



Look Who's Working Now

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Something peculiar has been happening in the United States labor market. Let me lay out some facts.

- Since March 2018, the unemployment rate has been stuck. It was 4.0% then; it is 4.0% today.
- Over that same time, the US has added an average of 230,000 jobs per month, much stronger than economists' estimates of around 140,000 needed to keep the unemployment rate steady.
- There are currently 7.2 million people counted as unemployed by the government.
- There are currently 7.3 million job openings in the US, an all-time record.
- Yet, despite this strong outlook, real wages grew only 1.9% this past year.

Why hasn't the unemployment rate been falling? Why aren't wages increasing more rapidly? This article will examine these puzzles by looking at how we count who is employed and unemployed in the US.

Who Is Counted in the 4.0% Unemployment Rate?

The Census Bureau's Population Clock currently measures the US resident population at 328,504,020. Not all of those folks are counted in the unemployment rate. To be counted, an individual must be considered to be in the labor force. To start, let's note who is excluded from the labor force, which includes individuals either working or seeking work.

To begin, people serving in the armed forces and people who are institutionalized (currently about 5.1 million people) are not counted.

Resident Population	328,500,000
(-) Resident Armed Forces	1,200,000
Civilian Population	327,300,000
(-) Institutionalized Population	3,900,000
Civilian Noninstitutionalized Population	323,400,000

Next, children under the age of 16 and those who are not in the labor force are subtracted to get to the current labor force. The table below lists reasons why individuals are not in the labor force.

Civilian Noninstitutionalized Population	323,400,000
(-) Children under age 16	65,200,000
(-) Not in labor force: Retired	47,500,000
(-) Not in labor force: Disabled	13,500,000
(-) Not in labor force: In school	12,500,000
(-) Not in labor force: Don't want a job, not retired, not disabled, not student	17,800,000
(-) Not in labor force: Want a job	4,800,000
Total Labor Force (rounded)	162,100,000

Later, we will examine trends in the nonparticipation rate. But, just note that while retirees make up a large cohort of people not participating in the labor force, there is still a large pool of potential workers here, including 4.8 million who want a job but are not included in the labor force, mainly because they have not sought work in the past year.

Finally, among those participating in the labor force, people are counted as either employed or unemployed. Workers can either be full-time or part-time, with part-time further broken down into those working part-time involuntarily (for economic reasons) and those who choose to work part-time. Likewise, unemployed persons are broken down into full-time job seekers and part-time job seekers. The number of unemployed persons as a percentage of the total labor force is how economists calculate the unemployment rate.

(+) Employed full time	128,200,000
(+) Employed part time: economic reasons	3,800,000
(+) Employed part time: noneconomic reasons	22,900,000
Total Employed	154,900,000
(+) Unemployed: looking for full-time work	5,900,000
(+) Unemployed: looking for part-time work	1,300,000
Total Unemployed	7,200,000
Total Labor Force	162,100,000

Note, we use nonseasonally-adjusted numbers in the tables, while the 4.0% unemployment rate is based on seasonal adjustments.

So, all of a sudden, in an economy with a 4.0% unemployment rate, we see that out of a population of 328,500,000, there are only 128,200,000 full-time, civilian workers, or 39% of the population.

That means if you are reading this article at your desk, at your full-time job, you are not in the majority in the US.

Total U.S. Population by Category

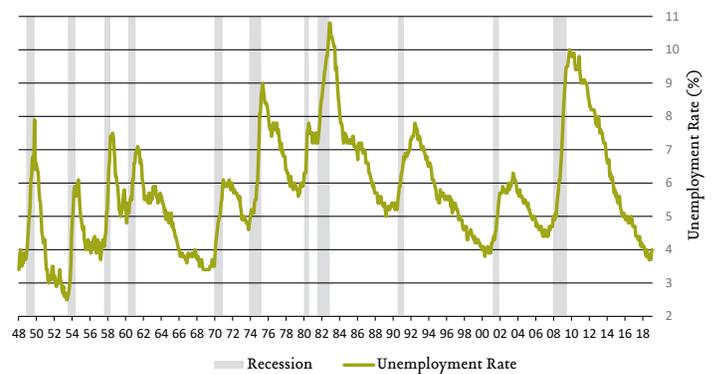


Broader Measures of Employment

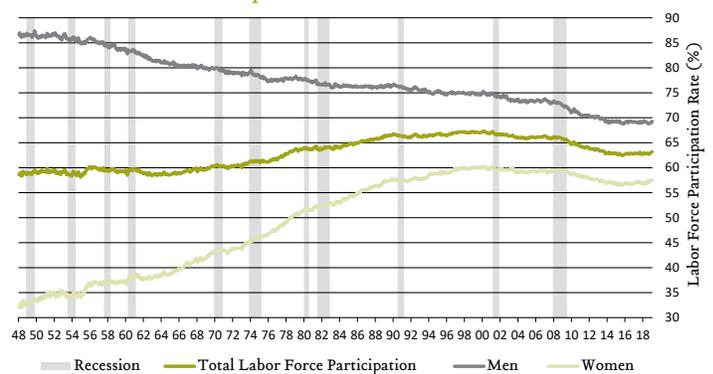
While the current unemployment rate, 4.0%, registers near 50-year lows, broader measures of employment paint a slightly different picture of the labor market.

One broader measure of employment is the Labor Force Participation Rate. This is defined as the number of people in the labor force divided by the total working-age population (people 16 years and older). While the unemployment rate has fallen from 10% following the financial crisis down to 4% today, the labor force participation rate has not recovered in a similar fashion.

Unemployment Rates Have Recovered



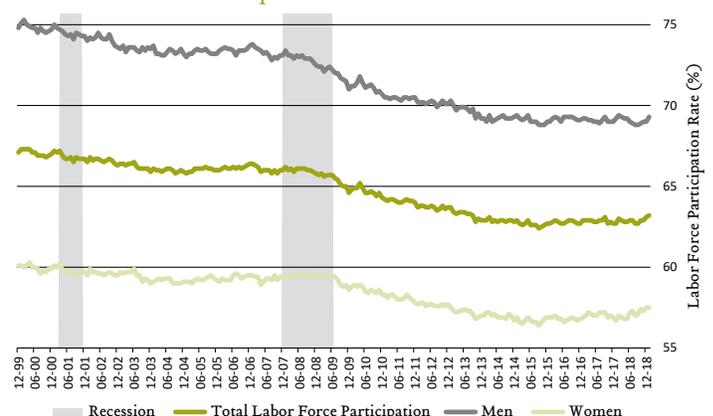
Participation Rates Have Fallen



The reason the unemployment rate hasn't fallen recently, despite the strong job growth, is that the Labor Force Participation Rate (LFPR) has been increasing. People who previously were not seeking work at all are now re-entering the labor force and being counted as employed or unemployed.

That said, the current increase is small in comparison to the downward trend in labor force participation that began in the first quarter of 2000. The LFPR peaked at 67.3% and has fallen today to 63.2%. A more recent chart shows the dynamic.

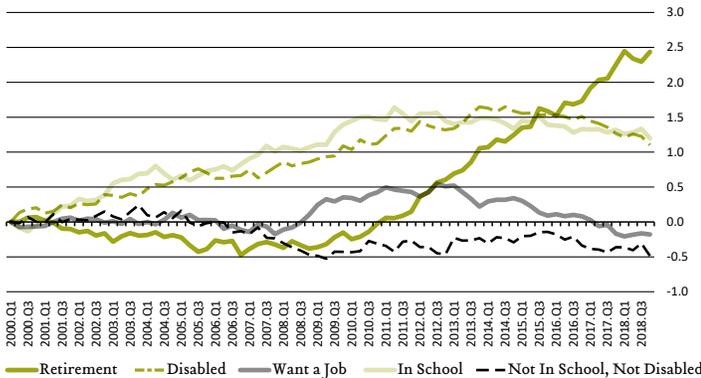
Participation Peaked in 2000



Analyzing this decline by reason for nonparticipation shows

that a large portion of the change is due to Baby Boomers entering retirement.

Change since 2000 in Nonparticipation Rates



- The Labor Force Participation Rate fell 4.1% from Q1, 2000 to Q4, 2018
 - ◊ 2.4% is attributable to increased retirement,
 - ◊ 1.1% is due to increases in persons identifying as disabled,
 - ◊ 1.2% is due to increases in persons in school,
 - ◊ The rates of persons not in school and those who want a job have actually fallen 0.6%.

Looking Forward

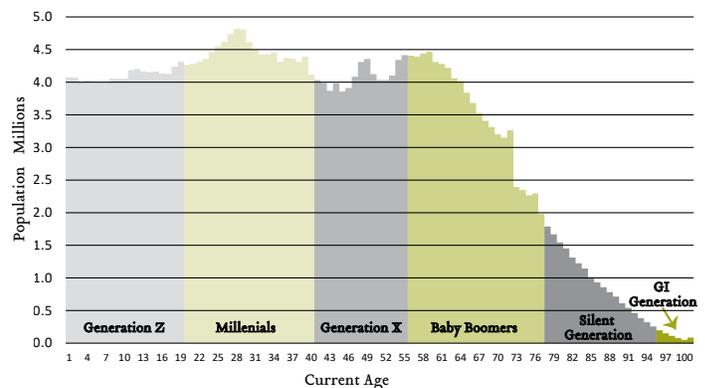
We believe broader measures of employment like the Labor Force Participation Rate or the Employment-to-Population ratio offer clues to explain the puzzling dynamics recently observed in the labor markets. There may be more slack in the labor market than what's implied by the 4.0% unemployment rate. This additional slack may be impacting wages and

lengthening this economic cycle.

Additionally, Baby Boomer retirements are only beginning to impact the broader economy and will be an important economic force in the coming decades. Investors and economists that do not consider these broader demographic trends may continue to be surprised by a slower pace of economic growth, wages, and inflation than the US has experienced historically.

If you would like to discuss these ideas and their impacts on your investment portfolio further, please contact a member of your dedicated client centric team. Thank you for the opportunity to serve on your behalf. ☑

U.S. Population by Generation



Sources: Bureau of Labor Statistics Current Population Survey
 Census Bureau Population Data
 NBER
 Shigeru Fujita, Federal Reserve Bank of Philadelphia, www.phil.frb.org/-/media/research-and-data/publications/research-rap/2017/reasons-for-nonparticipation.xlsx?la=en
www.npr.org/2014/10/06/349316543/don-t-label-me-origins-of-generational-names-and-why-we-use-them