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The Liscio Report

On the Economy

For John Liscio 1949-2000

Jobs look solid; spiders spin an uneven tale

In December, 79% of the states in our survey met or exceeded their forecasted withheld tax collections, up from November's 46%, and the percentage reporting growth over the year decreased to 90% from November's 97%. The average over-the-year percent change rose to 6.7%, up from November's 2.3%, and the margin from forecast to +2.9% from November -2.1%. As we noted in last month's report, these big swings were both anticipated and driven by the calendar, not the economy.

• withholding solid, with a lift from bonuses

• employment/population ratio: still lagging, and not because we're getting older

• spider graphs of the job market and other indicators

• income, confidence, labor demand weak; leading indicators strong

As we often mention, it is hard to adjust for certain calendar issues, and especially in the two months when the late Thanksgiving pushed receipts that generally would have been tallied in November into December, and there was an extra and significant pay-in day in December in many states. Revenue estimators are taking the two months together, as they generally do at both calendar and fiscal year-ends, and doing so puts our overall survey at 63% for the two months, and the over-the-year growth rate at 4.5%, both generally in-line with the fall months. When the two months are combined, the margin from forecast falls to 0.4%, which is considerably weaker than prior months, but some states have lifted their estimates recently, so this does not portend weakness.

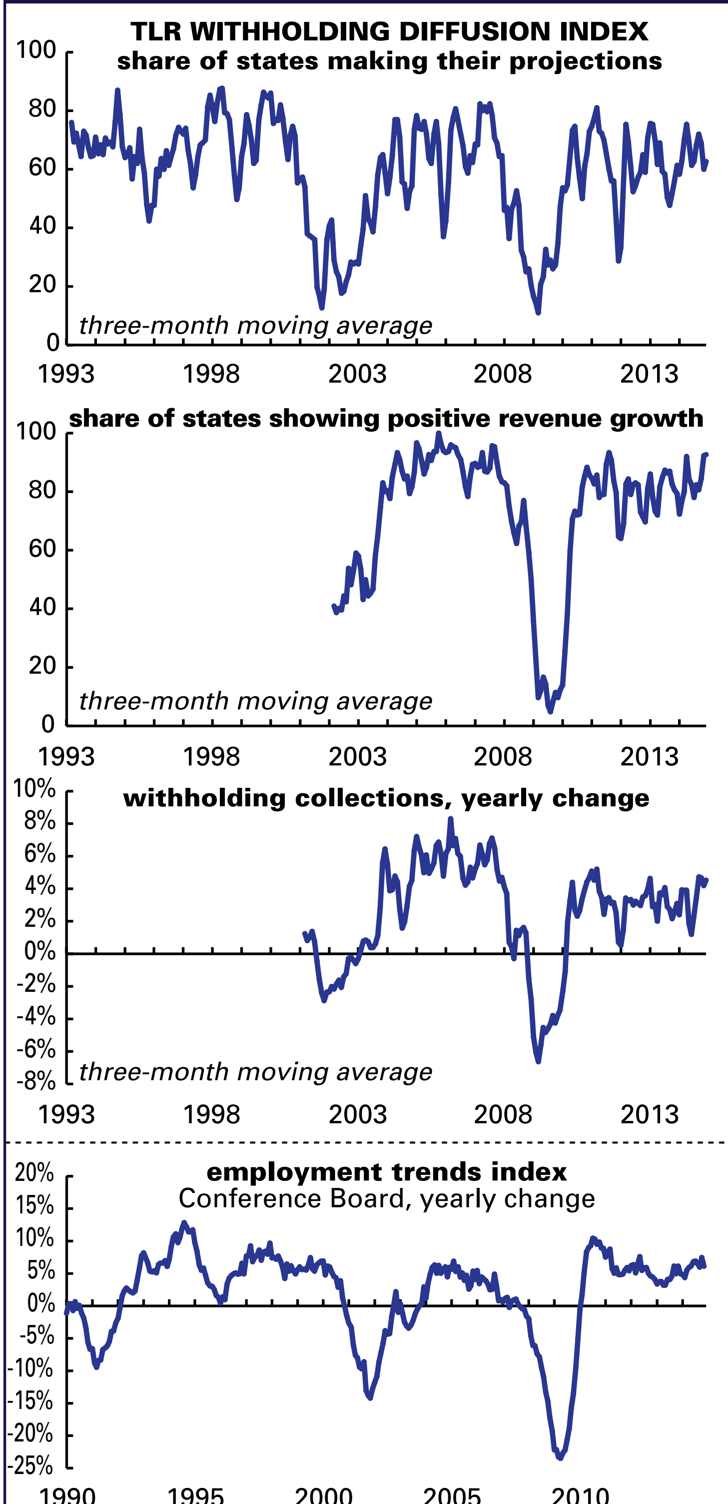
Some of the big states in our survey, states with large investment banking sectors, are able to do a pretty good job breaking out ordinary wages from bonuses, and our contacts in several of these states had evidence that the strong over-the-year gains, in some cases in the double digits, were coming from bonus payments this year, after two years of turbulence driven by tax-related behavior in 2012.

The recovering housing states continue to report solid growth, and such states that don't withhold taxes see evidence that employment is gaining traction as well.

fidarsi é bene; non fidarsi é meglio

The Midwestern manufacturing states have been a bit bumpy, but two-thirds reported strong collections in December. Overall, state-level withholding receipts have been improving steadily for some time, and, bracketing November's calendar related weakness, they seem now to be on a healthy and sustainable trajectory.

four employment indicators



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

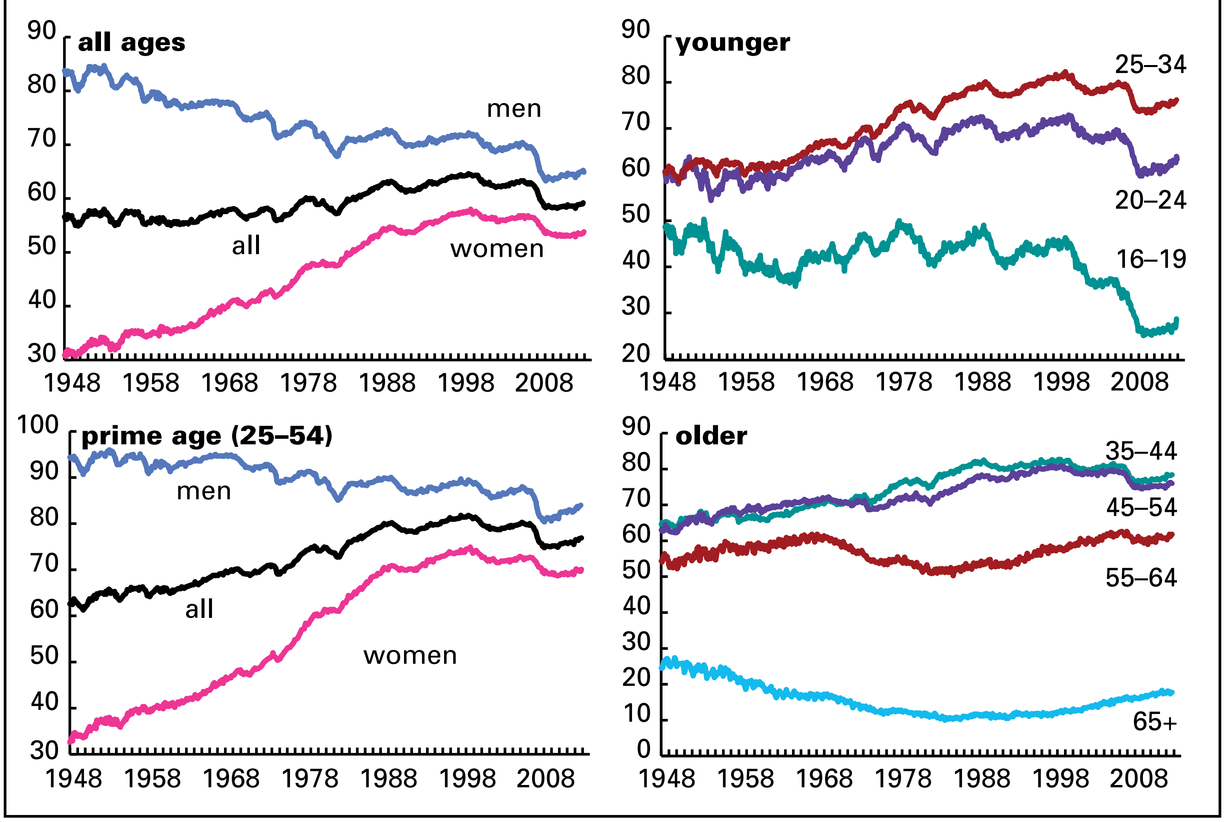
how strong is the U.S. economy?

With the release of its latest minutes, the FOMC is looking more pleased with the state of the U.S. economy, and with good reason: the job market continues to strengthen, manufacturing is in pretty good shape, and GDP growth is hovering around its long-term average. Five—even three—years ago, it was hard to imagine we'd ever get here.

But there are still holes in the expansion. Let's take the measure of the thing, good and not so good.

Let's start with the labor market. Employment is up over 10 million from its post-recession (February 2010) low, and 1.6 million from the 2007 peak. At 5.8%, the unemployment rate is approaching its 1950–2007 average of 5.6%. Wage growth is keeping slightly ahead of inflation. But there are blemishes. Graphed on p. 3 is the employment/population ratio (EPOP) broken down by age, a topic we last visited eight months ago. The overall rate is 0.7 point above its post-recession low—but 0.9 point below its pre-recession high. Some of that is the result of an aging population. But, as we've been pointing out, that explains only about a third of the decline in the EPOP since its all-time peak in 2000. Had we kept the age structure of the population of 15 years ago, the EPOP would have declined by 3.6 points rather than 5.5, meaning that causes unrelated to age—we'd nominate continuing slack in labor demand—account for about two-thirds of the decline. That's brought home by the trajectory of the EPOPs by age group, with all groups under 55 showing a decline since 2000, and only the over-65s showing a gain since 2007. In fact, declines are generally steepest among younger age groups, with the 16–19 year old set in the lead, and the 20–24s not far behind.

employment/population ratios by age, January 1948–November 2014

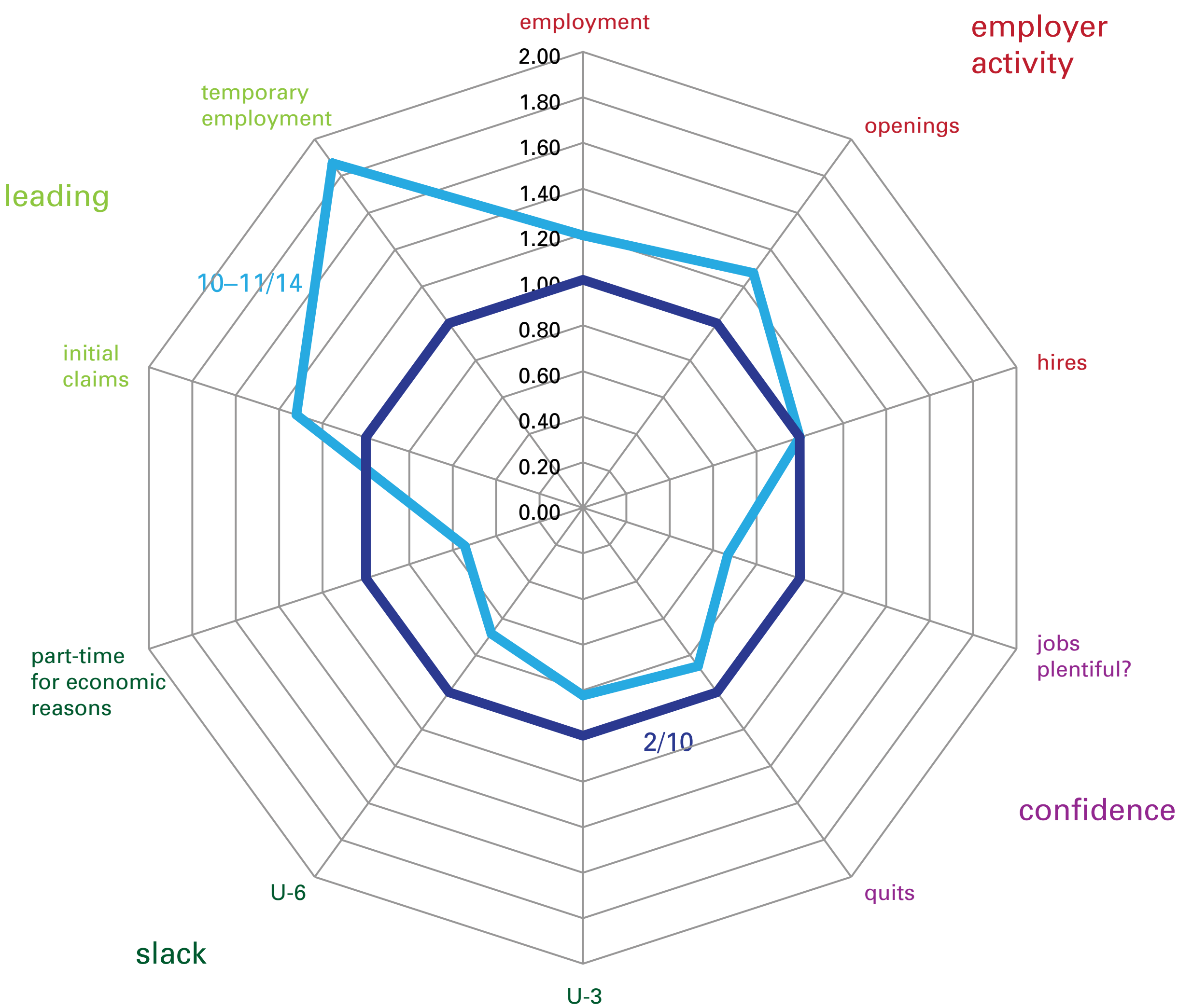


spiders!

A broader look at the recovery in the labor market is provided by the radar (aka spider) graph on p. 4. It shows the percentage (expressed as an integer) of recession losses that have since been regained. (For example, an 0.5 reading means that half the losses have been regained. By the way, credit goes to James Bullard, president of the St. Louis Fed, for the concept of the graph.) The indicators Bullard grouped as "employer behavior"—total employment and openings and hires (from JOLTS) are doing pretty well. Doing less well are measures of confidence (job availability from the Conference Board and the quit rate from JOLTS) and utilization (the official U-3 and broad U-6 unemployment rates and the share working part-time for economic reasons), all of which have yet to regain their recession losses. Strongest of all are the leading indicators—initial claims and temp employment—which inspires hope for further improvement, although temp employment may have lost its leading edge. In any case, anyone concerned that the slack has gone out of the labor market should look at those confidence and utilization figures.

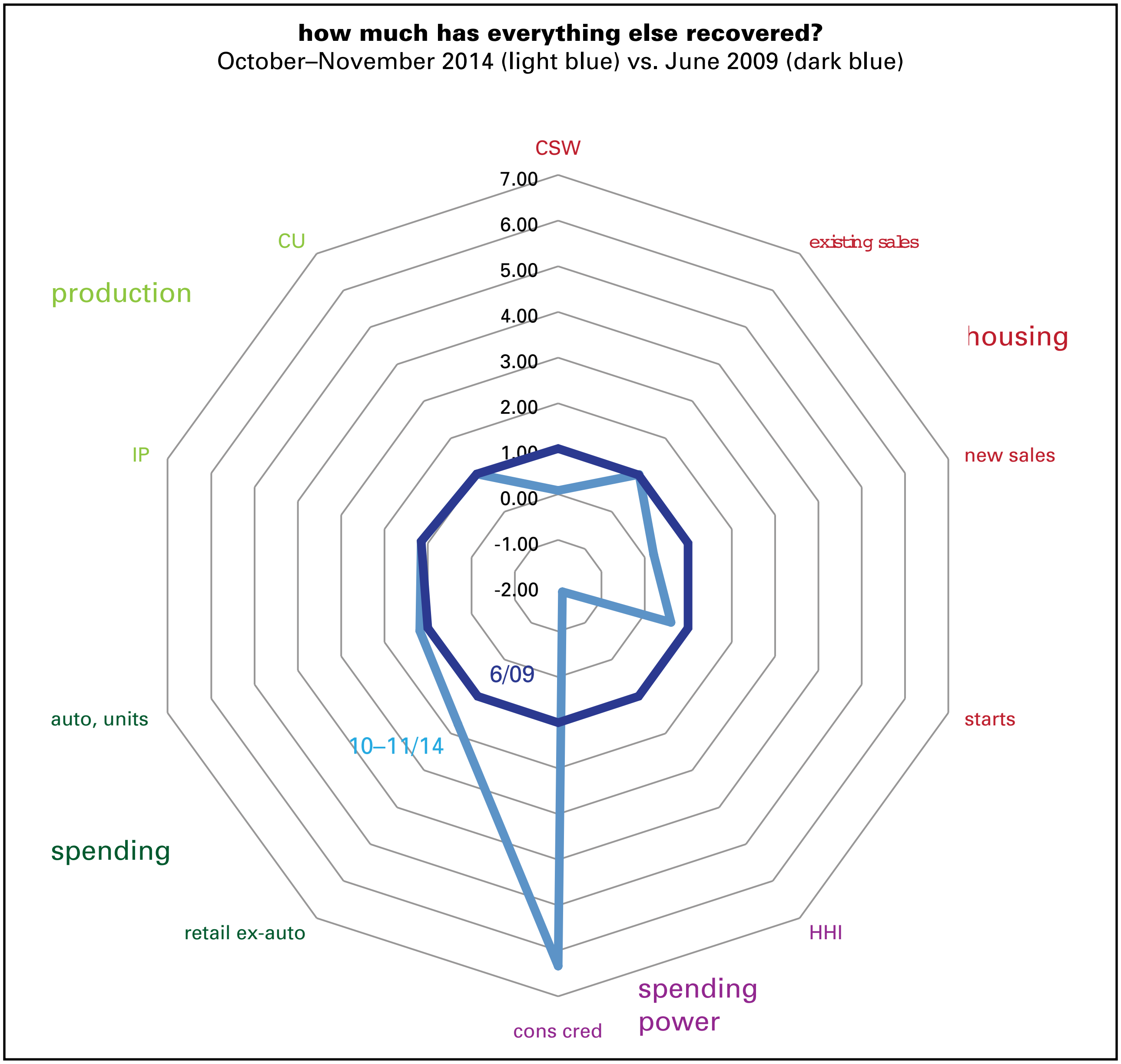
The same technique is applied to some major non-labor-market indicators in the graph on p. 5, grouped into housing, buying power, spending, and production.

how much has the job market recovered?
October–November 2014 (light blue) vs. February 2010 (dark blue)



Despite some recovery, housing is looking mostly torpid. Real prices (measured by the Case–Shiller–Weiss national index, deflated by the CPI) are barely off their recession lows, having just recovered 9% of their losses. Sales of existing houses have just recovered their losses, but sales of new houses are still in the hole, as are starts. Real household income (the Sentier Research monthly measure) has staged no recovery at all; it's 5% below its pre-recession peak. Real consumer credit, though, has more than recovered its modest recession losses (though this is undoubtedly boosted by student debt, not a good thing going forward). Real retail ex-auto has recovered nicely, as have auto unit sales, though less so. Industrial production and capacity utilization have also recovered—but at 79.2%, utilization remains 3 points below the 82 neighborhood that has historically made the FOMC nervous.

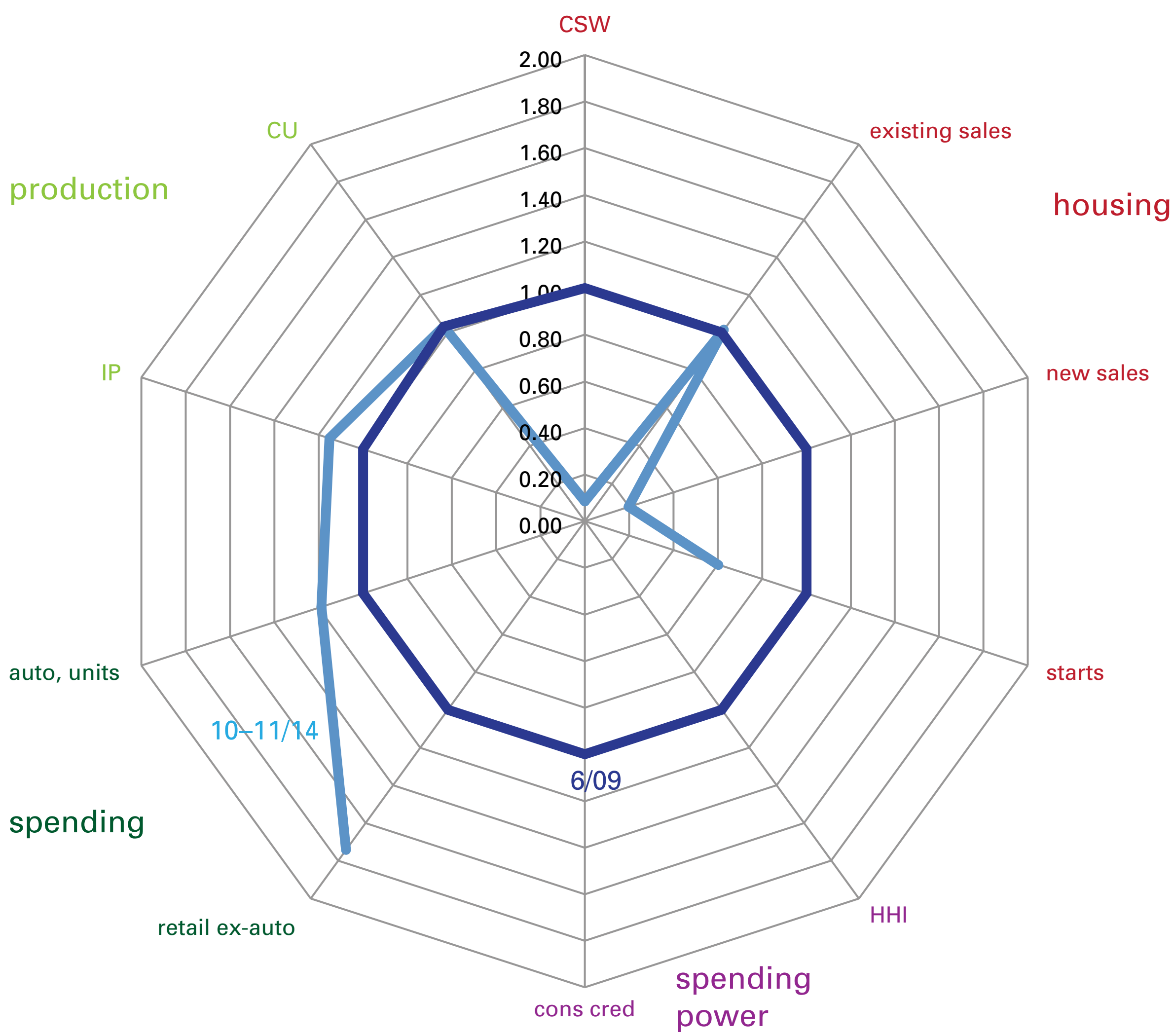
The extremes of the household income (negative) and consumer credit (positive) numbers distort the axes, making the other indicators hard to read. So we redid the graph on p. 6 with the outliers omitted.



Friday's employment numbers

We expect employment growth to move back to its still solid rate of prior months, with an overall gain of 245,000, the private sector contributing 240,000, and the government sector 5,000. Although the Conference Board's Help Wanted Online cember's, and that raises a downside risk, but the concurrent seasonal adjustment factors the BLS introduced for its national survey back in January 2004 would be

how much has everything else recovered (outliers omitted)?
October–November 2014 (light blue) vs. June 2009 (dark blue)



index slipped from November, it remains at a solid level, and the difference between the Conference Board's jobs hard to get and jobs plentiful moved another 1.9% in the right direction (and the gap has been halved over the last year). It is possible that November hiring poached December's, and that raises a downside risk, likely to move some November jobs into December should that be the case.

Heavy rain and flooding probably had a somewhat negative effect in California, which reported more twice their average job gains in November, and but state-level data does not yet use concurrent factors so if California's input to the national level is volatile, it may well be smoothed away in the adjustment process.

Although the unemployment rate depends on labor force participation, job growth has been strong enough to hold it steady even with recent improvement, so we are forecasting no change from November's 5.8%. (November's rounding poses a high bar for a decrease.) The workweek likely retreated to its prior 34.5 hours--maybe that's where California's rains will show.

Average hourly earnings are especially important these days, and that's a noisy series, so we expect earnings to fall back to 0.2%, with a risk of 0.1%.

In addition to turbulence in the rest of the world, upcoming dangers include a number of worrisome outcomes for the energy market, including over-extension of credit to that market by the banking sector (though overall this will be offset by the kick to the non-energy sectors of the economy, about 92% of the total). It's a good thing we have evidence of solid growth in our domestic non-energy economy.

— Philippa Dunne & Doug Henwood