

Economics Group

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Jobs: Cyclical Employment, Structural Unemployment

March job gains came in at 215,000 with improvement across many sectors. Meanwhile, labor costs continue to rise, consistent with a tightening labor market. However, structural unemployment persists.

Job Gains Reflect Manufacturing Weakness, Consumer Strength

Overall job growth in March was a solid 215,000. Our theme for the annual outlook was the Great Divide and we certainly see this in the pace of job growth during the past three months (top graph). We have emphasized the divergence between the production and services sides of the economy over the past six months, and we can see that divergence in today's numbers.

Over the past three months, job growth in manufacturing and government has been weak while strong in construction (consistent with rising housing starts and modifications). Private services has also seen broad-based gains, with strength evident in education & health, professional & business services and leisure & hospitality. In today's employment report, manufacturing jobs declined 29,000 while mining fell 12,000. Overall, private service-providing jobs rose a solid 199,000. These results are consistent with continued moderate economic growth and no recession in the outlook for 2016.

Rising Cost of Labor in Many Forms—the Mid-Cycle Story

Another sign of the labor market expansion maturing is the rising cost of labor as the unemployment rate continues to improve during the economic cycle (middle graph). Average hourly earnings rebounded 0.3 percent in March and are up 2.3 percent over the past year. That said, the pace of wage gains has been modest compared to the last three economic expansions. The structure of the labor market has clearly changed.

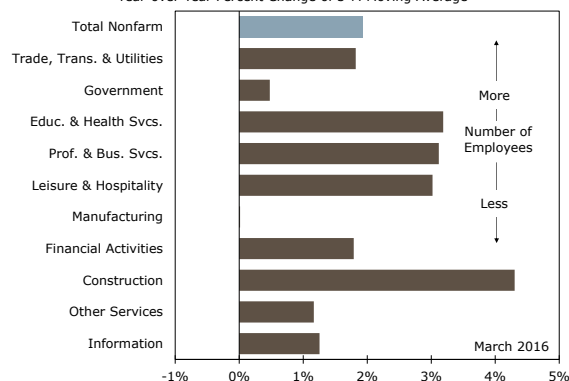
Yet, the rise in labor costs, as measured by wages, is corroborated by the rise in the employment cost index since 2010 and at a slightly faster pace since early 2014. Meanwhile, productivity gains remain very modest. For the economy, this will put pressure on inflation and/or corporate profit growth and limit companies' willingness to invest and hire over time.

Structural Unemployment—Disequilibrium in the Labor Market

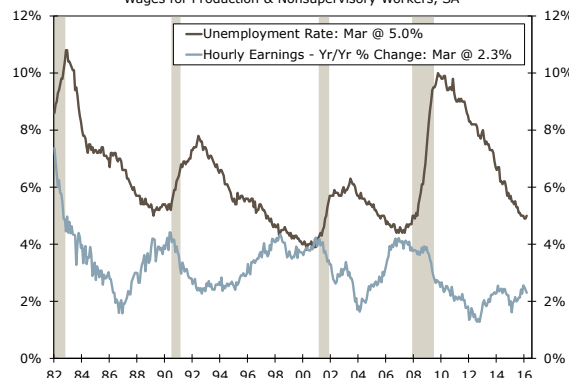
Although cyclical measures indicate the labor market is near full employment, structural labor dislocations are very evident. As illustrated in the bottom graph, those employed part-time for economic reasons remains high relative to the number employed part-time during the prior three economic expansions. Meanwhile, the percentage of long-term unemployed at 27.7 percent remains higher than at any stage of the prior three economic expansions since 1982. Finally, the percentage of marginally attached workers as a percent of civilian non-institutional population remains above the pre-recession level.

From our viewpoint, the current economic expansion is only beginning to address the structural issues in the economy. Participation continued its rebound last month, causing the unemployment rate to tick up to 5.0 percent. Still, there remains a continuing gap between the demand for labor and supply of available workers, as evidenced by the Beveridge Curve.

U.S. Employment by Industry
 Year-over-Year Percent Change of 3-M Moving Average



Unemployment and Wage Rates
 Wages for Production & Nonsupervisory Workers, SA



Employed Part-Time for Economic Reasons
 Non-Agricultural Industries, Millions of Persons



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