U.S. Jobs Growth Still Improving

***e*Research Corporation** is pleased to provide an article by Scott Grannis for his Blog, "Calafia Beach Pundit".

In this article, Mr. Grannis looks at the trends in the public and private jobs sector, and comes away encouraged.

The article is reproduced below, beginning on the next page, or you can go to this specific Blog at the following link: **Despite a weak March, jobs growth still improving**

You can also visit Scott Grannis' Home Page for his Blog at the link below: http://scottgrannis.blogspot.ca/

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Bob Weir, CFA: Director of Research

Friday, April 6, 2018

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The March private sector employment report was a big miss on the downside (102K vs. 188K), but the trend rate of growth in private sector jobs continues to improve. The monthly jobs numbers are notoriously volatile and subject to significant revision after the fact, so one month's number cannot possibly be significant.

For years I have focused on the 6- and 12-month rate of growth in private sector jobs and, by those measures, conditions in the labor market continue to improve, after hitting a low last September.

Here are the relevant charts:

Chart #1

Charts #1 shows the nominal monthly change in private sector jobs.

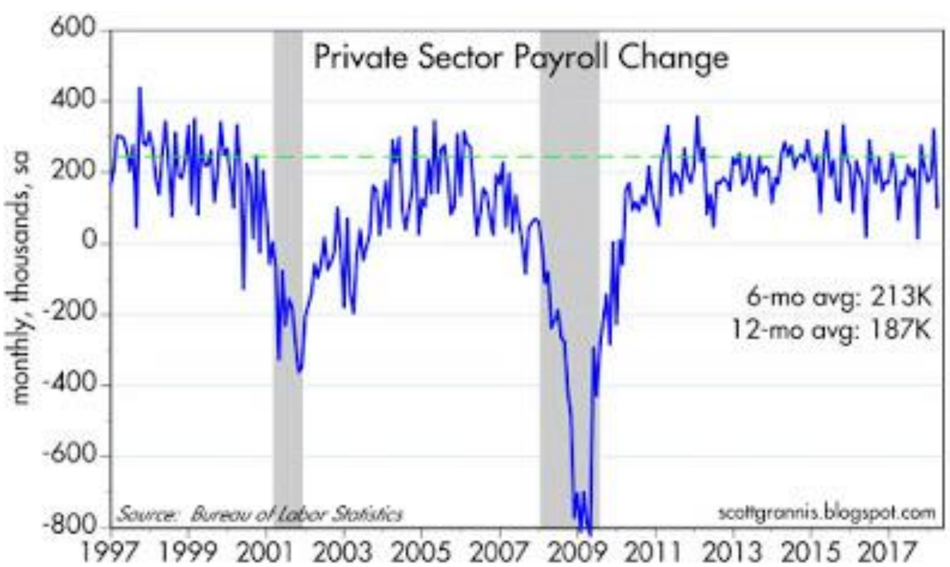

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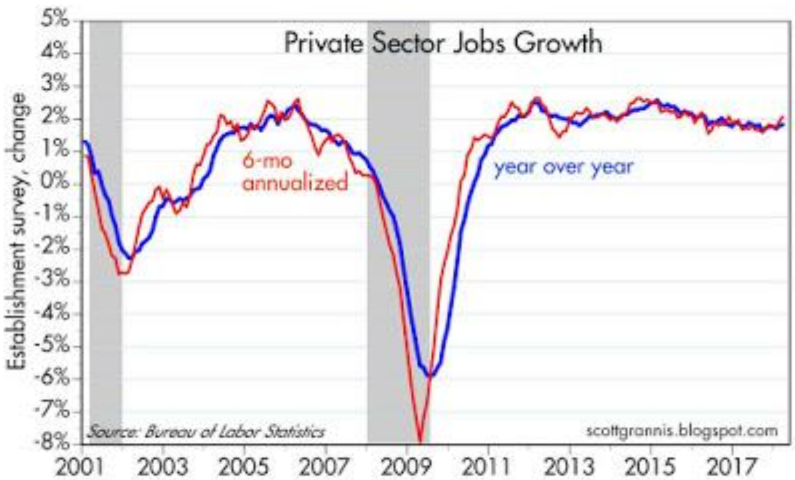
Chart #2

Chart #2 shows the 6- and 12-month rate of growth of private sector jobs.



Big swings, such as we have seen in recent months, are pretty much the norm, so any attempt to characterize the underlying dynamics of the jobs market must rely on at least several months.

Over the last six months, private sector jobs have increased on average by 213K, which translates into a 2.0% annualized rate of growth.

Over the past 12 months, private sector jobs have increased on average by 187K, for a 1.8% rate of growth. This represents a significant improvement since the low point in September of last year, when private sector jobs rose at a 1.6% rate over the previous 6 and 12 months. We are making progress, albeit slowly.

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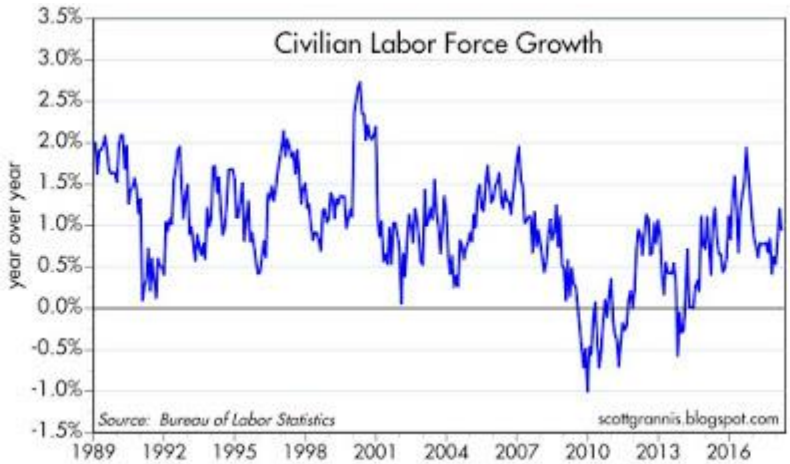
Chart #3



Another bright spot is the recent pickup in the year-over-year growth of the labor force (the number of people of working age who are employed or looking for work). This hit a low of 0.4% last October and now stands at 1%, which is close to its average in recent decades. Background: over the long haul, the labor force tends to grow by about 1% per year, and productivity tends to average about 2%: the combination of the two, 3%, gives you the long-range average rate of growth of the economy.

The current recovery, the weakest on record, has seen annualized growth rate in the labor force of just 0.5% and annualized productivity growth of only 1.0%.

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Chart #4

Chart #4 shows the size of the labor force, which for many years increased by a little over 1% per year. If that growth trend had persisted, there would have been another 12 million or so either working or looking for work, and the unemployment rate—currently 4.1%—would currently be a lot higher.

Chart #5

The Labor Force Participation Rate has been steady—and quite low—for the past several years, but with a hint of improvement. (This is the labor force—those working and looking for work—divided by the working age population.)

This rate is going to have to increase in coming years if the economy is to grow by more than 3%. Which means that a good portion of the 12 million or so that have "dropped out" of the labor force are going to have to decide to get back in the game. There are hints that this improvement has begun, but progress is still slow.

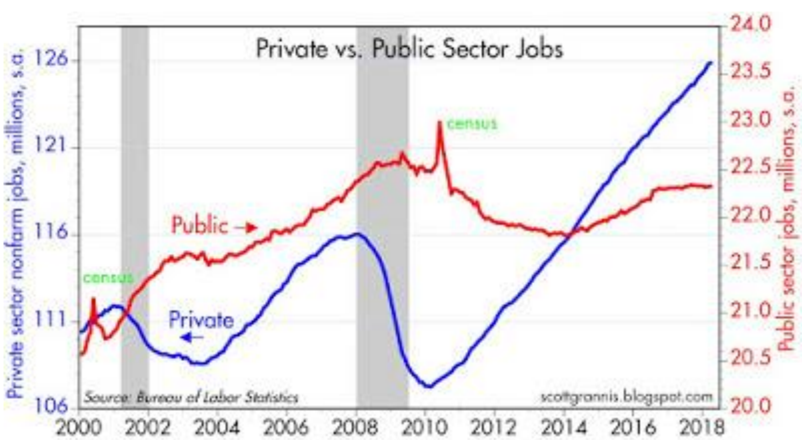
What will entice millions of folks to get off the sidelines and back to work? Better-paying jobs.

Where will the extra money to pay higher salaries come from? From increased corporate profits, which are baked in the cake thanks to the recent tax reform, and which will increase the nation's capital stock as corporate investment improves.

With more capital deployed in the economy, labor will become relatively scarce and thus more valuable—and better-paid.

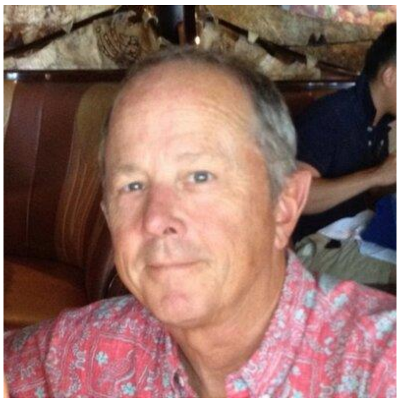
Chart #6

Chart #6 is another bright spot, since it shows that there has been zero change in the level of public sector employment since the end of 2007. (Note that the y-axis for both series shows a similar scale increase, namely 20%.) This means the relative size of the public sector workforce has shrunk by almost 10% over the past decade. That is a very good thing, since the private sector is much more productive.



BW: See ABOUT THE AUTHOR on the following page.

ABOUT THE AUTHOR



Scott Grannis was Chief Economist from 1979-2007 at Western Asset Management, a Pasadena-based, global manager of fixed-income portfolios for institutional clients.

He now enjoys keeping up on economics, markets, and politics from his condo overlooking Calafia Beach on the southern California coast, where he likes to think that he is immune to Wall Street group-think.

Married for 45 years to his Argentine wife, Norma, he has four children and five grandchildren (four boys and one girl).

He is a believer in supply-side economic theory, as practiced by his mentors, the late Jude Wanniski, Art Laffer, and Larry Kudlow. John Rutledge is another of his mentors, from the days that they worked together at Claremont Economics Institute.

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