

Economic Pulse

Payrolls | National

July 10, 2018

Employment Report Keeps the Fed on its Tightening Trajectory

Friday's labor market report largely echoed the strength observed in recent months. While the unemployment rate rose by 0.2 percentage points to 4.0%, the trends in average hourly earnings and total employment were on par with those observed year-to-date. Total nonfarm payrolls rose by 213,000, in line with the 2.4 million increase in establishment jobs over the past 12 months. Additionally, revisions to April and May resulted in an increase to the prior two months' estimates of a cumulative 37,000. In the office-using sector, job gains totaled 58,000, modestly above the 51,000 average in the 12 months through May (See *Table 1 and Chart 1*). **There is little in the release to cause the Fed to deviate from its June projections, which call for another two rounds of tightening this year, even without near-term signs of accelerating wage pressures.** Wage gains over the last 12 months are now on par with annual headline inflation, and have risen by 2.7% over the past 12 months. (Recall that the peak in earnings' growth in the current cycle was in January 2018, where year-over-year wage gains reached 2.8%.)

Part of the increase in the unemployment rate can be attributed to the marginal increase in the labor force participation rate from 62.7% to 62.9% from May to June. However, the percentage of the civilian non-institutional population aged 16+ that is engaged in the workforce has remained stubbornly low. The downward move largely has been due to the **declining labor force participation rate of young men—particularly those aged 25-29 years—a trend that began during the last recession. The trend has persisted well into the current recovery** (See *Charts 2 and 3*), despite the opposite behavior from comparably-aged women.

There has been much speculation as to why this cohort has failed to engage in the labor market. Given the duration and strength of the current economic cycle, one thing is clear: those who are not part of the labor force are likely to remain out of the labor force over the long term.

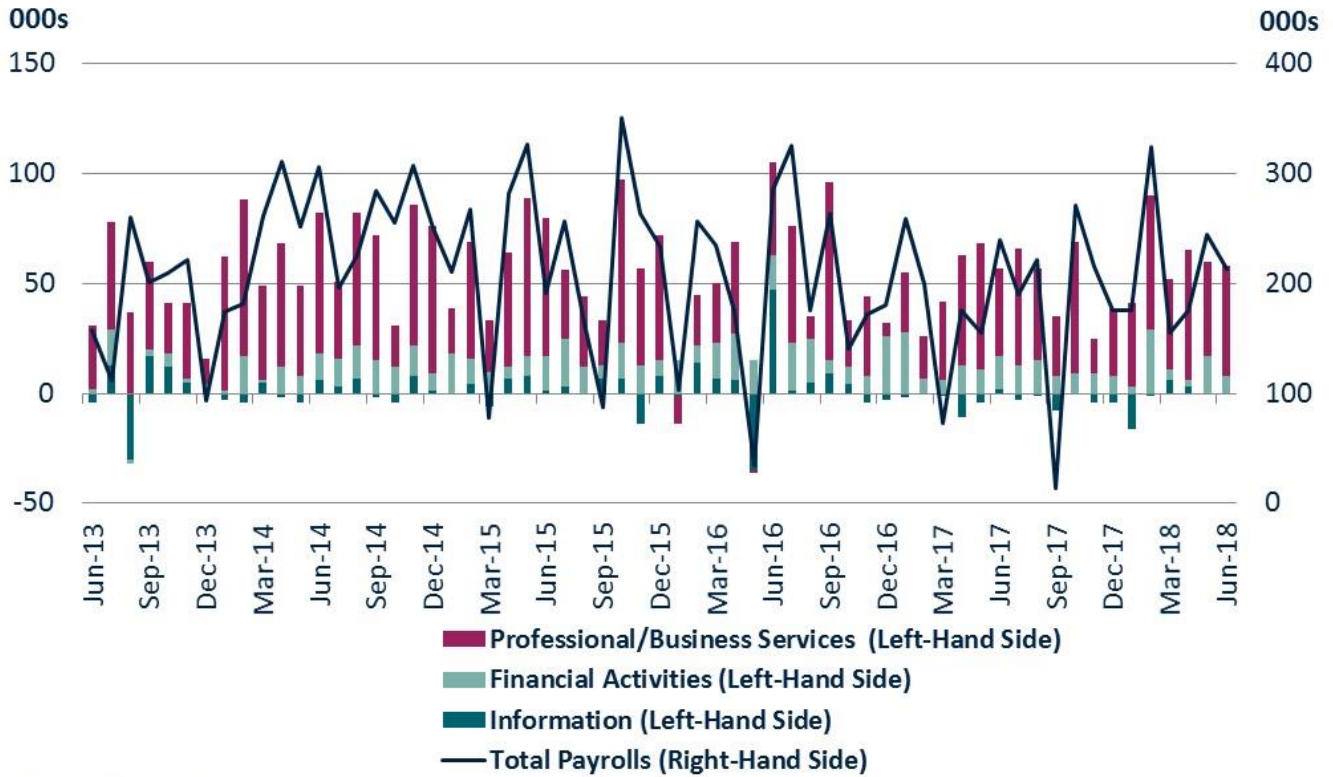
Table 1: Monthly Changes in Office-Using Employment by Sector, Seasonally-Adjusted, 000s

	Annual Avg Through May 2018 (revised)	Avg of Apr and May 2018 (revised)	June 2018 (initial release)
Total Office	51.6	62.5	58.0
Information	-2.2	1.5	0.0
Financial Activities	11.2	10.0	8.0
Finance and Insurance	5.9	7.3	4.8
Commercial Banking*	0.0	1.2	1.7
Real Estate and Rental and Leasing	5.3	2.8	3.8
Rental and Leasing Services*	2.3	1.1	-0.3
Professional/Business Services	42.6	51.0	50.0
Legal Services*	0.0	0.5	4.8
Accounting*	1.2	8.6	0.7
Architectural/Engineering Services*	3.5	5.0	6.8
Computer Systems Design/Related Services*	5.4	6.9	6.0
Temporary Help Services*	8.2	6.5	9.3
Services to Buildings/Dwellings *	4.3	4.9	8.1
<i>Additional:</i>			
Nonresidential Building Construction	1.5	0.3	-0.2
Nonresidential Specialty Trade Contractors	9.4	10.7	2.7

*Listings do not include all sub-sectors, so numbers shown will not sum to total sector figure.

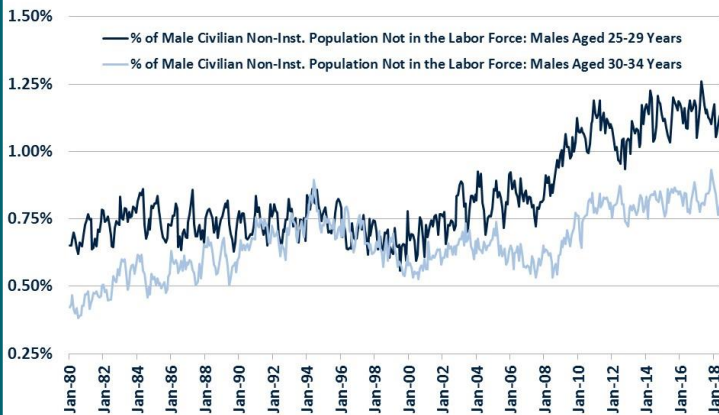
Source: Bureau of Labor Statistics

Chart 1: Office-Using Employment and Total Payrolls, Monthly Changes, June 2013 – June 2018
(Seasonally-Adjusted, 000s)

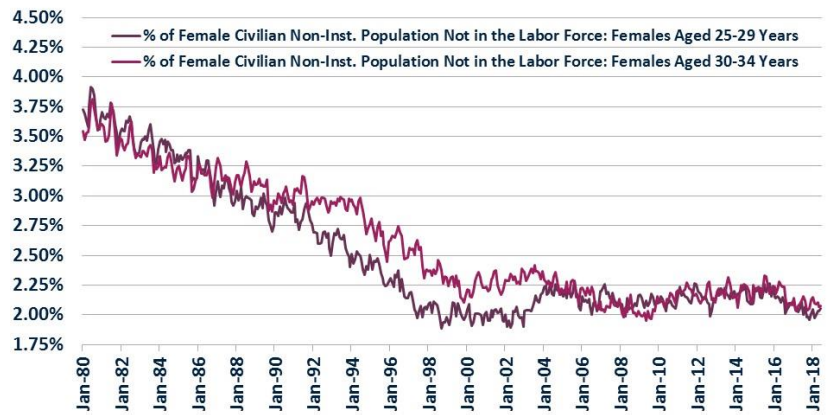


Source: Bureau of Labor Statistics

Charts 2 and 3: Percentage of the Civilian Non-Institutional Population Not in the Labor Force: By Age and Gender



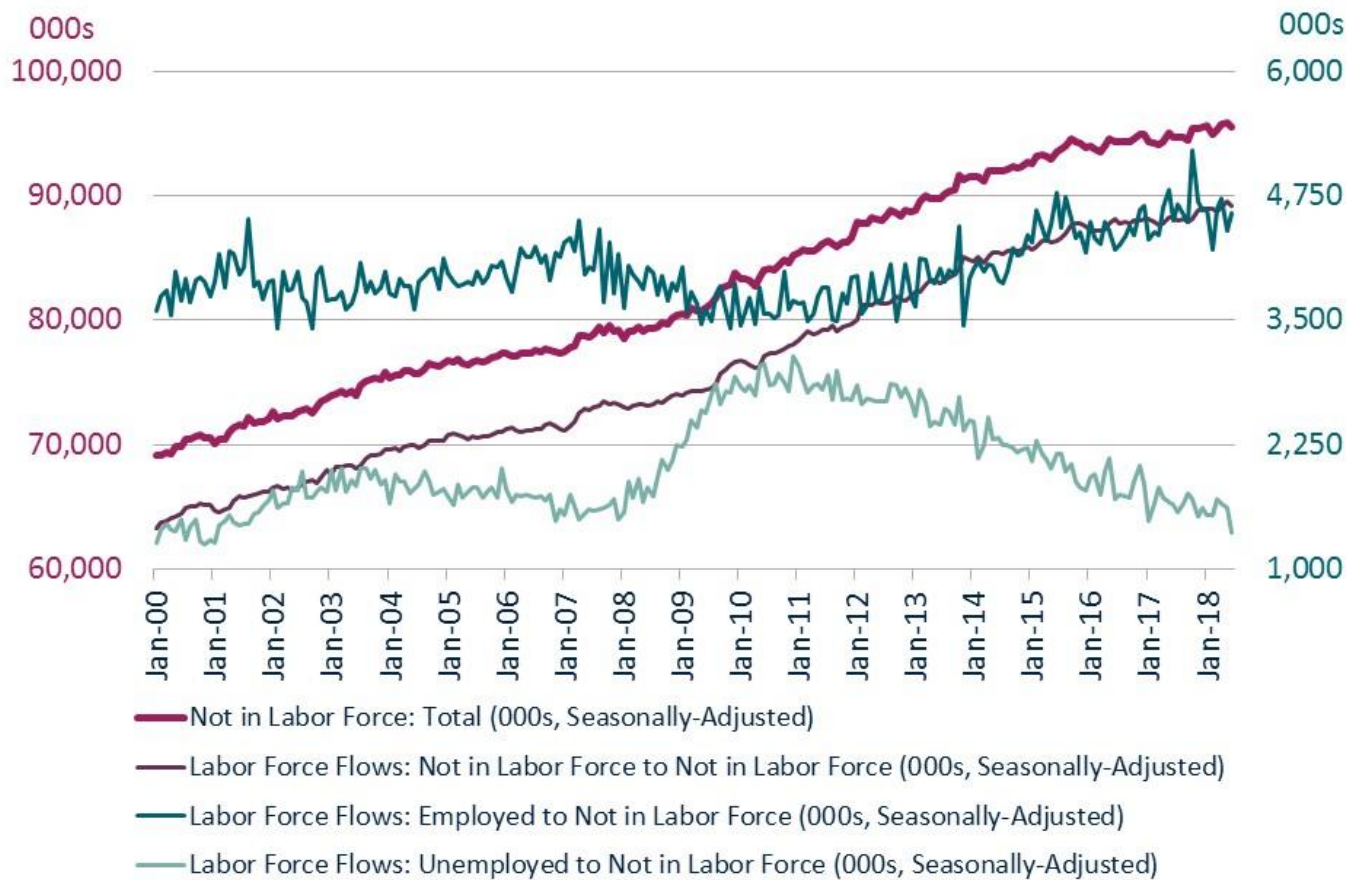
Source: Bureau of Labor Statistics



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The probability of remaining out of the labor force in any month *given that one was out of the labor force the prior month* is sufficiently high, raising the prospect of a workforce that fails to grow in line with historical trends. A small number of employed workers in month t choose to exit the labor force in month $t+1$ due to retirement, family issues or having won the lottery (“Employed to Not in Labor Force”) but this figure has been largely constant. An even smaller number of unemployed (but still participating in the workforce) adults in a given month leave the workforce in the subsequent month (“Unemployed to Not in the Labor Force”) often due to discouragement over their future workforce prospects. However, the growth of those not participating in the labor force is largely due to those who weren’t in the labor force the previous month, as *Chart 4* demonstrates.

Chart 4: Level of Civilian Non-Institutional Population Not in the Labor Force & Flows by Prior Month's Labor Force Status



Source: Bureau of Labor Statistics

Given the persistent rise in the percentage of the young male population opting out of the labor force entirely, will the economy continue to be plagued by a low labor force participation rate? Not necessarily. The good news is that young men grow older, and historically, as they age, their labor force participation rates increase. Table 2 shows the labor force participation rate for men aged 25-29 in year x , and their labor force participation rate 5 years later (year $x+5$) when these same men fall into the 30-34 year-old age bracket.

Table 2: Male Civilian Non-Institutional Population and Male Not in the Labor Force Population: By Age (000s, Annual Average)

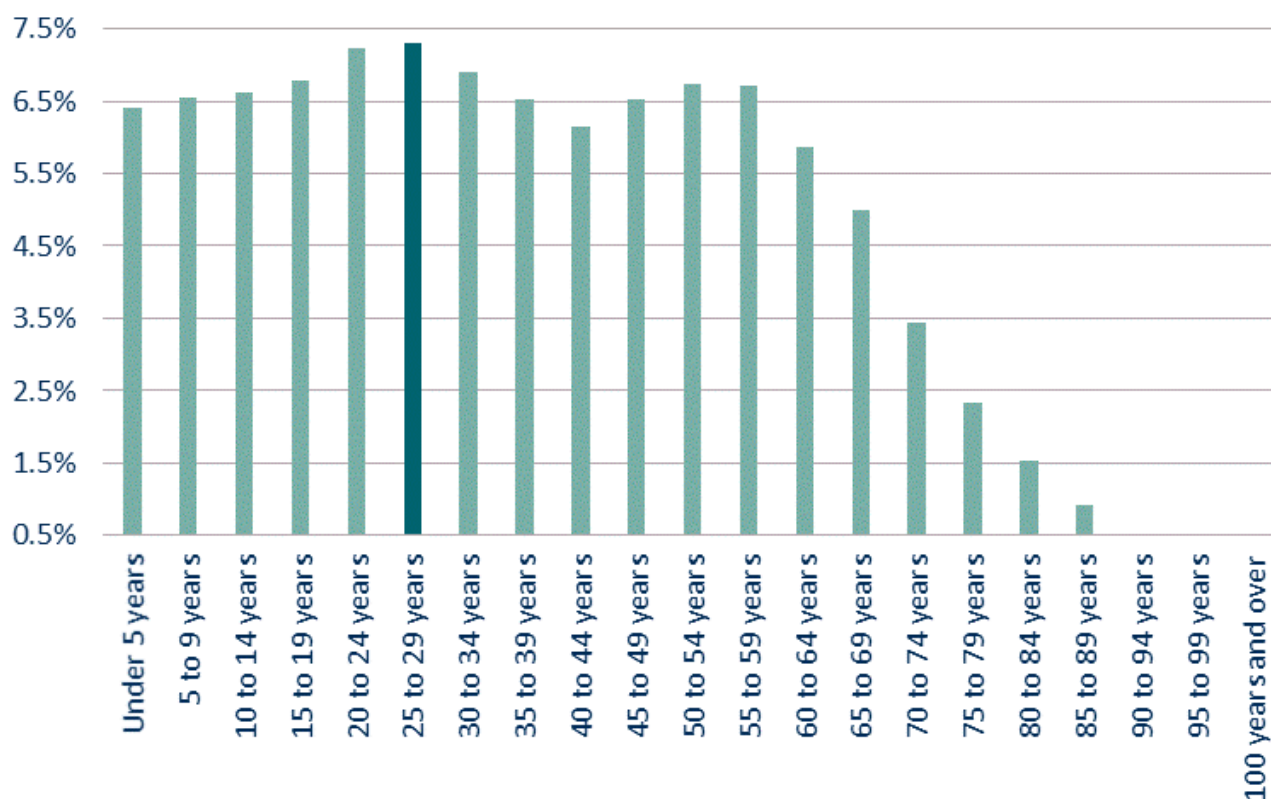
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
Males Aged 25-29*	9,744	10,052	10,336	10,451	10,492	10,604	10,666	10,216	10,341
Not in Labor Force	901	948	895	1,020	1,164	1,234	1,302	1,188	1,279
In Labor Force	9,104	9,441	9,431	9,328	9,370	9,364	9,028	9,062	9,104
% in Labor Force	90.6%	91.3%	90.2%	88.9%	88.4%	87.8%	88.4%	87.6%	90.6%
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Males Aged 30-34*	9,861	10,045	9,989	10,170	10,298	10,364	10,503	10,551	n/a
Not in Labor Force	880	940	934	944	988	1,006	1,012	1,032	n/a
In Labor Force	9,105	9,055	9,226	9,310	9,358	9,491	9,519	9,105	n/a
% in Labor Force	90.6%	90.6%	90.7%	90.4%	90.3%	90.4%	90.2%	90.6%	n/a

*Civilian non-institutional population, rather than general population.

Source: Bureau of Labor Statistics

While the greatest percentage of the male population is currently aged 25-29 (*Chart 5*), this will no longer be the case in future years according to the Census Bureau’s most recent population estimates (*Table 3*). Young men will become a smaller component of the potential labor force beyond 2020 (although these forecasts are dependent on many variables, including immigration trends). Nonetheless, even if future labor force participation rates remain at today’s (low) levels, the decline in the male 25-29 year-old cohort in future years means that over time, the aggregate labor force participation rate will rise. In the short term, however, barring a return of young men from the labor market sidelines, expect the labor force participation rate to remain below historical averages.

Chart 5: Age Distribution of the Male Population, 2016 (2017 Population Estimates)



Source: U.S. Census

Table 3: Age Distribution of the Male Population, Future Years (2017 Population Estimates)

Year	2016	2020	2025	2030	2035
Males Aged 25-29	11,631	12,029	11,627	11,635	11,793
% of Male Population	7.3%	7.3%	6.9%	6.6%	6.6%
% of Male Population Aged 25-74	12.0%	11.9%	11.2%	11.0%	10.9%

Source: U.S. Census



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