THE AMERICAN WORKER

I ended Weekly #363 this way: (writing of the Fed rate increase)

> "In any case, yawn. World did not end. Cycles continue. Why? Because
> a) it was long expected and
> b) it was so mild that it signaled caution under all the FED bravado of a "stronger economy."

In this Quarterly Economic Outlook I'd like to explore why the FED is so cautious. They see data no one else sees, of course, so we are left to evaluate that which is most visible to us: Jobs. Most everything else, stocks, interest rates, capital spending and more ultimately derive from the health of the job market and the financial health of the consumer.

The popular and easily understood jobs number is the unemployment rate. Most economists still believe that when it's below 5% the economy is at or very near full employment. This judgment is based on the continuous movement of workers as they change employers, move or retire and so on. There is always some percentage of us in flux. This unemployment rate number is called the U-3. It has near zero predictive value.

<u>Point 1:</u>

Others have found, though, that tracking help wanted advertising is one of the best *leading* indicators of future economic activity, of future employment. This index captures both traditional newspaper ads and internet postings.

On a year to year percent change this index has moved from little or no change in the period 2013 to early 2016, when it then turned negative. Currently it is running about 20% lower than the above noted period and has been trending negative for 14 months. (Conference Board)

Looking at month to month the data is very irregular with "down" occurring in 8 of the last 12 months. This argues for a rise in the headline U-3 unemployment rate but that rise will likely not appear, and we will see why momentarily.

<u>Point 2:</u>

To be counted in that very low unemployment number a person has to have looked for work specifically in the four weeks prior to the current survey. If their search was in the last year but <u>not</u> in the four week measurement window they are then classified as a "discouraged worker." They are also <u>not</u> counted in the headline "labor force" reports. This measure of the discouraged among us is called the U-6 unemployed. They didn't look in the last four weeks? Well, they must be

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discouraged. Off the bat the headline unemployment number looks better by default. Few follow the U-6 data.

After more than a year of not finding work they become a "long term discouraged worker" and are dropped from the prior one year class (U-6). They are no longer counted in anything. In essence they drop off the map of either working or not working in America.

The numbers look like this for those three categories:

- "last four week search" 4.7% (U-3)
- "within a year but not in last four weeks" 9.7% (U-6)
- beyond a year unemployed 22.3%*

*est: Shadow Stats.

Point 3:

The ratio of "employed to total population" used to be of value. Of late all the rest, the "not working", covers a multitude of possibilities. The largest is individuals on disability. Others, beyond retirees, include workers in the cash economy and of course truly unemployable, long term discouraged workers.

This "participation rate", the ratio of employed to total population, peaked a bit over 64.5% in mid-2000. It fell steadily to an *interim* low of 62% in late 2003.

At the onset of the Great Recession (2008 – mid 2009) it was 62.8% and quickly fell to 58.2% in 2010. It stayed there, around 58%, until 2014. (Shadow Stats., BLS data). Note that it continued to fall after the theoretical end of the recession. This, to me, is key to understanding the whole issue of unemployment in America.

It follows that those measured as actually working as a percent of total population have fallen irregularly, but fallen just the same. Currently at 62.5%, please note that it peaked 16 years ago at 64.5%. New workers are calculated as arriving at the rate of 140,000-180,000 per month. Where are they going? One answer is the gig economy best exemplified by Uber and Lyft drivers. Another may be the growth of crowd funding as the motivated among them find new channels of loans to help them launch any number of businesses. Partial solutions at best.

Point 4:

Then we have the February Jobs Report. Almost everything I have read or heard was about how solid, how good it was. The report said 235,000 jobs were created. From a more analytical part called the household survey we find only 69,000 non-agricultural, private sector wage and salary jobs were created. Part time workers were counted as employed the same as full time, for one reason.

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Employment among males aged 25 to 54 – the prime working years – fell 18,000 and this follows a drop of 32,000 in January.

Self-employment rose 320,000. This reflects the obvious, as above with Uber and Lyft.

Consensus expected 200,000. I can see where an enthusiastic response might follow a print of 235,000, but only if you read no further.

Then there is the inevitable "seasonal adjustment." This year workers found February the warmest since 1954 and second warmest since 1921. Nationwide the norm for February is 34.5 degrees. This year the February actual hit 41.2 degrees. The problem is that seasonal adjustments factors expect and build in the norm, not the actual. That alone makes seasonally adjusted data - all data, a bit wonky. This one is likely the largest wonky adjustment factor in decades and I expect revisions. For distortion look only as far as the construction sector where a massive 58,000 jobs were created – triple the norm – in sector facing visible deceleration. Here, warm weather really padded the "employed "data.

Then there is a number the BLS collects titled "did not make it to work due to weather." (True). That number is around 365,000 in any given February. This time? Only 184,000 or near half.

If payrolls rose 235,000 and 181,000 (365 less 184) were in and on payroll you find the real net, new, is more like 55,000.

To this point, we have these elements:

- the headline unemployment rate of 4.7% is not indicative of much at all;
- the ratio of employed to total U.S. population, the participation rate, fell to 58.2% at the apparent bottom of the Great Recession and has risen to 62.5%. In the better year of mid 2000 it was 64.5%
- seasonal correction data is using "normal February" not actual and this time the difference is significant and dilutive to the headline of 235,000 new jobs in February;
- part-time now counts as full time employed;
- the base components are changing, making for better headline numbers and hiding a modern day disaster.

Who are these "long term discouraged?" As Nicholas Eberstadt put it in "Our Miserable 21st. Century":

> "We are witnessing an ominous and growing divergence between

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> three trends that should ordinarily move in tandem: wealth, output and employment. Depending on which of these three you look at, America looks to be heading up, down or more or less nowhere."

If our nations work rate was back to what it was just 17 years ago more than 10,000,000 Americans would be working and consuming. Talk of more immigrants is a fine, long term partial solution but for a 2½% to 3% consuming population bump up, we need to address the income needs of the 10,000,000.

There is no question a smaller portion of the adult population is working today. Yes, some have retired with far more to come, some are back in school or likely never left, some are no longer working spouses and of course some are the disabled.

Slice it as you wish but a disconcertingly large number of Anglo men in their prime are simply not working. These men do not appear separately in the broad statistics laid out earlier in this paper and won't until they "actively" look for work. Or, as Mauldin put it, rejoin the "employed" because they spent an hour or two doing odd jobs that month.

Eberstadt claims that for every unemployed American male between 25 and 55 there are three more who are neither working nor looking for work. That's about 5 million men. The big macro numbers support this conclusion. Between 2000 and 2015, total paid hours of work nationwide rose 4%. The prior 15 years saw a rise in paid hours worked of 35%. In this latest 2000-2015 period, adult civilian population rose almost 18%. Where are they?

Then there is the rising death rate for middle aged whites. Whether by suicide, cirrhosis of the liver or drug overdoses, the death rate went from "barely rising" to sharply higher. By 2013 more Americans were dying from drug overdose than either traffic fatalities or guns. Nearly half of all prime, working age male labor force drop outs – some 7 million – currently take pain medication on a daily basis.

What do these people do all day?

The surveys answer with this: screens, be they TV, phone or iPad. What do they watch or do? Games and pornography. On average, 2000 hours per year. Each. They drift.

Maudlin notes, and I, too, suspect, that they work as and when but off the books to preserve benefits.

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Here again, Eberstadt:

> "of the entire un-working prime–age Anglo males, (in 2013) nearly three-fifths (57%) were reportedly collecting disability checks from one or more government agencies. Further, 53% of them are Medicaid beneficiaries. For a $3 a day co-pay you get your OxyContin, street value +/- $10,000."
>
> A source of income? Perhaps.

If you could shrink these pools of benefit–driven males what would you have them do? They may not be equipped for any job beyond entry level and those, well, here come the robots.

The combination of technological leaps and the particular use of artificial intelligence in and on machines finds us at McDonalds buying lunch with no human contact.

It has always been this way. As D Rosenberg puts it:

> "Farming, little more than a century ago, represented the largest source of employment at over 12 million or 40% of the labor force. Even in the early 50's there were still 7.9 million workers ---- now down to 2.5 million. Here we have a workforce 1/3 the size (of the 50's) producing more than five times the output.
>
> Or banking: it has been 35 years since banking machines accelerated putting bank tellers out of work --- and yet financial services sector employment is at a record high.
>
> Or higher living standards: real disposable personal income per capita has risen some 237% over the past six decades."

It's not going away. Robots are doing and will be doing more and more of the very jobs the long term discouraged have lost. Both trends, the good and the bad, lead to more income per capita, more leisure time, more employment for the skilled. The first positive impact will likely be an even further shortening of the work week. The norm now is 34 hours, by the way. (I had the same question…for who?)

Conclusions Of A Sort:

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A cyclical trend is one thought to be temporary by its nature. Weather, over a given year, in temperature terms can be called cyclical.

It can also be called secular, in temperature terms, if year over year, that is, for longer and longer periods we see a persistent pattern one way or another.

In my view, the discouraged workers, growing in number, are a secular trend. New entries – from young people finding no work to middle aged people now jobless, are providing new entrants daily.

It seems to me a middle-aged laid off worker, out of unemployment benefits, must be sorely tempted to copy his neighbor and apply for some form of disability. This circle is apparent in the data. So are willing doctors.

Young people, lacking both skills and jobs, may be more creative in their hunt for income as they seldom have the drag of the spouse or children that the middle aged might have. Nonetheless, watching peers with new "things" they, too, might be sorely tempted. Dial in a large dose of entitlement and it becomes worse.

The point is, nothing the FED does cures this. They tried zero interest rates and we all know how that worked. That, literally, is their tool chest---interest rates.

Of late older folks are learning to write code – sadly just as AI comes in strong to do the easiest parts of that job. Retraining the middle-aged won't be in time. Putting young folks in areas that need them is clearly beneath their sense of self-worth – even if a good welder can clear $100k in many parts of the country. The smart ones have figured this out, by the way, moving out of high cost areas and learning skills not taught in grad schools.

Parents and Congress spawned this over the last 50 years. Only Congress can fix any part of it and that takes courage.

The FED economic forecasters know they have a malignancy attacking the very core of economic growth and can't do a thing about it.

If I am anywhere near right we may see sub -2% growth all year or at least until two events begin to unfold:

1) tax cuts focused on the middle class and
2) the world of government regulations is aggressively pruned.

We can argue it's not "fair" to cut down (or off) government rules because people have created whole organizations (and jobs) around them. We can also argue consumers will act in their own best interests when pushed by events. The point is, the malignancy won't end until

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a) the burden of taxation is eased and
b) a sense of reduced government intrusion is felt.

Political whoring gave this to us, political back scratching keeps it in play. I have far more confidence in the individual making the right choices, economically, than having someone make them for him. Until taxes and regulations are headed in the right direction, though, our great regulatory swamp and unemployment of 4% or 5% is an increasingly bad joke.

The FED sees this far better than they admit. The timid rise in rates tells me they are testing the waters. They have to ultimately move rates up so as to have room to cut them when the next major slowdown occurs. The problem is that this is the least effective way to invigorate growth in this country. The American Worker needs to feel hope from more than words or rate changes. Tax cuts work; they stimulate spending and that in turn increases the hiring of workers to meet new levels of demand. Firms will hire to meet new demand when regulatory drags to do that are reduced. The existing slow growing US population can easily generate 3% plus real economic growth if given some breathing room. All it takes is political courage. In the meantime:

Economic Outlook? Weak.

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