

TRENDMACRO LIVE!

On the July Jobs Report, and The Education Dividend

Friday, August 3, 2018

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A beat that looks like a miss. Thanks to leaps in education, the labor force can continue to grow.

[This morning's July Employment Situation report with 157,000 net new payrolls looked like a big miss versus the consensus expectation for 193,000. But it's actually a big beat, by 23,000, thanks to upward revisions of 35,000 to June's payrolls and 24,000 to May's.](#)

- This marks the first month of the tenth year of the current business cycle expansion, and today's payroll numbers were about in the middle of the pack over ten Julys. *There's no evidence here that this expansion is slowing.*
- The unemployment rate fell to 3.9% from 4.0% even as the labor force grew by 105,000 – more than all the new entrants were employed. Overall employment rose by 389,000, and unemployment fell by 284,000.
- The “inflow rate to unemployment” – the probability of a worker leaving his job for any reason – fell to 1.6%, the lowest in the 70-year history of the data (see [“Data Insights: Jobs”](#) August 3, 2018).
- For all that, average hourly earnings grew only a tepid 0.26% month-over-month, and even that was assisted by an 0.04% downward revision to June's data. *Nothing here for the Fed to get excited about.*

It really was a perfect jobs report. But even if there is no evidence of slowing here, that still leaves the question – is there any upside left? We think there is. Even with unemployment so low, that only measures the utilization of the existing labor force – there is still tremendous scope for expansion of the labor force.

- We have been saying for many years that the large contraction of the labor force participation rate since its peak in 2000 could not be explained entirely by the aging of the US population (see, for example, [“The Demographics Myth”](#) March 20, 2017).
- At this point, the demographics of aging continue for the *overall* population, but have reversed for the prime-age population between 25 and 54, which is now getting younger on average. At the same time, the labor force participation rate has improved since its low in September 2015. So at this point, the demographics of aging and the participation rate have caught up with each other – indeed, a little more than that: based on aging alone, we estimate

Update to strategic view

US MACRO, US FED: It looks like a miss, but it was a beat thanks to strong upward revisions for the prior two months. The labor force continued to expand, employing more than all new entrants. The probability of losing your job today is the lowest in history. And hourly earnings growth remains tepid, offering no reason for concern to the Fed. We think the labor force can keep growing even into the tenth year of this expansion, because large increases in educational attainment since 2000 create an underappreciated demographic dividend. Based on the decrease in those without a high school diploma, and the increase in those with college education, we estimate that the labor force could expand by more than 13 million.

[\[Strategy dashboard\]](#)

that there are now 900,000 *too many* in the labor force.

- While most analysts have focused entirely on the demographics of aging to explain the strange labor dynamics over the last two decades, *it turns out that aging is not the most important factor – educational attainment is.*
- Based on the reduction in number of Americans without a high school diploma, or with no college education, both in absolute numbers and as a share of the adult population – and based on increases for those with some college education or completed college degrees – *we estimate that the labor force could grow by 13.4 million, reversing by an order of magnitude the contractionary force of aging.*
- We admit that number seems incredible. But you have to appreciate the magnitudes of the demographic shifts that are involved.
- *Since 2000, the number of persons without a high school diploma has fallen by 6.6 million, and by 6% as a share of the adult population.* Those with a high school diploma but no college have increased by 4.1 million, but decreased as a share of the adult population by 4.2% (please see the chart below).
- At the same time, number of persons with some college, but no degree, has grown by 12.2 million, or a 0.9% share of the adult population. *Most astounding, the number who earned a bachelors degree or an advanced degree has increased by 30.9 million, and by 9.3% as a share of the adult population* (again see the chart below).

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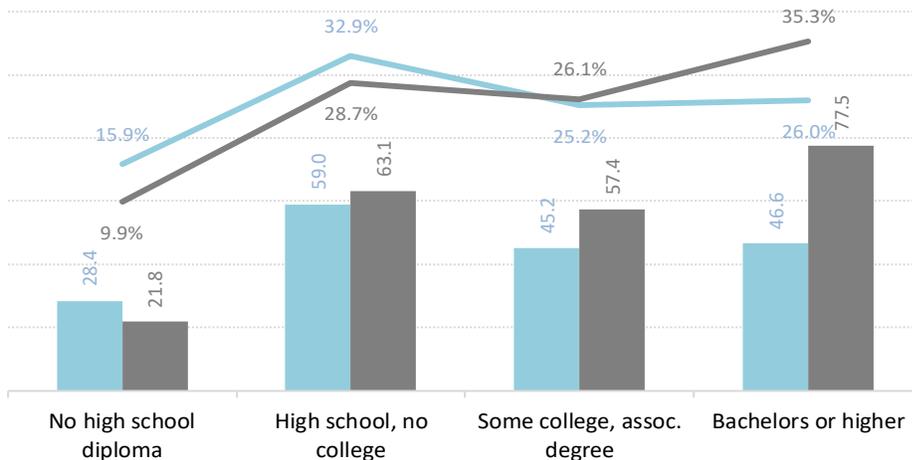
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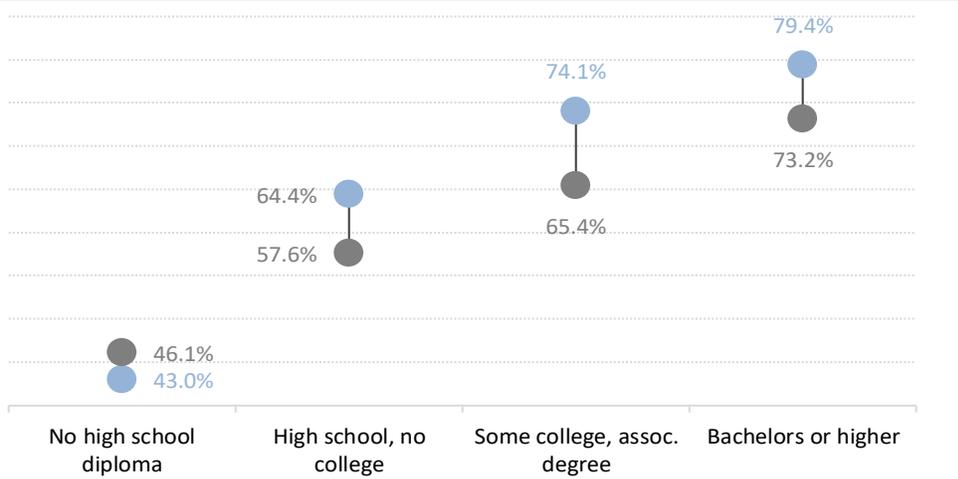
US population 25+ by educational attainment Millions ■ 2000 ■ Now



Source: Bureau of Labor Statistics, TrendMacro calculations

- This matters a lot because educational attainment is highly correlated with labor force participation – that is, *the better educated a person is, the more likely he is to be in the labor force.* *And consider how participation among the most educated is very far below where it was in 2000.*

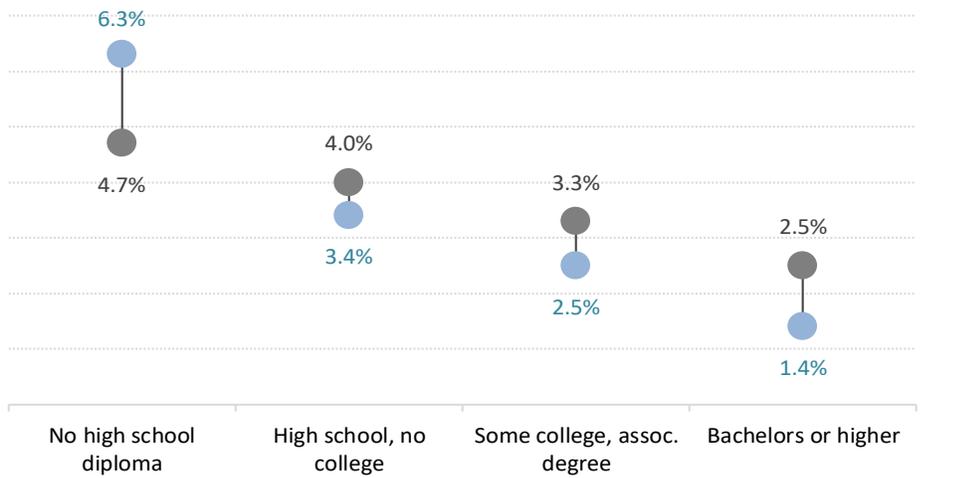
Labor force participation by educational attainment ● 2000 ● Now



Source: Bureau of Labor Statistics, TrendMacro calculations

- At the extremes of educational attainment, labor force participation today among adults without a high school diploma is only 43% – while for those with a college degree participation is 73.2% (please see the chart above). Since 2000, the US economy has strongly gained in people most likely to participate, and lost people least likely to participate.
- At the same time, only the least educated are participating in the labor force today more than they did in 2000. Not only are there more people today qualified to participate in the labor force than there were in 2000, but the gap between potential participation and actual participation is enormous. Just among the 77.5 million with a college degree, that gap implies 4.8 million currently outside the labor force could enter it.
- Wait – there’s more. Considering only the people already in the labor force, today’s unemployment rate – when parsed for educational attainment – implies that 859,000 people could come back to work (please see the chart below). To be clear, that

Unemployment rate by educational attainment ● 2000 ● Now



Source: Bureau of Labor Statistics, TrendMacro calculations

requires no expansion of the labor force at all – it's just the people who are already in it but are still unemployed at greater levels than those prevailing in 2000.

- It is only in the case of those without a high school diploma that the unemployment rate today is *lower* than it was in the boom-year 2000. For all the other larger categories, unemployment today is higher (again, please see the chart on the previous page).
- *We think the demographics of educational attainment – especially as it sides side-by-side with the fact that the prime-age population is now getting younger – is an underappreciated resource that will enable the economy to continue to grow. And as it grows, that will in turn create the incentives and the opportunities for the labor force to expand.*
- *For two decades, pundits have written about a “demographic deficit.” The rise of educational attainment and the younging of the prime-age population turn that into a dividend.* We think this goes a long way to explaining the seeming paradox that in an expansion entering its tenth year, and with the headline unemployment rate below 4%, job growth has steadfastly refused to peter out (see [“On the May Jobs Report: What Labor Shortage?”](#) June 1, 2018).

Bottom line

It looks like a miss, but it was a beat thanks to strong upward revisions for the prior two months. The labor force continued to expand, employing more than all new entrants. The probability of losing your job today is the lowest in history. And hourly earnings growth remains tepid, offering no reason for concern to the Fed. We think the labor force can keep growing even into the tenth year of this expansion, because large increases in educational attainment since 2000 create an underappreciated demographic dividend. Based on the decrease in those without a high school diploma, and the increase in those with college education, we estimate that the labor force could expand by more than 13 million. ▶