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2013 U.S. JOBS REPORT CARD: AFTER ALL IS SAID AND DONE, MORE WAS SAID THAN DONE

DANIEL ALPERT

As I wrote at the halfway point of last year in "The New Sick-onomy? Examining the Entrails of the U.S. Employment Situation" (July 24, 2013, available here) and as I updated in September 2013, an alarming proportion of the new job creation we saw in the first three quarters of 2013 were in low wage-paying sectors—with weighted average hourly wages of less than $16/hour. These sectors—Retail Services, Administrative and Waste Services, and Leisure and Hospitality Services—together comprise about one-third of all private sector jobs in the United States, but were the source of 57 percent of jobs created in the first half of the year (nearly 70 percent in Q2, alone). High wage job sectors, which in the aggregate pay average hourly wages of over $27/hour, together comprise two-thirds of the private sector jobs in the U.S. economy, but were a far lower percentage of jobs created in 2013.

U.S. job creation was better in the second half of the year, both in terms of the number of jobs created and their dispersion between the high- and low-wage sectors. On average, the United States created 184,000 private sector jobs per month in 2013. Over the course of the year, however, taking all factors into account, the U.S. jobs economy earned something less than a "gentleman's C" as a grade. Here is a summary of why:

• For 2013 as a whole, nearly 54 percent of jobs created were in the low-wage sector, a far higher proportion than the 32.8 percent of all private sector jobs that those sectors represented at the start of the year (see Table 1). The wildly disappointing jobs numbers for December (74,000 non-farm and 87,000 total private sector jobs created) were made more concerning, at the margin, because for the first time in the year net job creation—minimal as it was—was "over" 100 percent in the low wage sectors (the high-wage sectors actually lost a net of 8,000 jobs month over month; see Table 2).

• Half the jobs created during 2013 were in sectors that saw wages *fall* relative to inflation (Education and Healthcare, and Retail Trade) or offered wages and hours at near-subsistence levels slightly above payments that would be received from the total unemployment insurance and food stamps (Leisure and Hospitality, in which the average worker earned just over $18,000/year).

• The second half of 2013 saw a distinct improvement in the number of part-time employees at work, relative to those working full time (still an elevated 26 million—19 percent—of the total of 137 million persons employed in the U.S.). Part-time workers declined by about 650,000 year-over-year, while in the first half of 2013 that figure rose substantially from year-end 2012. (Part-time employees are defined as those working between 1 and 34 hours per week.)

• The seemingly inexorable erosion of the labor force participation rate (LFPR) continued with a vengeance in 2013, falling 0.8 percent, to 62.8 percent from 63.6 percent. The LFPR is now back to levels not seen since the late 1970s, before the surge of women entered the labor force (see Figure 1). It is true that the LFPR declined by 1 percent prior to the Great Recession, and that there are some demographic elements (retirement rates) at work, but the LFPR stabilized at around 66 percent in the years leading up to the recession—and has fallen off a cliff since—indicating that there is much more going on than the retirement of some lucky baby boomers.

• For the foregoing reasons, the decline in the U-3 unemployment rate—to 6.7 percent at year-end 2013 from 7.9 percent at year-end 2012—must be taken with more than a grain of salt. As discussed and illustrated in depth is our report last June, virtually all of the improvement in the headline unemployment rate can be tracked to the declining labor force (December 2013 was a classic illustration of this phenomenon, as the 0.3 percent decline in the U-3 unemployment rate was principally due to the elimination of 347,000 people from the labor force. If the LFPR had not fallen from October 2009, when unemployment hit its Great Recession peak of 10 percent, unemployment would still be over 9 percent today. Moreover, if the LFPR were held constant from its highest pre-recession level of 66.4 percent in January 2007 (when unemployment was 4.6 percent), the U-3 unemployment rate would be 11.75 percent today.

Table 1 serves as a useful report card on the Establishment Survey portion of the 2013 jobs picture.

Table 1. Full Year 2013 Job Analysis

	Number of Jobs					*Hourly Wages*						
	Dec-12	Dec-13	Var	Percent of Private Jobs Created	Percent of Total Jobs Beginning of Year	Dec-12	Dec-13	Percentage Var	YoY CPI Inflation*	Real Wage Growth (Decline)	YoY Core CPI Inflation	Real Wage Growth (Decline) vs. Core
HIGH WAGE JOBS												
Goods Producing	18,522	18,752	230	10.39%	16.42%	24.89	25.45	2.25%	1.20%	1.05%	1.70%	0.55%
Wholesale Trade	5,715	5,810	95	4.29%	5.07%	27.36	28.01	2.38%	1.20%	1.18%	1.70%	0.68%
Transportation and Warehousing	4,494	4,536	42	1.90%	3.98%	21.92	22.59	3.06%	1.20%	1.86%	1.70%	1.36%
Utilities	555	555	-	0.00%	0.49%	34.89	35.55	1.89%	1.20%	0.69%	1.70%	0.19%
Information	2,676	2,672	(4)	-0.18%	2.37%	32.18	33.29	3.45%	1.20%	2.25%	1.70%	1.75%
Financial Activities	7,831	7,915	84	3.80%	6.94%	29.80	30.42	2.08%	1.20%	0.88%	1.70%	0.38%
Education and Health	20,496	20,823	327	14.78%	18.17%	24.47	24.73	1.06%	1.20%	-0.14%	1.70%	-0.64%
Professional and Tech*	7,995	8,179	184	8.31%	7.09%	36.13	36.79	1.83%	1.20%	0.63%	1.70%	0.13%
Management of Companies*	2,020	2,058	38	1.72%	1.79%	35.17	35.72	1.56%	1.20%	0.36%	1.70%	-0.14%
Other services	5,470	5,500	30	1.36%	4.85%	21.10	21.50	1.90%	1.20%	0.70%	1.70%	0.20%
Totals and Weighted Averages**	**75,774**	**76,800**	**1,026**	**46.36%**	**67.17%**	**26.81**	**27.34**	**1.96%**	**1.20%**	**0.76%**	**1.70%**	**0.26%**
LOW WAGE JOBS												
Retail Trade	15,004	15,385	381	17.22%	13.30%	16.48	16.62	0.85%	1.20%	-0.35%	1.70%	-0.85%
Administrative and Waste Services*	8,135	8,551	416	18.80%	7.21%	18.15	18.42	1.49%	1.20%	0.29%	1.70%	-0.21%
Leisure and Hospitality	13,901	14,291	390	17.62%	12.32%	13.38	13.66	2.09%	1.20%	0.89%	1.70%	0.39%
Totals and Weighted Averages**	**37,040**	**38,227**	**1,187**	**53.64%**	**32.83%**	**15.68**	**15.92**	**1.48%**	**1.20%**	**0.28%**	**1.70%**	**-0.22%**
Total	**112,814**	**115,027**	**2,213**			**23.16**	**23.54**	**1.66%**	**1.20%**	**0.46%**	**1.70%**	**-0.04%**
Average per Month			**184**									

* Hourly wage data for these job categories, as well as YoY inflation data is for November 2012 to November 2013. Final December 2013 data not yet available.

** Hourly wage totals weighted by number of jobs in each job category at bginning of year and end of year, respectively.

HOURS AND WAGES

As Table 1 illustrates, the raw job counts are just the tip of the iceberg in this report card because of what happened in 2013 with regard to wage levels. Two of the sectors that added the second and third most jobs in 2013—Education and Health in the high-wage category, and Retail Trade, in the low-wage category—saw wages fall relative to headline CPI, and substantially so relative to core CPI. The largest sector creating jobs in 2013 was, not surprisingly therefore, the lowest paying sector in the economy—Leisure and Hospitality—which at year-end paid an average wage that would equate to full-time earnings of less than $25,000 a year. And that assumes full-time employment. Keep in mind that, out of the 135.6 million non-farm jobs in the United States at year-end 2013, 26 million of them—19 percent—were part time. In the Leisure an Hospitality category, the average employee worked only 25.9 hours per week at year-end (the lowest of any jobs category), meaning that the average of the 14.3 million workers in that sector brought home $18,397 per annum.

The penury-level Leisure and Hospitality sector, together with the two sectors in which real wages fell in 2013—Education and Health, and Retail Trade—accounted for 1,098,000 of the 2,213,000 jobs created in 2013, just a hair's breadth away from 50 percent of the total. Add in the 416,000 jobs created in 2013 in the remaining low-wage sector—Administrative and Waste Services—and you have 68.4 percent of all jobs created in 2013 being in sectors in which labor has pretty much no leverage.

Of further interest, looking at the weighted average of the *high*-wage sectors, we saw wage growth before inflation decelerate during the year to 1.96 percent year-over-year as of December 2013, from a pace of 2.24 percent year-over-year as of June 2013.

We believe that if Congress is unable/unwilling to restore the long-term unemployment benefits that would otherwise have flowed to between four and five million people through the course of the current year, it is reasonable to assume that a substantial number of such individuals will find themselves needing to take any job at any wage in order to survive. The disinflationary forces affecting wages, as discussed above, would therefore be exacerbated.

Before moving on to the Population Survey portion of the jobs data for 2013, Table 2 sets forth the jobs creation statistics for the month of December 2013, the only month of the year that saw net erosion in the high-wage sectors as a whole.

Table 2. December BLS Snap Analysis

December BLS Snap Analysis

	November	December	Var	Percent of Private
HIGH WAGE JOBS				
Goods Producing	18,755	18,752	(3)	-3.45%
Wholesale Trade	5,794	5,810	16	18.39%
Transportation and Warehousing	4,537	4,536	(1)	-1.15%
Utilities	556	555	(1)	-1.15%
Information	2,684	2,672	(12)	-13.79%
Financial Activities	7,911	7,915	4	4.60%
Education and Health	20,823	20,823	-	0.00%
Professional and Tech	8,191	8,179	(12)	-13.79%
Management of Companies	2,058	2,058	-	0.00%
Other services	5,499	5,500	1	1.15%
Totals and Weighted Averages	**76,808**	**76,800**	**(8)**	**-9.20%**
LOW WAGE JOBS				
Retail Trade	15,330	15,385	55	63.22%
Administrative and Waste Services	8,520	8,551	31	35.63%
Leisure and Hospitality	14,282	14,291	9	10.34%
Totals and Weighted Averages	**38,132**	**38,227**	**95**	**109.20%**
Total	**114,940**	**115,027**	**87**	

PARTICIPATION, UNEMPLOYMENT, AND DEMOGRAPHIC GROUPINGS

The Population Survey portion of the jobs statistics yielded some interesting insights during 2013. As noted above, the LFPR continued to decline. While the civilian noninstitutional population (CNIP)—those age 16 and over and not in school, the army, or prison—grew by 2.4 million during 2013, the number of people in the labor force declined by about 550,000. Not only is the U.S. economy proving incapable of absorbing increases in its working-age population, but it is losing ground—and not because overwhelming prosperity is encouraging people toward lives of leisure.

During 2013, the labor force participation rate fell 0.8 percent, to 62.8 percent from 63.6 percent. The LFPR is now back to levels not seen since the late 1970s, before the surge of women entering the labor force, as illustrated in Figure 1.

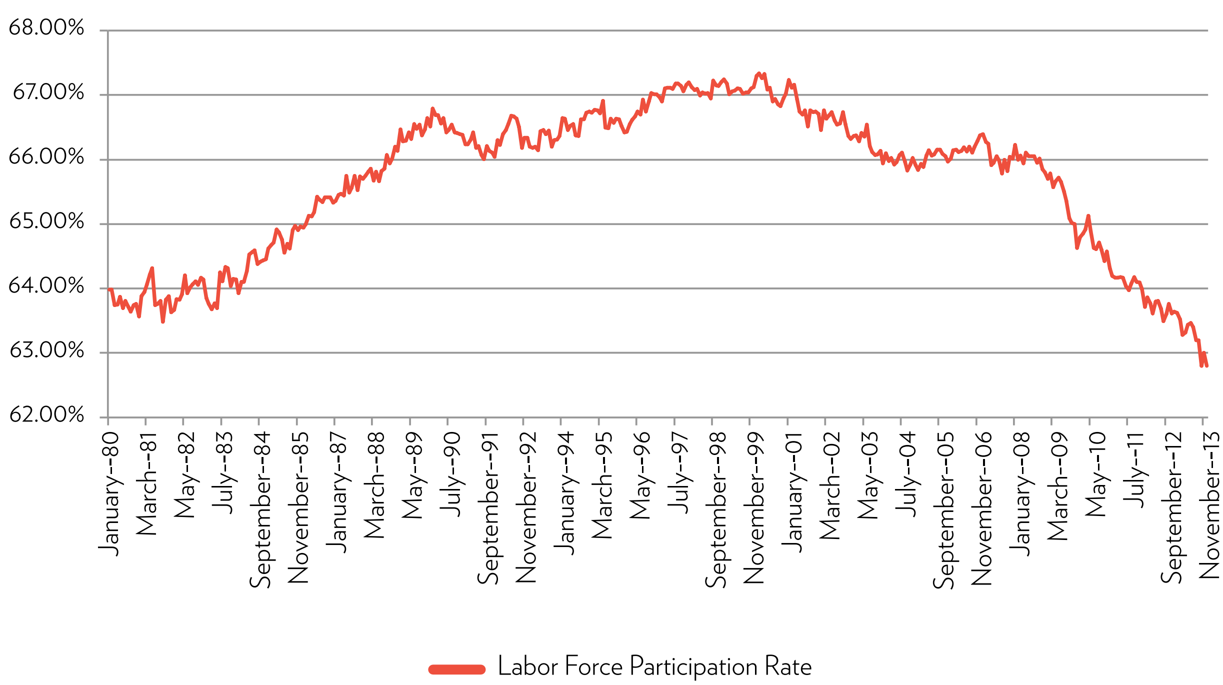
The U.S. economy employed—full time and part time—a total of 58.6 percent of the CNIP, a number that was the same percentage as at the end of 2012. Private sector jobs—again, full time and part time—employed 115 million people, 48 percent of the CNIP. Relative to total population, at the end of 2013, we had 118.5 million full time employees, and 26 million part-time employees, supporting a nation of 316 million people.

So who are these working people? Well, they are progressively older than they used to be. One would expect that, if the LFPR were declining so precipitously because more people were retiring "voluntarily," then the employment/population ratio (EPR) for the 55 years and older category of employees would be declining as well. Not only has it not done so, but the EPR for workers aged 55 and older was, on average, higher in 2013 than it was during the Great Recession and any other time prior thereto.

Older Americans are hanging on to their jobs for dear life in the post-recession world of diminished or nonexistent retirement wealth. While data is not yet sufficient to prove empirically that older workers are proving less rigid when it comes to accepting lower wages in order to keep working (often through taking positions for which they are over-qualified), we suspect this is the case.

On the brighter side, 2013 saw an improvement in U.S. youth unemployment—the EPR for the 16-to-24-year-old age group, which was decimated as a result of the Great Recession (falling nearly 10 points), powered back to its

Figure 1. Labor Force Participation Rate



highest level since. The 25-to-34-year-old bracket was also at post-recession EPR highs, although the recovery was not as dramatic as that of the younger group. But all this came at the expense of the 45-to-54-year-old cadre, where the EPR has not really budged since the end of the recession. This latter group is in its prime earning years, meaning that it is expensive to employ and therefore vulnerable in an economy that is apparently struggling with downward wage pressures.

CONCLUSION

Progress was made on the jobs front in 2013, but a great deal of what was said about the U.S. jobs picture throughout the year—and, especially, in the fourth quarter of the year—was somewhat enhanced by what our friend, Peter Tchir, would call a healthy dose of "Hopium." We formed 2.2 million jobs in the private sector in 2013. We even produced 10 percent of those jobs in the goods-producing sectors, in which the United States faces stifling global competition. And, if you ignore December's numbers (or believe fervently that they will be materially revised upwards), the pace and composition of job creation picked up after Labor Day and even defied the dislocations of a shutdown of our federal government for half a month.

What was said about the U.S. jobs picture in the media, by some market analysts, and by the Obama administration was, however, more talk than walk. As much as we feel that extraordinary monetary policy, such as quantitative easing, has passed its "sell by date" and is of little benefit (and perhaps of considerable detriment) and this point, it would nevertheless be a mistake for monetary policy makers to—for example—read into the declining headline unemployment rate anything that would lead the more hawkish among them to believe we are experiencing labor market tightness. The wage data, the complexion of the job formation, and the falling participation rate indicates a labor market awash in oversupply.

With disinflation rampant in the United States, and throughout the advanced nations, and with the numbers of those looking more aggressively for a job at any wage likely to grow in 2014 as the result of fiscal policy, the report card for 2013 should be viewed as very cautionary. This is still a very fragile, demand-deficient world in which we find ourselves.

About the Author

Dan Alpert is a fellow at The Century Foundation as well as a founding managing partner of Westwood Capital, LLC, and its affiliates. He has more than thirty years of international merchant banking and investment banking experience, including a wide variety of workout and bankruptcy related restructuring experience. He has researched and written extensively on the housing and credit bubbles and the resulting economic crisis, and is widely quoted in print outlets, including the *Wall Street Journal*, the *New York Times*, Reuters, the Associated Press, Bloomberg, *Forbes*, and *Fortune*. He is a frequent guest commentator on the principal business news networks, including Bloomberg, CNBC, and Fox Business News, and also appears on CNNI and the BBC.

Prior to forming Westwood Capital in 1995, he was a senior banker and partner of Oppenheimer & Co., Inc. Alpert holds a BA in public policy from the University of Pennsylvania. He is the author of *The Age of Oversupply*, a book on global macroeconomics, which was released in September 2013.