More than a Jobs Preview

The March US jobs report will be released Friday, Good Friday, when many European countries are on holiday and the US is partially on holiday. Unlike the proverbial tree that may not make a sound, if there is no one to hear it, the data will be important even if the lack of market participation prevents much of a reaction.

Given these circumstances, perhaps what will be more useful than a review of the limited inputs that economists use to forecast the non-farm payrolls (NFP) report - which is among the more difficult of the high frequency data to forecast - would be a more focused look at the vexing problem of the decline in the participation rate.

Let's dispense with the March jobs report by making a few observations. The risk is on the downside of the current consensus of 220k private sector jobs for two main reasons.

The first is an appreciation of the distortion of the seasonal adjustment. The milder weather in January and February – which may have created more jobs/reduced layoffs - may be adjusted the other way in March. This dynamic should translate into less job creation in early spring. The second is simply that the four-week average of the weekly initial jobless claims was flat in the survey week in March compared to February.

It is tempting to think that the horrific construction spending report (April 2) also provides some downside risk to the NFP. February construction spending fell 1.1% rather than rise 0.8% as the consensus expected and, adding insult to injury, the January series was revised from a slight 0.1% decline to a 0.8% drop.

This is not rocket science and we are not pretending to offer a forecasting model here. Rather, we simply suspect that the consensus does not sufficiently deviate from the 3-month average private sector job growth of 250k to be meaningful.

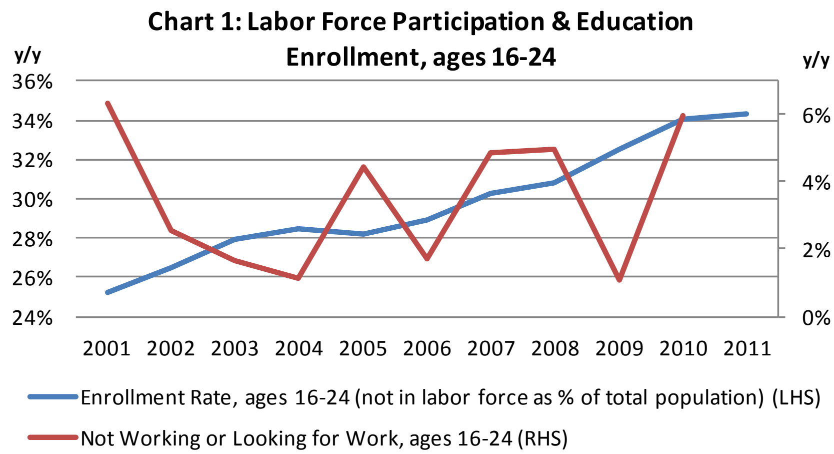
Participation Rate

The labor market participation rate is the percentage of the working age population that is either working or looking for work. It has been trending lower since the late 1990s. The participation rate in the US has fallen about 2 percentage points from pre-crisis levels (2007) to 64% at the start of the year.

The largest drop since the onset of the crisis has been among the 16-24 year-olds. The Council of Economic Advisors argues in the Economic Report to the President that the enrollment in school explains nearly the entire decline in the labor force participation rate of this age group and about a third of the overall decline in the participation rate.

While the generally soft economic conditions encourage many to go back to school, college enrollment has been rising for more than a decade, but has accelerated in recent years (Chart 1). One recent survey found that 94% of parents want their child to attend college and for good reason.

Parents see through the obfuscation in the media and blogosphere that question the importance of a college education. They see the government's misclassification of household education expenditures as consumption rather than investment.



Source: BBH calcs & BLS

Investment it is. Workers with college degrees earn, on average, twice as much as those with a high school degree. The premium has been rising since 1980, when it was 45%. Even before the recession, the real earnings of a high school diploma were at 1970 levels, according to one report.

There are other metrics that illustrate the effects of government programs that encourage college education. There has been a marked increase in student loans (Pell) and they have come to dominate the monthly consumer credit report.

In the 2007-2008 academic year there were 5.5 mln Pell loans. The average was for $2600. In the 2009-2010 academic year, the most current data, there were 8.1 mln Pell loans. The average was $3700.

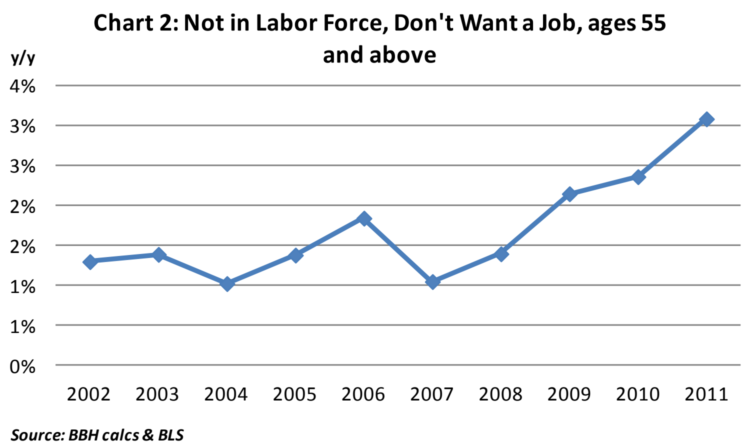
These loans are also of a special nature. Typically, they are ineligible for cancellation under personal bankruptcy. There are also tax credits up to $2500 a year. This has benefited some 9.4 mln students in the 2009-2010 academic year.

While these are modest amounts compared to the cost of a college education, the main point is that an important part of the decline in the overall participation rate can be traced to the rise education enrollment. Educational institutions are fulfilling their economic function by keeping people out the labor market and increasing their skills.

55+

There is another segment of the population that is also leaving the labor force at an accelerated speed. Since the onset of the crisis, there has been a sharp increase in the number of people, aged 55 years and older, who are not working and, by their own admission, do not want a job (Chart 2).

In part, this may reflect the beginning of the retirement of the Baby Boom Generation, but the marked increase since the crisis began suggests other forces may be at work. There is no concrete evidence that explains it, but it is reasonable to suspect that the economic conditions are such that some, for example, may be choosing early retirement and others may be starting their own businesses.



Data on loans against 401ks or early withdrawals, or liquidation of annuities, is only now beginning to be collected. There has been a rise in the value and number of loans from the Small Business Administration. In 2009 there were less than 50k such loans for a total of $14 bln. In 2011 there were more than 60k loans for about $25 bln.

Conclusion

There are of course far too many discouraged workers, who want a job, cannot find one and have given up. They are also responsible for the decline in the participation rate. In February the government estimated that there were over one million discouraged workers.

There has been a marked and unprecedented rise in the average length of unemployment. This raises all personal and social issues and raises the specter of important skills mismatch and the structural unemployment that may not be addressed by the mild cyclical recovery.

Yet evidence presented here suggests that the decline in the labor force participation rate is not just a function of discouraged workers, as many observers seem to assume.

There has been an increase in young adults who are leaving the labor market who do not want a job. This has lowered the participation rate, while increasing the investment in human capital. There has also been an increase in the 55+ age cohort that is leaving the labor market and do not want a job. This has also served to lower the participation rate.

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