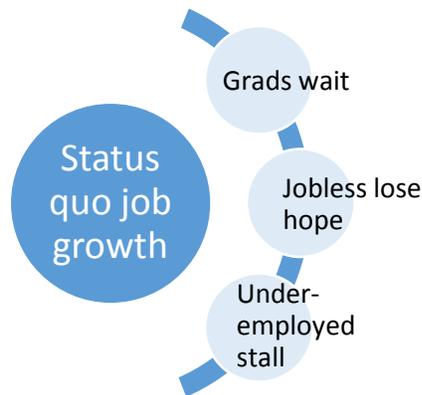


June 5, 2015 Labor Review: Context for May Jobs Report

This Friday morning's employment numbers follow a first-quarter 2015 GDP growth revision to a **negative 0.7% rate**, and warnings that the second quarter may not rebound substantially indicate that 2015's GDP will hardly rise by the 3.4% [projected by the White House](#) in January. The notable 280,000 nonfarm payroll jobs added, in addition to the topline unemployment rate remaining well below recession highs, may have some pointing to this as a sign of continued economic recovery. However, until we take steps to fill the "[jobs gap](#)," new workers, discouraged and [underemployed workers](#) bear the greatest cost.

GIVEN ...



It will take [at least 7 months](#) for all 1.5 million new university grads this year to land a job

The unemployment rate is little changed, but [labor force participation stalls](#) as long-term jobless stop looking; some join the less-stable sharing economy

Even as CBO [adjusted its labor expectations](#), full-time employment still has [yet to recover](#) to its pre-recession peak, leaving some workers in part-time dead-end jobs

- *New graduates are greeted with a rocky start*
 - “With grads facing so many low-paying job prospects, the university is [offering housing tips...](#)”
 - The graduating class of 2015 is now the [most indebted class ever](#) with an average debt load per borrower of \$35,000.
 - The young and the jobless: Millennials make up [40% of the unemployed](#).
- *Workforce continues to shrink relative to the population*
 - Although the aging population is a contributing factor to the decline in the labor force participation rate, prime working-age men’s participation has been steadily declining for decades; economist Scott Winship estimates that the growth of disability rolls accounts for [35% of the decline](#).
 - In an age where measuring the broader U.S. workforce is increasingly tricky, the Government Accountability Office released a report, finding that “contingent workers,” or those who are not full-time and permanent employees, [comprised 40.4% of the workforce](#) in 2010, up from 35.3% in 2006.
- *Workers turn to fractional employment in the “[sharing economy](#)” for employment opportunities*
 - The underemployment rate [remains elevated](#) for both men and women in the current recovery.
 - The [quality of jobs available](#) to the underemployed has declined over the past two decades.

WHEN ...



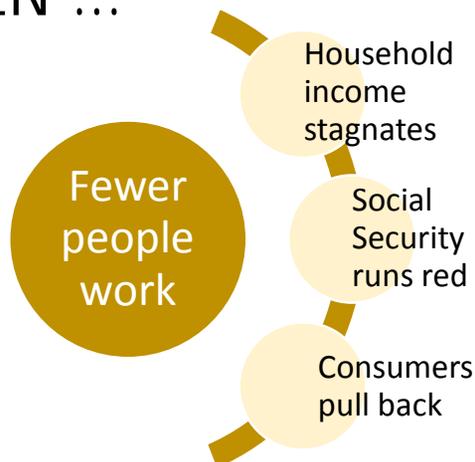
[Output fell by 1.6%](#) in the first quarter of 2015, and labor productivity remained muted in 2013 and 2014

U.S. gross domestic product growth [forecasts revised downward](#), weighing on Fed policy decisions

A [potential jump in health care premiums](#) means employers’ increased benefit costs could displace raises

- *Productivity remains muted*
 - First quarter of 2015 marked the second consecutive quarter that nonfarm business sector productivity has fallen, suggesting a productivity recession in the wake of [already tepid productivity growth](#) over the course of the recovery.
 - Nonfarm business sector [productivity fell 3.1%](#) in the first quarter of 2015, following a 2.1% fall in final quarter, 2014.
- *GDP growth remains slow*
 - Real GDP's first quarter fall is [not likely to be followed by a strong bounce](#) that returns the U.S. economy to a confident growth trajectory.
 - Expectations of potential GDP are falling – with ominous implications for [long-term growth prospects](#).
 - With continued low interest rates and [waning 2015 stock market returns](#), individuals planning for retirement raise their saving targets and spend less, providing less immediate bounce to a consumer-driven economy.
- *Health regulations alter incentives to work and labor compensation*
 - In this week's Joint Economic Committee hearing on "[Examining the Employment Effects of the Affordable Care Act](#)," witness and small business owner Dr. Joseph Sergio described the fact that his workers were paying higher out of pocket for an inferior plan as a result of the new requirements in the Affordable Care Act.
 - Economist Dr. Casey Mulligan points out that, on net, the Affordable Care Act's insurance provisions would [reduce weekly employment by 3%](#) and reduce GDP and labor income by 2%, respectively.
 - In most states, insurers with large market shares have proposed [rate increases exceeding 20%](#) for next year.

WHEN ...



Whether measured by household or family unit, annual income [remains below pre-recession levels](#)

Tepid job growth and falling workforce participation means [lower-than-expected payroll tax contributions](#) into the trust funds

Smaller paychecks and more free time focus family budgets on essentials; [they spend less](#), eat-in frequently, and become DIY experts

- Household income growth remains restrained
 - [Real median household income](#), at \$51,939 in 2013, remains \$4,500 below its 2007 peak; real median family income, at \$63,815 in 2013, is more than \$5,000 below its 2007 peak.
 - The number of work [hours per household has been falling](#), in part weighing down income growth.
- Social Security Trust Fund wanes
 - Social Security Trust Fund is expected to [run dry in 2033](#), less than 20 years away, sooner than previously expected.
 - In just a matter of 2 years, the annual Social Security surplus was [cut by more than 40%](#) from 2009 to 2011 as labor force participation also fell.
 - Health insurance incentives introduced by the ACA effectively make likelier that workers will opt for earlier retirements and for many individuals to detach from the labor force as the [sacrifice of work is relatively more expensive](#) under the ACA's insurance provisions; these trends may place additional strain on payroll tax revenues.
- Personal consumption expenditures remained flat from March to April
 - In a recent Gallup survey, just over half of consumers reported spending more on groceries, less on gasoline, and [reduced spending](#) on consumer electronics and leisure activities.
 - Despite having larger access to credit, consumer [spending rose only 1.8%](#) in the first quarter of 2015.

LABOR TRENDS FOR WORKERS, JOB SEEKERS AND FAMILIES

- *Long-term unemployment remains elevated*
 - It takes 82 days for the median jobless worker to find a job or leave the workforce. The average is worse—216 days.
 - As a percent of the jobless, the long-term unemployed (27 weeks or more) make up nearly 1/3rd at 29.0%.
- *Full-time employment has yet to recover to its pre-recession level*
 - Full-time jobs remain 1.1 million below the previous pre-recession peak.
 - Part-time jobs jumped during the recession, and have remained elevated throughout the recovery.

- *Job growth does not keep up with population growth*
 - Over the course of the recovery, the population age 16 and older has grown 6.3%; by comparison, persons in the labor force have increased a mere 1.8%.
 - The labor force age 16-64 has ticked up 0.5% during the recovery despite population growth of 3.2% for this age group over the same period. By comparison, the subset of the labor force age 25-54 has fallen by 2.7% while the population age 25-54 shrunk by 0.4%.
- *Labor force participation continues its slow decline, even among prime-age workers*
 - The labor force participation rate continues to fall over the course of the recovery, down 3.1 percentage points.
 - The rate has also remained subdued for 16-64 year olds, down 2.4 percentage points over the recovery. For 25-54 year olds, the rate is down 2.1 percentage points.

May Employment Situation	Previous April Data	Revised April Data	May Forecast	May Data
<i>Establishment Survey</i>				
Nonfarm Payrolls Change	223,000	221,000	220,000	280,000
Private Payrolls Change	213,000	206,000	215,000	262,000
Average hourly earnings (% chg.)	0.1%	0.1%	0.2%	0.3%
<i>Household Survey</i>				
Unemployment Rate	5.4%	5.4%	5.4%	5.5%
Labor Force Participation Rate (%)	62.8%	62.8%	62.7%	62.9%
16-64 years old	72.8%	72.8%		72.9%
25-54 years old	81.0%	81.0%		81.0%
Employment to Population Ratio (%)	59.3%	59.3%		59.4%
Labor Force Change	166,000	166,000		397,000
Population Growth (16+ years old)	186,000	186,000		189,000
Productivity	-3.1%			

Source: BLS, BEA, Haver Analytics, Bloomberg Econoday