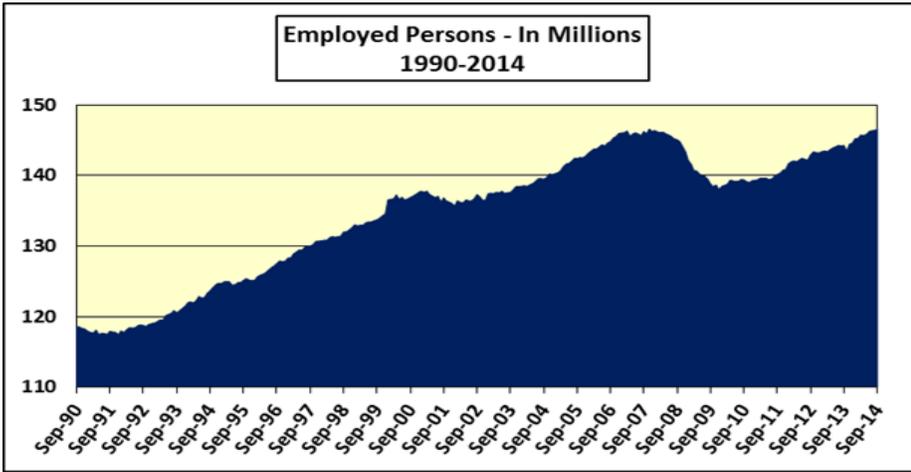
The process begins by counting the number of people classified as the “civilian non-institutional population—age 16 years and older”. This is computed by taking the entire U.S. population and subtracting those under age 16, those in the military, and those in institutions (jail, prison, mental health facility, homes for the aged, etc.). This, in theory, is the total number of civilians available for work. Currently there are 248 million people in this category. This compares to 233 million in December, 2007 the start of the last recession and 235 million in June, 2009 when the recession ended.



Next, we subtract those classified as “not in the labor force”. These are people who are not counted as either employed or unemployed. This can include those not wanting to work by choice (school attendance, stay at home parents, health issues, retired, etc.) plus those who are too discouraged to look for work due to various personal circumstances (been turned down numerous times, don’t believe a job exists for them, etc.). There are currently 92 million people in this category compared to 79 million in December, 2007 and 81 million in June, 2009.

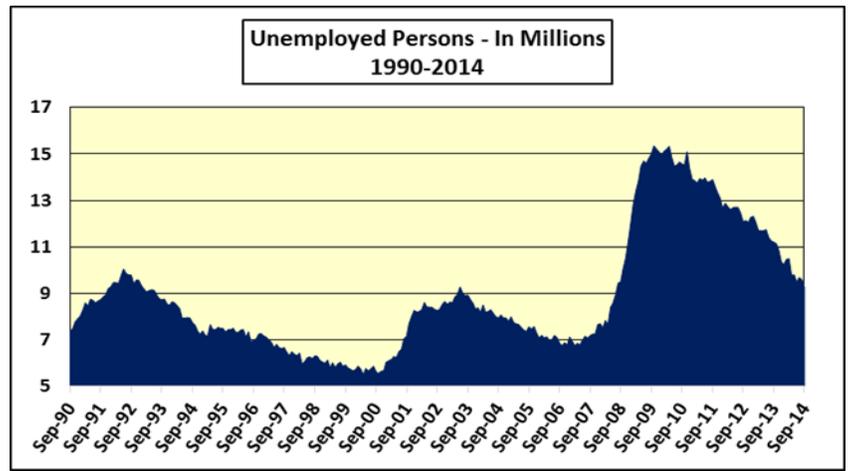
Netting the two categories above results in the “civilian labor force”. These are people who fit the definition of either being employed or unemployed. Currently there are 156 million people in this category compared to 154 million in both December, 2007 and in June, 2009.





We then move to the number of people counted as “employed persons”. Currently there are 146 million people employed, compared to the same number in December, 2007 and 140 million in June, 2009.

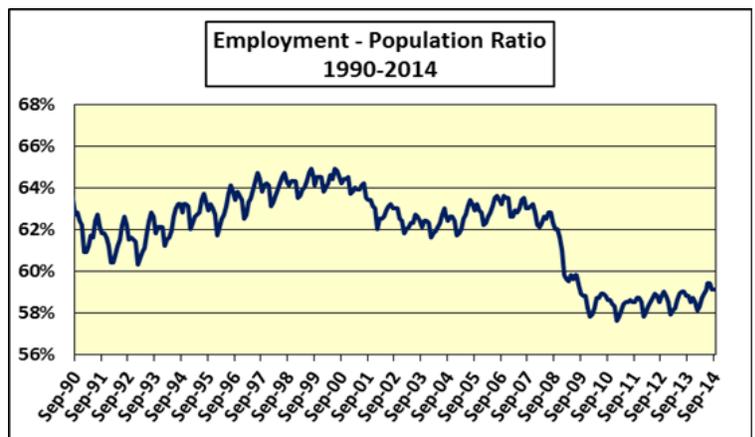
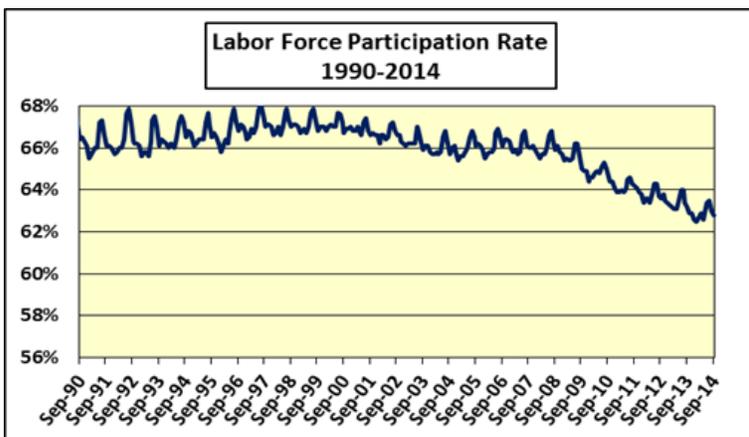
And then finally we get to the people who are counted as “unemployed persons”. There are currently 9 million people categorized as unemployed compared to 7 million in December, 2007 and over 14 million in June, 2009.



What does all this data really tell us? It tells us that the number of available workers has increased by 15 million persons since December, 2007, the beginning of the last recession. Of the 15 million increase 13 million are not in the labor force leaving only 2 million counted as part of the civilian labor force. Since the number of employed persons has not changed since December, 2007 the entire 2 million additional persons in the labor force are unemployed.

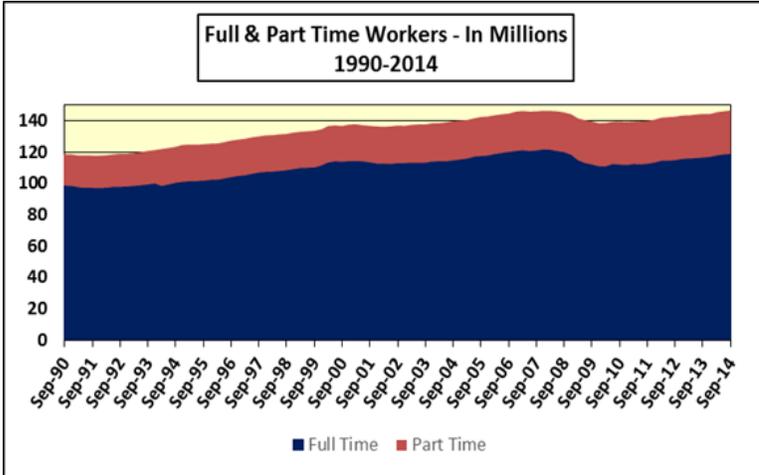
The reality of the civilian labor market over the last 6 plus years - from the start of the last recession to today - is that there are 15 million more working age persons in the U.S. and the number of employed workers has not changed!

As the data shows, both the labor participation rate (civilian labor force as a percent of the civilian non-institutional population) and the employment rate (employed persons as a percent of the civilian non-institutional population) are at multi-year lows.



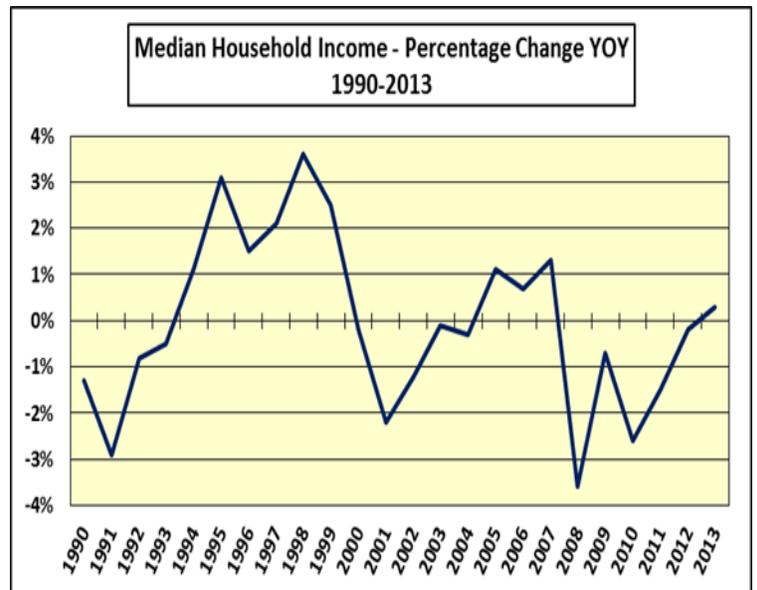
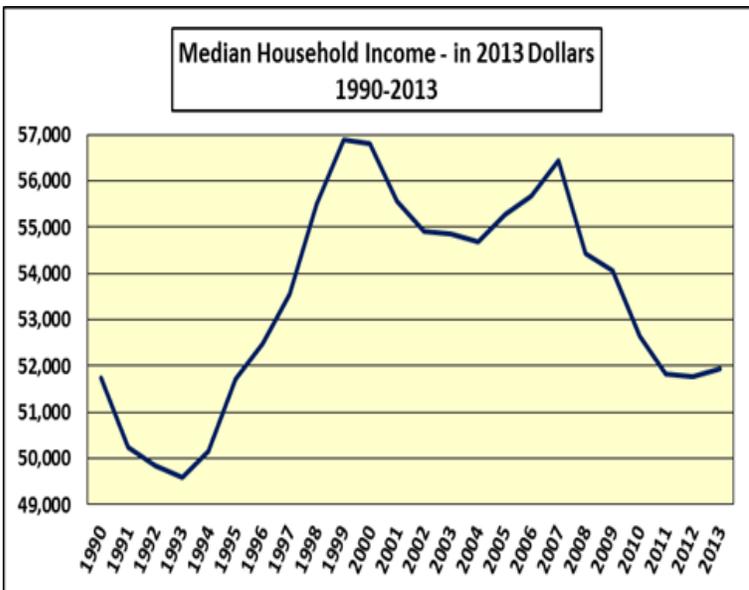
How much are the employed actually working?

While the total number of employed workers is roughly the same today as it was in December, 2007 when the last recession started (146 million) there has been a shift of 3 million persons from full time to part time. For BLS purposes a full time worker is someone that works 35 hours or more a week. A part time worker is one who works less than 35 hours per week. Currently there are 119 million full time workers and 27 million part time workers compared to 122 million full time and 24 million part time in December 2007. A deeper look into the data tells us that the U.S. lost almost 11 million full time jobs due to the recession and has added only 8 million of those full time jobs back. On the contrary, the number of part time jobs did not decrease due to the recession, instead growing the number of part time jobs by 3 million.



How much are the employed earning?

The real impact on households is how much income is available to them. According to the 2013 Census Bureau's annual survey [3] the median household income in 2013 was 8.0% less than it was before the recession began in 2007 and 8.7% less than it was at its peak in 2009. In fact, the level of median household income in the U.S. in 2013 was not much better off than it was in 1990.



In summation:

So, what does all the data tell us? First, the employment picture is getting better! We have added back all of the jobs that were lost during the last recession. And while the number of people “not in the labor force” is greater than ever before many are by their own choice. Our “official” unemployment rate has dropped from 10% to under 6%.

But, it also indicates that there has been a shift in the employment picture from 20 or even 10 years ago. Employers are more cautious with their work force in light of the last recession. Employers are more focused on how many employees they have, how many hours they work, and how much they are paid. That is just good business. Currently, the trends are in the employers’ favor.

Cycles come and go and things can change over time. When things change people adapt. The U.S. is experiencing a slower growth pattern - and the employment picture is certainly a part of the reason.

Politicians are not *the* answer to our employment problems, but they can have an impact on the overall business climate and promote pro-growth public policies to encourage and reward employment. Removing government barriers and policy uncertainty can create more confidence in employers that the economy is heading in the right direction and thus give them reasons to be more active in hiring.

At JVL Associates, LLC we look for trends and adapt. Developing and monitoring strategic long term plans for our clients help us navigate change. If you know of someone who could benefit from our experience please pass our name along.

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By: Jerry VanderLugt CPA, CFP®, CVA

References:

[1] Quotes taken from Chair Janet L. Yellen’s Speech “*Labor Market Dynamics and Monetary Policy*” given at the Federal Reserve Bank of Kansas City Economic Symposium - August 22nd, 2014

[2] All employment data was obtained from U.S. Bureau of Labor Statistics website: www.bls.gov unless otherwise noted

[3] Information obtained from Monthly Labor Review “*Labor force projections to 2022: the labor force participation rate continues to fall*” - U.S. Bureau of Labor Statistics website: www.bls.gov

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