 Volume 23, Number 17

September 4, 2014

The Liscio Report

On the Economy

For John Liscio 1949-2000

Work martyrs who can't buy a house

In August, 73% of the states in our survey met or exceeded their forecasted withheld tax receipts, even with July's 74%, and 75% reported growth over August 2013, down a bit from July's 80%. The average over-the-year percent change slipped to 3.7% from July's 4.4%, and the margin from forecast contracted to 0.2% from July's 1.1%.

- ***withheld tax receipts hold steady with no sign of acceleration***
- ***another look at wage pressures***
- ***afraid to take a vacation?***
- ***bias in the unemployment survey?***
- ***housing report: boom and bust were mostly price, not volume…***
- ***…and the recovery ain't much***

Within those aggregates the over-the-year rate of change in individual states ranged from –13% to +15%, so it was a pretty volatile month. But, as continues to be the case, our state revenue contacts underscore that despite monthly twists, the trend is stable and moderate, and signs of acceleration are lacking.

A Midwestern contact reports withheld receipts are still growing, but at a slower pace, and that "we're still making a lot of cars, but we're not selling them as fast as we thought we would." Things are relatively stable, but he's worried there might be a shoe preparing to drop. Perhaps the best news was from an Eastern contact, who reported modest growth but noted the smaller businesses appeared to be making most of the contribution, there were no big payments from the big firms of the sort that appear to derive from one-off events. And a contact in the Midatlantic region reported improved tourism and construction activity boosting receipts.

We always ask our contacts for signs of wage pressures, and a contact on the West Coast wrote that he had taken a deeper look at one survey that reported employers struggling to find workers in his state, and concluded this is not a worker issue, it's business issue. Business responses reveal positions aren't hard to fill because of a large number of unqualified workers—they're hard to fill because of business decisions like pay and working environment, with an assist from location. On a recent tour of local businesses, our contact

fidarsi é bene; non fidarsi é meglio

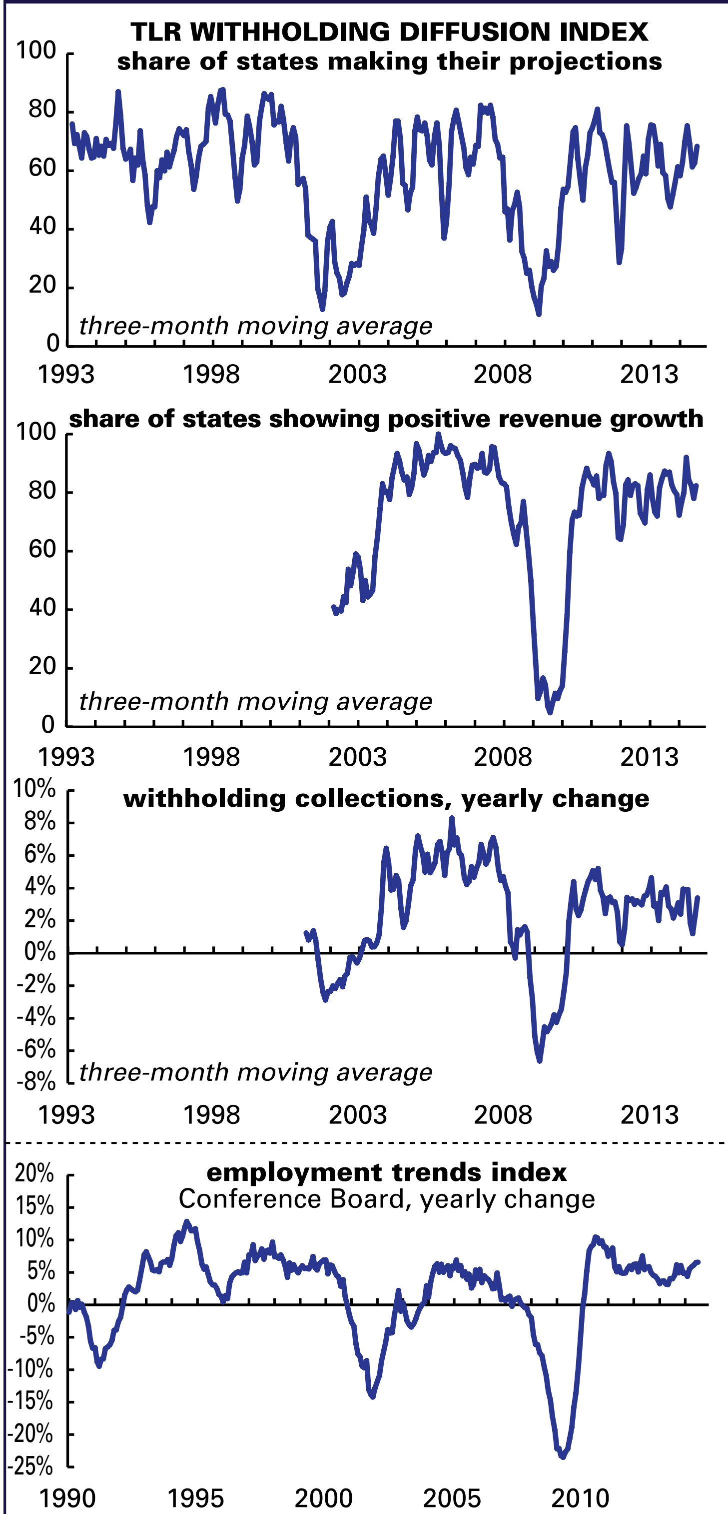
heard from management at both a successful manufacturer and a popular brewery that they couldn't find workers, but when pressed added "workers we like at minimum wage." When asked if they would consider raising compensation to lure in workers, the managers balked.

work martyrs

Which brings us to another aspect of current working environment: "Become irreplaceable," or is that a work martyr?

The U.S. Travel Association recently commissioned a survey on vacations not taken, and found 41% of American workers are not taking all of their 2014 vacation time, and that mangers believe it's harder to take time off the higher up the ladder one gets. (Of course, the Travel Association has a dog in the fight, and anyone who has ever worked in polling knows there are ways to lead the respondents.) But the results largely confirm what many of us are hearing.

four employment indicators



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

Given the documented benefits of vacation time to productivity that's alarming on its own, and another reason to question how tight the labor market is these days. Although we don't need a survey to tell us that workers are stressed out, the survey confirms that one in four workers is "very" to "extremely" stressed at work, and only 25% report they are under little pressure at work.

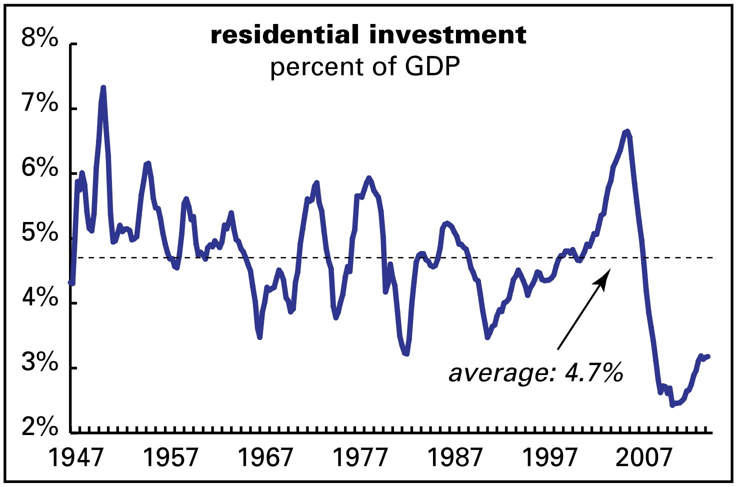
The survey of more than 1,300 employees and senior business leaders around the country found that workers themselves often build the steepest obstacles to taking time off. Citing the "mountain of work" that awaits their return, and the belief (hope?) that no one else can do their jobs, one third of respondents claim they can't afford to take their (paid) time off, and another fifth worry that they would be branded replaceable if they took their allotted vacation time. Almost two-thirds (65%) of the workers in the survey say their productivity improves after vacation, and 91% of the business leaders themselves believe their employees return from vacation "ready to work more effectively." But 19% of the business leaders interviewed never, and 14% rarely (as in once a year), discuss the value of taking time off with their employees. Over a quarter, 28%, have trouble signing off on vacation requests, with one third worrying about the extra burden vacations put on other employees. Fully 61% of managers believe workers who take their full vacation packages each year are less dedicated to their jobs, and 64% say they are less likely to be promoted.

And it's not just the employees, the "work martyr syndrome" seems to move up and down the job ladder. Over one-third of the managers in the survey never get away from work completely, and close to one-third work while on vacation. If you own your own business, that's part of the job, but if you are part of a larger firm, such things can be managed, especially since two-thirds of the workers who have little stress at work report their employers actively encourage them to take time off, and 80% report that full support from their employers would make it easier for them to take vacation time. Instead, 60% report their companies send mixed messages about taking time off. While 84% of workers toiling in firms with "use it or lose it policies" use all their vacation time every year, only 26% of companies employ that policy. Also, other research suggests unused vacation time, estimated in one as something like 400 million days (we cannot confirm this), is replacing many new jobs. If you think that through it means a substantial percentage of the work-force is voluntarily dropping a percentage of their compensation to secure their jobs, which doesn't suggest the kind of confidence that would demand a raise.

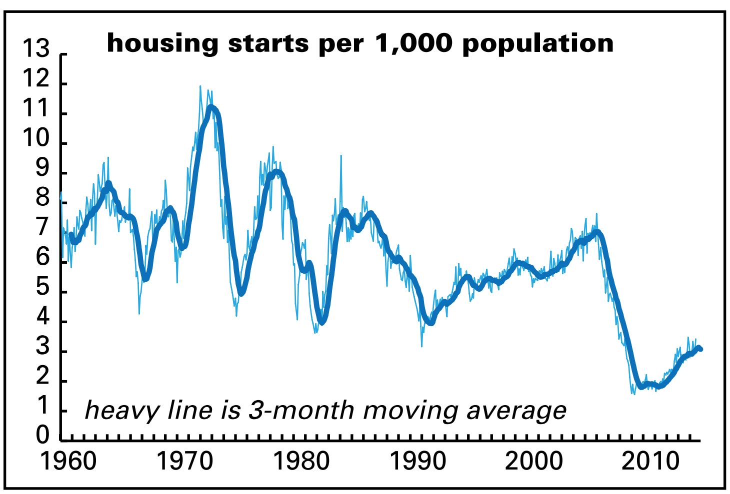
Bias in unemployment survey?

Don't get your hopes up—this is more an oddity than a conclusion. Respondents to the Current Population Survey, AKA the Household Survey (the source of the unemployment rate), are grouped and rotated: each group is interviewed for four consecutive months, put out to pasture for another four, and then interviewed for four final months, with eight active groups at any given time. Researchers at the BLS have long been aware of a rotation bias that is dependent on how long the respondents have been in the survey. In the 1970s Census Bureau researcher Barbara Bailar found a W-shaped pattern, with higher unemployment rates for those in the 1st and 5th rotation groups, i.e. those either just entering the survey or returning after the break, and a slight uptick for the 4th and 8th rotations as well. She noted, as have researchers since, that the bias is coming from the margin between unemployment and out of the labor force, the requirement that one sought work. There is little rotation bias among those who classify themselves as employed.

That W-pattern held until the 1990s when it began to flatten out, developing a downward slope. Currently those in the early rotations are, as they were in the 1970s, more likely to report having looked for a job than those in the later groups, which raises the employment rate for the first rotation above the official U-3 rate, and brings that of the last rotation below the current rate.



Not only has the shape changed, but the magnitude has grown. In a recent paper, Alan Krueger, Alexandre Mas, and Xiaotong Niu found that between 1976 and 1980 the unemployment rate for the first rotation was 7.3%, for the eighth, 6.8%; and between 2009 and 2013, 9.3% for first rotation, and 8.3% for the eighth. In the first half of 2014, when the official unemployment rate was 6.5%, the rate for the first rotation was 7.5%, and 6.1% for the eighth. And it isn't because people are ashamed to admit they are still unemployed in the later rotations: even those experiencing a new or first stretch of unemployment are less likely to report having looked for a job in the late rotations than in the earlier rotations.



Krueger et al. found that an increase in nonresponse since the mid-1990s explains about 45% of the increase in rotation group bias, but the frustrating problem is no one knows, at least yet, why that is, or what caused the rest of the increase.

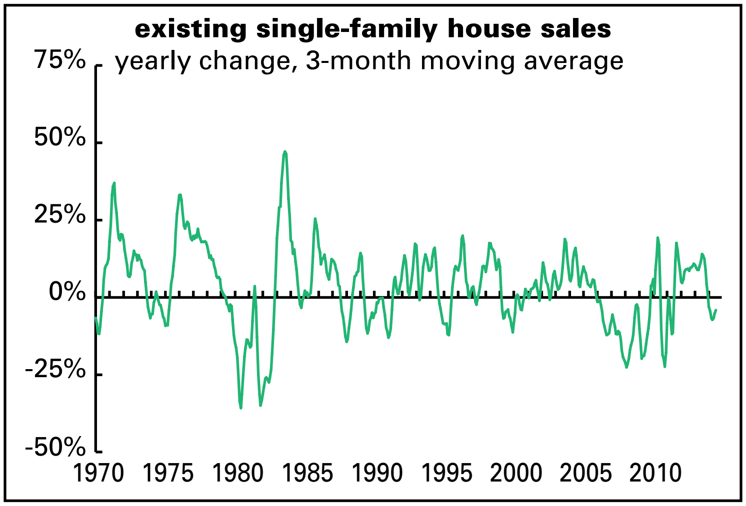
This will take a lot more research, but here are a few related points to consider. Pollsters are complaining that people are less likely to respond to surveys these days, so that may be an overall issue, and we're wondering if some problems might be arising as more and more people are using only cellphones. A contact at the BLS sighed, "The problem is, we don't know which rotation is more accurate," and, indeed, that's information that would be most helpful right now.

the state of housing

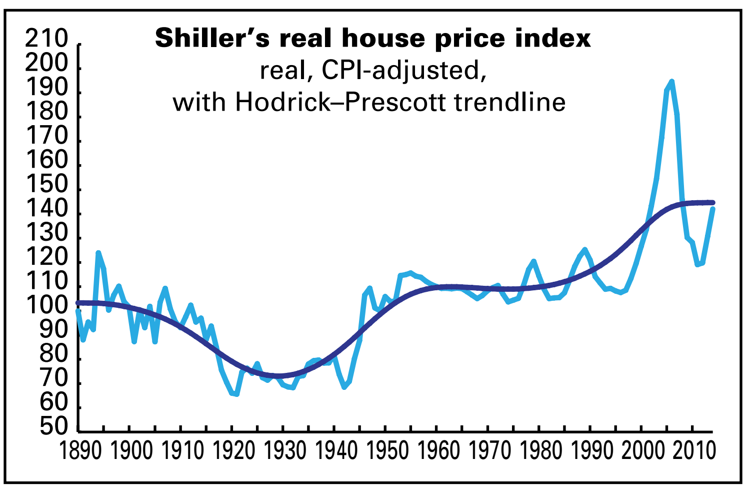
Housing has long been important to the U.S. economy, driving both up- and down-cycles. We've just been through an unusually extreme example of that—the greatest housing boom followed by the greatest bust in modern history.

So how's the housing recovery looking? It's a recovery, but it looks to be losing some steam, and there's still lots of ground to recover. And, an under-appreciated fact: both boom and bust were more about price than volume.

As the graph on the top of p. 4 shows, residential investment as a share of GDP scaled heights unseen since the late 1940s and early 1950s, when we were recovering from 15 years of depression and war. But the ensuing bust was remarkable, with residential investment falling from a peak of 6.7% of GDP in the fourth quarter of 2005 to a low of 2.4% in the third of 2010. That beat the 3.2% low in 1982, the time of nosebleed interest rates. We've seen a modest recovery off the 2010 lows, but it's flattened over the last couple of quarters, and remains well below the long-term average.

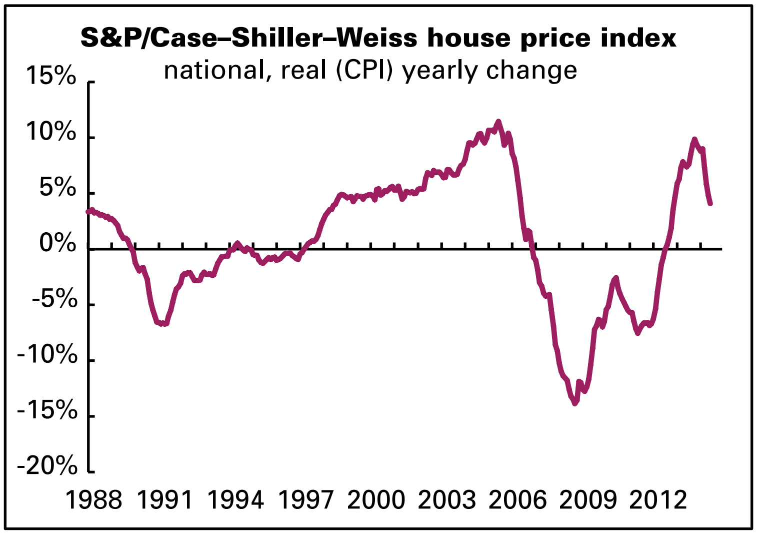


But, as the graph below it shows, housing starts, scaled to population, never even came close to matching earlier peaks. The rise from 1990 to 2005 was long and steady, but 2005's high was no match for 1972's (7.3 vs. 11.2). There too we've seen a modest recovery—but, as with the residential share of GDP, the latest readings are below earlier recession troughs.



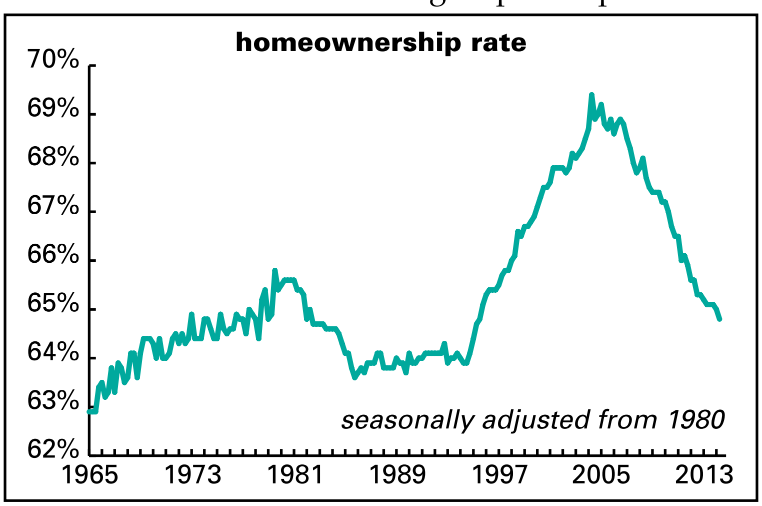
Existing house sales (which have averaged almost six times the level of new house sales), graphed above left, were strong during the boom, but really don't stand out against earlier cycles. Nor does the bust, particularly (and note that the yearly change crossed the zero line just as prices were peaking). After a couple of years of decent growth, mid-2011 through mid-2013, existing house sales have gone negative on a year-to-year basis.

The story really changes when you turn to price, however. As the graph on the bottom of p. 5 shows, Robert Shiller's real long-term index of house prices—which is adjusted for quality—took an unprecedented moonshot between 1995 and 2005, a sharp contrast with the three or four decades of placidity that preceded it. And looking back further, prices sagged in the early 20th century, a weakness followed by rather modest increases in the post-Depression years, so that the 1894 peak was not surpassed until 2000. The 2005 peak was truly without any precedent in U.S. history. Most of that price boom was undone in the bust. We've since recovered about a third of that loss—which is not unimpressive, actually.



But the price recovery, as the graph on above right shows, is decelerating. Price momentum peaked last October, at just under 11% year-to-year; the July reading was just over 6%. It's still a recovery, for sure, but it can't be easily accused of irrational exuberance.

But one indicator that is not recovering is the homeownership rate (see graph, bottom of p. 6). That's continued to fall despite the economic and housing recovery. The second-quarter homeownership rate was 2.8 points below that of 2009Q2, when the recession ended. This decline has hit all age groups, even the over-65s (though they're down less than a percentage point). It's also down for all regions, though least so for the Midwest. That decline comes after a broad increase—by region and demographic group—between 1994 and 2004. But the combined effects of the housing bust and the non-recovery in homeownership rates means that for all demographic groups except the over-65s, and for all regions but the Midwest, homeownership rates are below 1994 levels.



It may be that the rise in homeownership during the boom was all about people who "shouldn't" be owners becoming such briefly, and we're just back to some kind of baseline. But, as with other things we've experienced over the last decade or so, many aspects of American life that had seemed normal—like a dynamic labor market and rising incomes—are no longer so. Maybe the housing recovery will gather steam in the coming months, but if not, it's one of those structural shifts that we may not have gotten our heads around yet.

Friday's numbers

We expect private employers added 200,000 jobs in August, and government 5,000, bringing the headline gain to 205,000. We suspect the unemployment rate fell 0.1 point to 6.1%. Noisy earnings were a weak 0.0% last month, and we expect they were up 0.2% in August, while the workweek likely remained mired at worrisomely weak and un-noisy 34.5 hours. At this time of year seasonal factors and response rates for local government employment can cause some big surprises, something the BLS is working on but has yet to resolve fully.

—Philippa Dunne & Doug Henwood