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July 31, 2014

The Liscio Report

On the Economy

For John Liscio 1949-2000

Waiting for the Jackson Hole research deluge

- ***it's a bit too early to get the withholding picture***
- ***several perspectives on education and employment: recent college grads not doing great…***
- ***…and a degree is imperfect insulation these days***
- ***how recovered is the job market?***

Over a third of the states in our survey do not have accurate reads on their withheld collections in July, and we heard from a disproportionate number of states who have generally been doing well these days. This makes us uncomfortable using our index in our forecast, or suggesting you use it your work. We'll publish a revised index sometime next week when we have more reliable numbers. Right now about 70% of the states in our survey met or exceeded their forecasts collections for July, up from 58% in June, but that could move up to 85%, or down to 56%, when all the states come in.

But comments from our contacts suggest that receipts continue to follow their modest, constructive trend. A Midatlantic contact suggests that although his region is suffering from a cut-back in government spending, in the remainder of the nation the economy is expanding modestly. A contact on the other coast, currently seeing some of the best job growth in the country, notes their current trajectory of 2.7% job growth is only fractionally below what one would expect in a recovery, more like 3.0–3.5%, and that although wage growth is in there, it's weak enough to "keep real average wage growth flat. Inflation + job growth = the withholding we're seeing, pretty much."

it's that time of year

Soon the many research and position papers presented at the Jackson Hole meeting will flood the airways. These papers are a great indicator of what FOMC members are thinking—and yes, we still need that despite recent efforts toward clearer guidance. Once we see what's being presented, we'll know a lot more about what to expect, and will keep you posted, as always.

schooling & employment

Last month, we looked at the employ-

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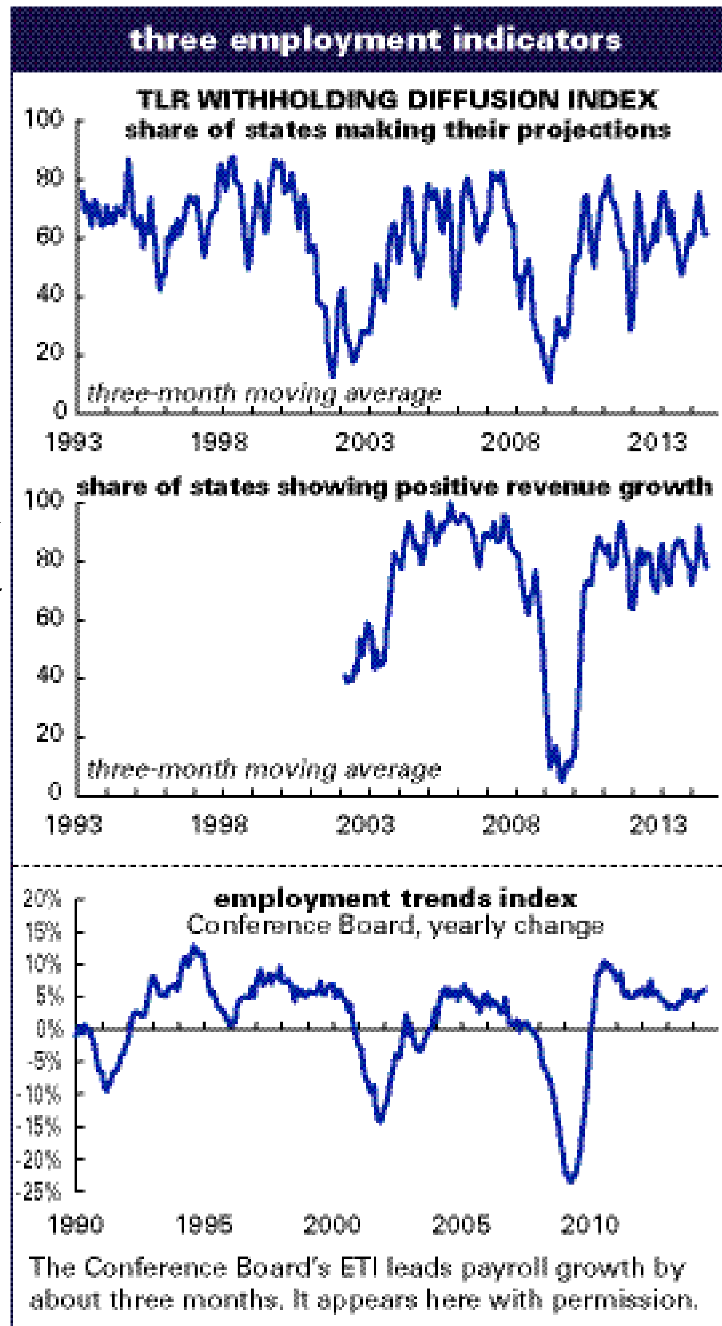
ment/population ratio (EPOP) by age, and found that the aging population accounted only for a fraction of the stickiness of the ratio in this expansion. That got us to wondering about how the EPOP stacks up by educational attainment.



The Conference Board's ETI leads payroll growth by about three months. It appears here with permission.

The results of that exercise are graphed on p. 4. The most striking feature is that the more educated you are, the more likely you are to be working. More than 33 percentage points separate those with bachelor's degrees or more from those without high school diplomas. And, by the way, those with bachelor's degrees are more account for an increasing share of the labor force—37% today, compared with 26% when the stats began in 1992.

But the recession and subsequent recovery have not been kind to any educational category. Between the previous cyclical peak in December 2007 and the broad employment trough in February 2010, the EPOP for those with less than high school fell by 3.4 percentage points; for high school grads, by 4.3 points; for those with some college by 4.9 points; and for college grads, by 3.4 points. (Obviously, given the pattern of EPOPs by education, the a 3.4 point decline is relatively much larger for those without high school diplomas than those with college degrees.) But the recovery hasn't been too kind to any group either. The change between the employment trough and June 2014 was 0.0 for less than high school, and -0.8, -0.4, and -0.3 for the remaining groups in order of attainment. And all groups remain well below their 2000 peaks.

Yes, it helps to go to college, but a degree has been a highly imperfect insulation from job market distress.

college is still worth it, but…

Speaking of degrees, Bart Hobijn and Leila Bengali of the San Francisco Fed recently published, "The Wage Growth Gap

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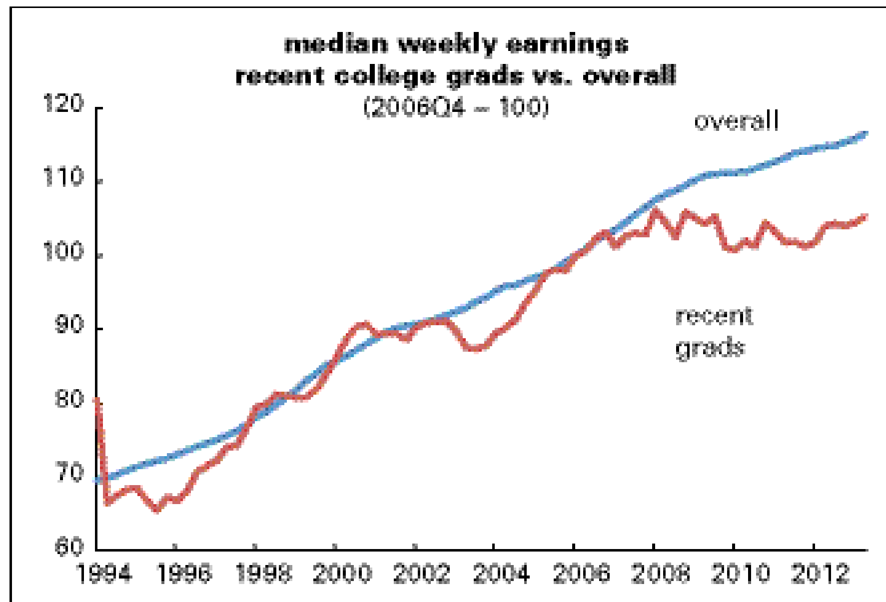
for Recent College Grads," in which they tease median weekly earnings for college graduates working full-time and aged 21 to 25 out of the Current Population Survey data. The looked at recent grads because they represent the "marginal" workers among the high skilled: they do not have the protections that make the wages of older highly skilled workers wages slow to adjust to cyclical turns.



Graphed on p. 3 you will see that the median weekly earnings of recent grads are underperforming overall wage growth. Overall wages have risen 15% between 2007 and 2014, while wages of recent grads were up just 6% over the same period, "essentially flat." The authors point out that wages of recent grads tend to outperform overall wages in booms, and take a long time to recover after recession-driven declines. Nonetheless, they note that the current weakness is more severe and persistent than in earlier periods, which makes sense given the nature of the recoveries that follow financial crises.

In looking for an explanation for this, they find that the sectoral breakout for recent grads is rather flat between 2007 and 2014: The percentage in professional occupations moved from 41% in 2007 to 42% in 2014, management from 20% to 21%, service from 8.4 to 9.2%, so that isn't the issue. They correct for an increase in part-time employment so that isn't it either. The authors conclude that since recent grads face an overall hiring situation that is highly responsive to cyclical pressures their wages are a good indicator of the true price of labor, and the persistent weakness in their wages, while not surprising, suggests "ongoing weakness in the overall economy."

how recovered is the job market?

It's been a few months since we looked at our "radar" graph of some major job market indicators, inspired by James Bullard of the St. Louis Fed. Its point was to judge how well it had recovered along several dimensions. The overall prognosis was it had recovered some, with forward-looking indicators especially strong, but with measures of demand and confidence

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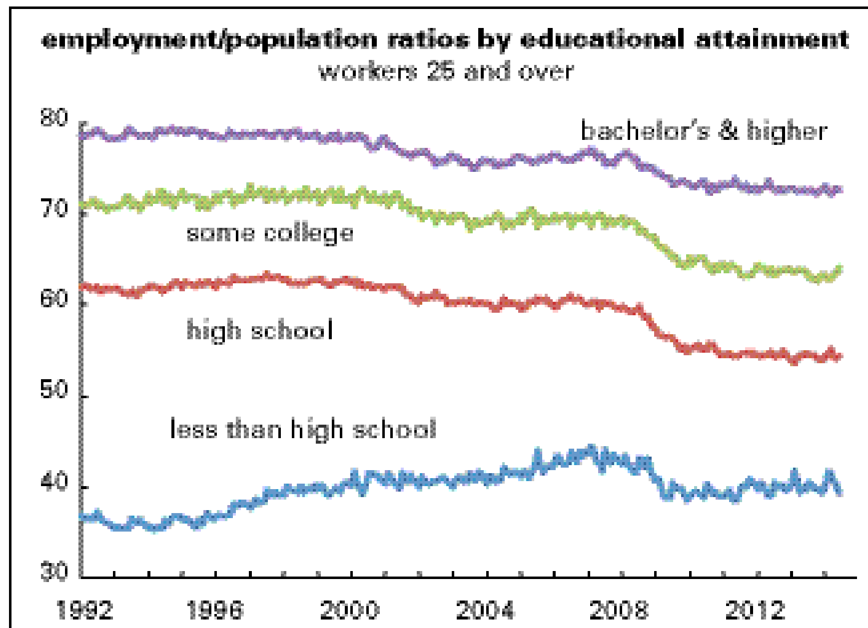
still sagging.

The graph is on p. 5. The "standard" is the business-cycle peak, December 2007. All measures are normalized so that they have a value of 1 for that month. The recession low's values are set to 0. The further away from the center, the further its distance from the recession low. (The value of unemployment measures are inverted, so that a lower unemployment rate is indexed as a higher value.)



We've got 10 indicators compared to Bullard's 13, and made a few substitutions, but kept his classification scheme. Here are their labels and components:

• *Employer activity:* total payroll employment, job openings, and hires (the last two from the JOLTS series).

• *Confidence:* share of respondents to the Conference Board's confidence survey reporting "jobs plentiful," and the quit rate (from JOLTS).

•*Slack:* the headline (U-3) and broad (U-6) unemployment rates, and those working part-time for economic reasons as a percent of total employment.

• *Leading indicators:* initial claims for unemployment insurance and the number of employees at temp firms, both expressed as a percent of total employment.

The JOLTS measures are for May; the others, for June.

The broad picture that emerges is that the measures of employer activity are recovering, with payrolls a hair above their pre-recession levels (a measure that takes no account of population growth), and hires lagging openings (which have recovered smartly in recent months); measures of worker confidence are about two-thirds recovered; measures of slack somewhat more recovered; but the leading indicators are well above their pre-recession peaks. The leading indicators looked good last time too. If there's some sort of structural upward shift in the temp share of total employment, the measure may have lost some of its leading properties, which is too bad, since it's by far the strongest indicator on the graph.

quits and openings

A few more words on two elements of the radar graph—the quit rate and openings. We've long been frustrated by the fact that the JOLTS figures only begin in December 2000. But we've developed a proprietary

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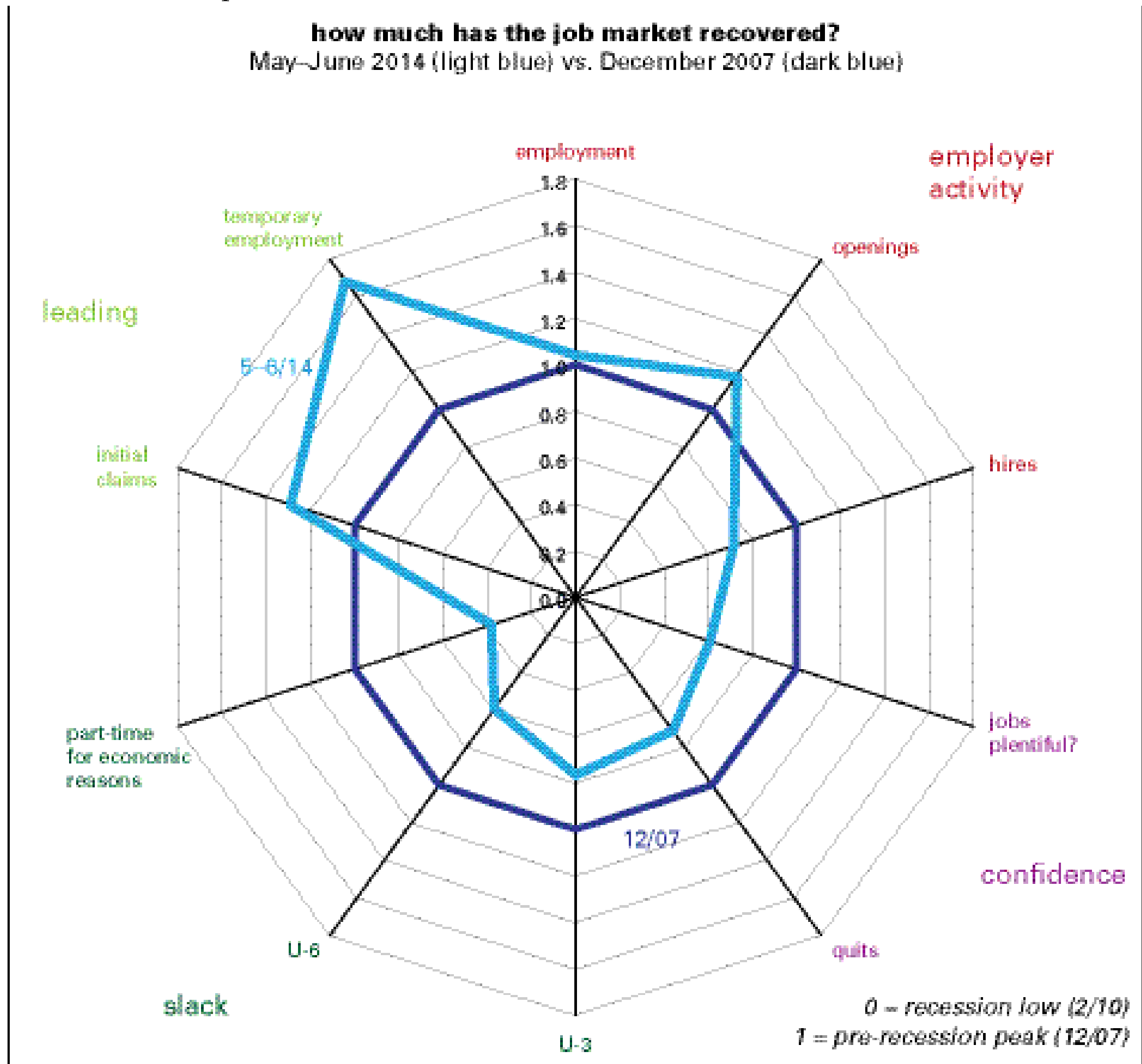
model to estimate the quit rate before JOLTS. For the period when our model and the JOLTS figures overlap—since December 2000—the r^2 for the regression, with the JOLTS quit rate as the dependent variable, is an impressive 0.92.



As the graph on the top of p. 6 shows, the quit rate's May level, 1.8% of total employment, remains comfortably below the series long-term average of 2.1%, not to mention previous cyclical peaks (2.6% in 2000, and 2.9% in 1989—and 2.7% in 1979, when "Take This Job and Shove It" was in the country music charts).

Openings, however, have zoomed in recent months, and are close to their 2007 series highs, as the graph on the bottom of p. 6 shows. Yet the unemployment rate remains stubbornly high relative to openings. If the old relationships still held, the openings rate would be consistent with a 4.5% jobless rate—not the 6.3% we saw in

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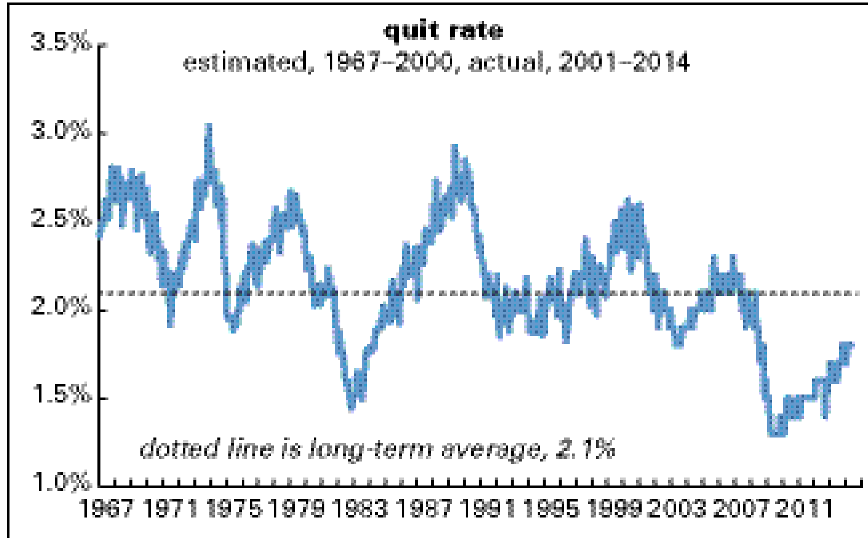
May. Maybe unemployment is about to play some catch-up (and the Conference Board's leading index of employment, graphed on p. 3 suggests some acceleration ahead).



But the mystery remains. We've written a great deal on how job-skill mismatch theories don't pan out in the data—there's no evidence at the sectoral or regional level to support them, nor does the stickiness of the EPOP among the most educated members of the labor force. The only explanation that makes any sense is that employers remain shy about making commitments, but we'll be on the lookout for better explanations.

wage pressures?

One thing that employers seem not to be doing is raising pay to attract workers. Graphed on p. 7 are the annual changes in average hourly earnings for nonsupervisory workers. (The series for all workers only begins in 2006—but its behavior is nearly identical to the nonsupervisory series.)

The nominal series has picked up from its 2012 lows, but, at 2.3% for the year ending in June, remains low by historical standards. It was over 4% in 2006, and also in 2000. And when adjusted for inflation, real wages, as the bottom graph shows, are barely positive. Real wage growth is weaker than it was last fall, as well as the mid-2000s and late 1990s expansions.

Employment growth is pushing up some aggregate wage measures, but there's simply no actual sign of wage pressures at the average hourly level.

Friday's employment numbers

Secondary labor indicators were mixed in

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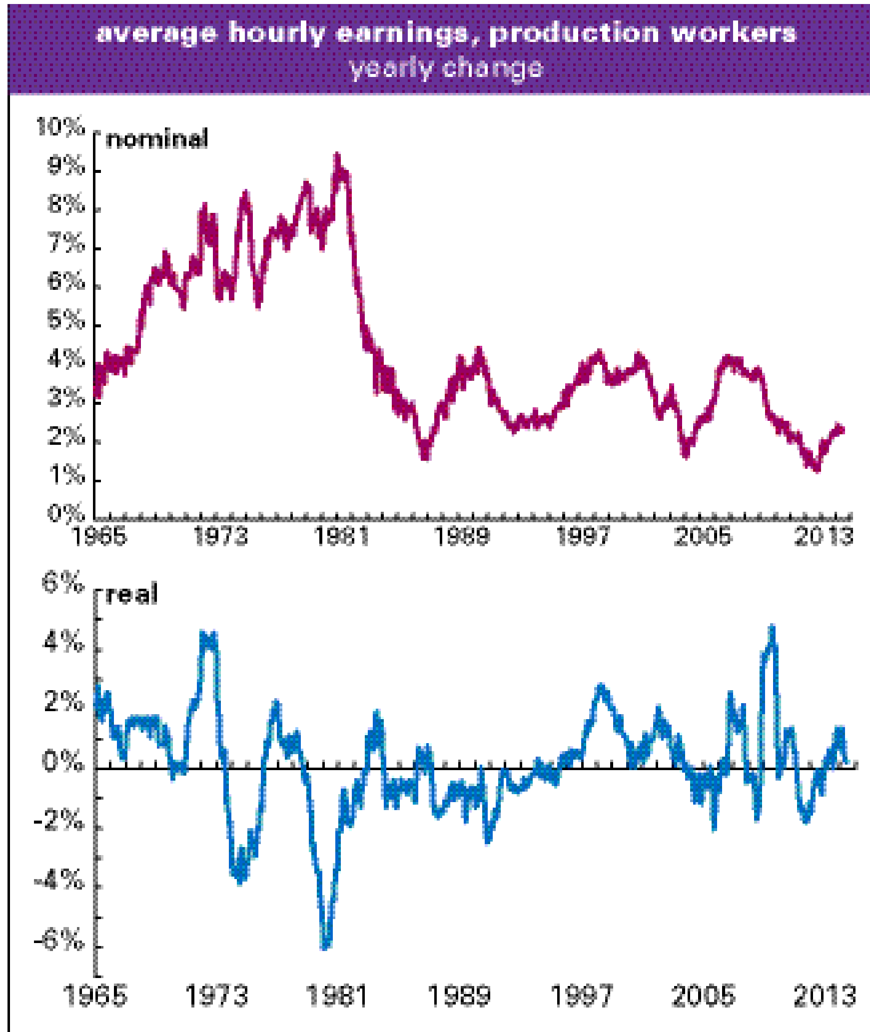
July. The share of workers reporting jobs to be plentiful in the Conference Board's confidence survey rose to 15.9% from June's 14.6%, and those reporting them as hard to get remained unchanged at 30.7%. The gap between plentiful and hard to get is at its best level since spring of 2008, though still weak by historical standards. Help wanted is flat, despite the jump in JOLTS mentioned above, and the American Staffing Association's index for temporary employment is also flat. Temp employment has been doing quite well recently, but as we've been saying for years, there appears to be a structural shift there. We have heard from industry contacts that businesses often bring in temps to get specific jobs done, often letting them go after. As suggested above, temp employment's service as a leading indicator of permanent employment could well be over.



We expect the Bureau of Labor Statistics to announce that private payrolls rose by 215,000 in July, while government employment was unchanged. (There is a huge seasonal factor in the government local education column, over a million, so anything can happen.) The unemployment rate likely held steady at 6.1%, wages moved up 0.2%, the recent average, and the workweek was unchanged.

—Philippa Dunne & Doug Henwood

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