

2013 U.S. Jobs Report Card: After All Is Said and Done, More Was Said than Done

As we wrote at the halfway point of last year in ["The New Sick-onomy? Examining the Entrails of the U.S. Employment Situation"](#) (July 24, 2013, also available in pdf [here](#)) and as we updated [in September 2013](#), an alarming proportion of the new job creation we saw in the first three quarters of 2013 were in low wage-paying sectors—with weighted average hourly wages of less than \$16/hour. These sectors: Retail Services, Administrative and Waste Services, and Leisure and Hospitality Services, together comprise about one third of all private sector jobs in the U.S., but were the source of 57% of jobs created in the first half of the year (nearly 70% in Q2, alone). High wage job sectors, which in the aggregate pay average hourly wages of over \$27/hour, together comprise two-thirds of the private sector jobs in the U.S. economy, but were a far lower percentage of jobs created in 2013.

U.S. job creation did better in the second half of the year, both in terms of the number of jobs created and their dispersion between the high and low wage sectors. On average, the U.S. created 184,000 private sector jobs per month in 2013. Over the course of the year, however, taking all factors into account, the U.S. jobs economy earned something less than a “gentleman’s C” as a grade. Here is a summary of why:

- For 2013 as a whole nearly 54% of jobs created were in the low wage sector, a far higher proportion than the 32.8% of all private sector jobs that those sectors represented at the start of the year (see Table 1). The wildly disappointing jobs numbers for December (74,000 non-farm, and 87,000 total private sector, jobs created) were made more concerning, at the margin, because for the first time in the year net job creation—minimal as it was—was "over" 100% in the low wage sectors (the high wage sectors actually lost 8,000 jobs MoM, see Table 2).
- Half the jobs created during 2013 were in sectors that saw wages fall relative to inflation (Education and Healthcare, and Retail Trade) or offered wages and hours at near subsistence levels just slightly higher than payments that would be received from the total of unemployment insurance and food stamps (Leisure and Hospitality, in which the average worker earned just over \$18,000/year).
- The second half of 2013 saw a distinct improvement in the number of part time employees at work, relative to those working full time (still an elevated 26 million—19%—of the total of 137 million persons employed in the U.S.). Part time workers declined by about 650,000 year-over-year, while in the first half of 2013 that figure rose substantially from year-end 2012. Part time employees are defined as those working between 1 and 34 hours per week.
- The seemingly inexorable erosion of the labor force participation rate (LFPR) continued with a vengeance in 2013, falling 8/10ths of 1% to 62.8% from 63.6%. The LFPR is now back to levels not seen since the late 1970’s, before the surge of women entered the labor force (see Chart A). It is true that the LFPR declined by 1% prior to the Great Recession and there are some demographic elements (retirement rates) at work, but it stabilized at around 66% in the years leading up to the recession—and has fallen off a cliff since—indicating that there is much more going on than the retirement of some lucky baby boomers.

- For the forgoing reasons, the decline in the U-3 unemployment rate to 6.7% at year-end 2013 from 7.9% at year-end 2012 must be taken with more than a grain of salt. As discussed and illustrated in depth in [our report last June](#), virtually all of the improvement in the headline unemployment rate can be tracked to the declining labor force (December 2013 was a classic illustration of this phenomenon, as the 3/10ths of 1% decline in the U-3 unemployment rate was principally due to the elimination of 347,000 people from the labor force. If the LFPR had not fallen from October 2009, when unemployment hit its Great Recession peak of 10 percent, unemployment would still be over 9 percent today. Moreover, if the LFPR were held constant from its highest pre-recession level of 66.40 percent in January 2007 (when unemployment was 4.6 percent), the U-3 unemployment rate would be 11.75% percent today

The following table serves as a useful report card on the Establishment Survey portion of the 2013 jobs picture:

Table 1
Full Year 2013 Jobs Analysis

	Number of Jobs					Hourly Wages							
	Dec-12	Dec-13	Var	Percent of Private Jobs Created	Percent of Total Jobs Beginning of Year	Dec-12	Dec-13	Percentage Var	YoY CPI Inflation*	Real Wage Growth (Decline)	YoY Core CPI Inflation	Real Wage Growth (Decline) vs. Core	
HIGH WAGE JOBS													
Goods Producing	18,522	18,752	230	10.39%	16.42%	24.89	25.45	2.25%	1.20%	1.05%	1.70%	0.55%	
Wholesale Trade	5,715	5,810	95	4.29%	5.07%	27.36	28.01	2.38%	1.20%	1.18%	1.70%	0.68%	
Transportation and Warehousing	4,494	4,536	42	1.90%	3.98%	21.92	22.59	3.06%	1.20%	1.86%	1.70%	1.36%	
Utilities	555	555	-	0.00%	0.49%	34.89	35.55	1.89%	1.20%	0.69%	1.70%	0.19%	
Information	2,676	2,672	(4)	-0.18%	2.37%	32.18	33.29	3.45%	1.20%	2.25%	1.70%	1.75%	
Financial Activities	7,831	7,915	84	3.80%	6.94%	29.80	30.42	2.08%	1.20%	0.88%	1.70%	0.38%	
Education and Health	20,496	20,823	327	14.78%	18.17%	24.47	24.73	1.06%	1.20%	-0.14%	1.70%	-0.64%	
Professional and Tech*	7,995	8,179	184	8.31%	7.09%	36.13	36.79	1.83%	1.20%	0.63%	1.70%	0.13%	
Management of Companies*	2,020	2,058	38	1.72%	1.79%	35.17	35.72	1.56%	1.20%	0.36%	1.70%	-0.14%	
Other services	5,470	5,500	30	1.36%	4.85%	21.10	21.50	1.90%	1.20%	0.70%	1.70%	0.20%	
Totals and Weighted Averages**	75,774	76,800	1,026	46.36%	67.17%	26.81	27.34	1.96%	1.20%	0.76%	1.70%	0.26%	
LOW WAGE JOBS													
Retail Trade	15,004	15,385	381	17.22%	13.30%	16.48	16.62	0.85%	1.20%	-0.35%	1.70%	-0.85%	
Administrative and Waste Services*	8,135	8,551	416	18.80%	7.21%	18.15	18.42	1.49%	1.20%	0.29%	1.70%	-0.21%	
Leisure and Hospitality	13,901	14,291	390	17.62%	12.32%	13.38	13.66	2.09%	1.20%	0.89%	1.70%	0.39%	
Totals and Weighted Averages**	37,040	38,227	1,187	53.64%	32.83%	15.68	15.92	1.48%	1.20%	0.28%	1.70%	-0.22%	
Total	112,814	115,027	2,213			23.16	23.54	1.66%	1.20%	0.46%	1.70%	-0.04%	
Average per Month			184										

* Hourly wage data for these job categories, as well as YoY inflation data is for November 2012 to November 2013. Final December 2013 data not yet available.

** Hourly wage totals weighted by number of jobs in each job category at beginning of year and end of year, respectively.

Hours and Wages

As the above table illustrates, the raw job counts are just the tip of the iceberg in this report card because of what happened in 2013 with regard to wage levels. Two of the sectors which added the second and third most jobs in 2013—Education and Health in the high wage category, and Retail Trade, in the low wage category—saw wages fall relative to headline CPI, and substantially so relative to core CPI. The largest sector creating jobs in 2013 was, not surprisingly therefore, the lowest paying sector in the economy—Leisure and Hospitality—which at year end paid an average wage that would equate to full time earnings of less than \$25,000 a year. And that assumes full time employment. Keep in mind, that out of the 135.6 million non-farm jobs in the U.S. at year-end 2013, 26 million—19%—were part time. In the Leisure and Hospitality category, the average employee worked only 25.9 hours per week at year-end (the lowest of any jobs category), meaning that the average of the 14.3 million workers in that sector brought home \$18,397 per annum.

The penury-level Leisure and Hospitality sector, together with the two sectors in which real wages fell in 2013—Education and Health, and Retail Trade—accounted for 1,098,000 of the 2,213,000 jobs created in 2013, just a hairs breadth away from 50% of the total. Add in the 416,000 jobs created in 2013 in the remaining low wage sector—Administrative and Waste Services—and you have 68.4% of all jobs created in 2013 being in sectors in which labor has pretty much no leverage.

Of further interest, looking at the weighted average of the high wage sectors, we saw wage growth before inflation decelerate during the year to 1.96% year-over-year as of December 2013, from a pace of 2.24% YoY as of June 2013.

We believe that if congress is unable/unwilling to restore the long term unemployment benefits that would otherwise have flowed to between four and five million people through the course of the current year, it is reasonable to assume that a substantial number of such individuals will find themselves needing to take any job at any wage in order to survive. The disinflationary forces affecting wages, as discussed above, would therefore be exacerbated.

Before moving on to the Population Survey portion of the jobs data for 2013, the table below sets forth the jobs creation statistics for the month of December 2013, the only month of the year that saw net erosion in the high wage sectors as a whole:

Table 2

December BLS Snap Analysis				
	November	December	Var	Percent of Private
HIGH WAGE JOBS				
Goods Producing	18,755	18,752	(3)	-3.45%
Wholesale Trade	5,794	5,810	16	18.39%
Transportation and Warehousing	4,537	4,536	(1)	-1.15%
Utilities	556	555	(1)	-1.15%
Information	2,684	2,672	(12)	-13.79%
Financial Activities	7,911	7,915	4	4.60%
Education and Health	20,823	20,823	-	0.00%
Professional and Tech	8,191	8,179	(12)	-13.79%
Management of Companies	2,058	2,058	-	0.00%
Other services	5,499	5,500	1	1.15%
Totals and Weighted Averages	76,808	76,800	(8)	-9.20%
LOW WAGE JOBS				
Retail Trade	15,330	15,385	55	63.22%
Administrative and Waste Services	8,520	8,551	31	35.63%
Leisure and Hospitality	14,282	14,291	9	10.34%
Totals and Weighted Averages	38,132	38,227	95	109.20%
Total	114,940	115,027	87	

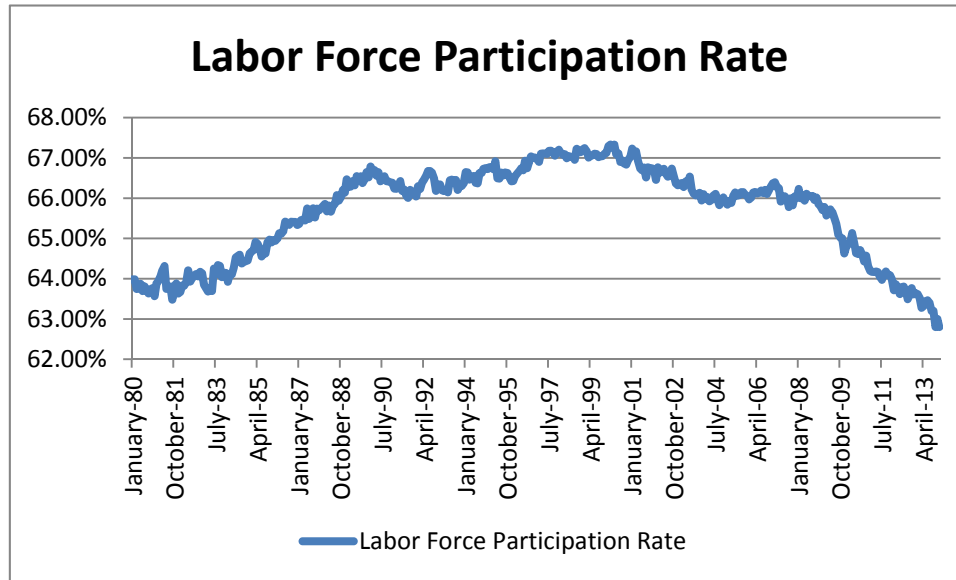
Participation, Unemployment and Demographic Groupings

The Population Survey portion of the jobs statistics yielded some interesting insights during 2013. As noted above, the labor force participation rate continued to decline. While the civilian non-institutional population (those 16 and over and not in schools, the army or prisons, “CNIP”) grew by 2.4 million people during 2013, the number of people in the labor force declined by about 550,000. Not only is the U.S. economy proving incapable of absorbing increases

in its working age population, but it is losing ground...and not because overwhelming prosperity is encouraging people towards lives of leisure.

During 2013, the labor force participation rate fell 8/10ths of 1% to 62.8% from 63.6%. The LFPR is now back to levels not seen since the late 1970's, before the surge of women entering the labor force, as illustrated by the below chart:

Chart A



The U.S. economy employed—full time and part time—a total of 58.6% of the CNIP, a number that was the same percentage as at the end of 2012. Private sector jobs—again, full time and part time—employed 115 million people, 48% of the CNIP. Relative to total population, at the end of 2013 we had 118.5 million full time employees, and 26 million part time employees, supporting a nation of 316 million people.

So who are these working people? Well, they are progressively older than they used to be. One would expect that, if the LFPR were declining so precipitously because more people were retiring “voluntarily” that the employment/population ratio (“EPR”) for the 55 years and older category of employees would be declining as well. Not only has it not done so, but the EPR for workers aged 55 and older was, on average, higher in 2013 than it was during the Great Recession and any other time prior thereto.

Older Americans are hanging on to their jobs for dear life in the post-recession world of diminished or non-existent retirement wealth. While data is not yet sufficient to prove empirically that older workers are proving less rigid when it comes to accepting lower wages in order to keep working (often through taking positions for which they are over-qualified), we suspect this is the case.

On the brighter side, 2013 saw an improvement in U.S. youth unemployment—the EPR for the 16 to 24 year old age group, which was decimated as a result of the Great Recession (falling nearly 10 points), powered back to its highest level since. The 25 to 34 year old bracket was also at post-recession EPR highs, although the recovery was not as dramatic as that of the younger group. But all this came at the expense of the 45 to 54 year old cadre, where the EPR hasn't really budged since the end of the recession. This latter group is in its prime earning years, meaning that it is expensive to employ and therefore vulnerable in an economy that is apparently struggling with downward wage pressures.

Conclusion

Progress was made on the jobs front in 2013, but a great deal of what was said about the U.S. jobs picture throughout the year—and, especially, in the fourth quarter of the year—was somewhat enhanced by what our friend, Peter Tchir, would call a healthy dose of “Hopium.” We formed 2.2 million jobs in the private sector in 2013. We even produced 10% of those jobs in the goods producing sectors, in which the U.S. faces stifling global competition. And, if you ignore December’s numbers (or believe fervently that they will be materially revised upwards) the pace and composition of job creation picked up after Labor Day and even defied the dislocations of a shutdown of our federal government for half a month.

What was said about the U.S. jobs picture in the media, by some market analysts and by the Obama administration was, however, more talk than walk. As much as we feel that extraordinary monetary policy, such as quantitative easing, has passed its “sell by date” and is of little benefit (and perhaps of considerable detriment) and this point, it would nevertheless be a mistake for monetary policy makers to—for example—read into the declining headline unemployment rate anything that would lead the more hawkish among them to believe we are experiencing labor market tightness. The wage data, the complexion of the job formation, and the falling participation rate indicates a labor market awash in oversupply.

With disinflation rampant in the U.S., and throughout the advanced nations, and with the numbers of those looking more aggressively for a job at any wage likely to grow in 2014 as the result of fiscal policy, the report card for 2013 should be viewed as very cautionary. This is still a very fragile, demand-deficient world in which we find ourselves.

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