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R&I Blog
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The Jobs Report for April, Some Overlooked Negatives

The Bureau of Labor Statistics released the monthly jobs report yesterday, showing an unexpectedly positive 244,000 new jobs in April and an increase in the unemployment rate from 8.8% to 9.0%. Broad unemployment (U6) rose from 15.7% to 15.9%.

According to most commentators, the reason that the unemployment rate went up, despite the improved job creation, was because of people leaving the labor force. This was simply untrue, the workforce actually expanded by 15,000 in April. Investors are unwise to rely on journalists and talking heads who, at least to some extent at the margins, get paid to make up stories.

The real explanation is that the job creation figure is from the Establishment Survey (based on reports that 140,000 businesses file with the BLS), whereas the unemployment rate is from the Household Survey (in which the Census Bureau phones 60,000 households). The Household Survey did **not** show strong job creation, in fact, it showed a **loss** of 190,000 jobs. Of the 20 basis point increase in the headline unemployment rate, 13.3bp were due to the decline in jobs, 0.1bp was due to the increase in the workforce, and 6.6bp was a rounding effect (the rate went from 8.83% to 8.96%).

For several months, the Household Survey had been better than the Establishment Survey, but this month showed the opposite trend. Discrepancies between the two surveys are usually due to temporary statistical inaccuracies, but we suspect that this time the discrepancies reflect real trends in the economy. Our scenario is as follows: Since last summer, as the economy improved slightly, work picked up in the underground and lowest level parts of the economy (which are not reflected in the Establishment Survey), causing the Household Survey to look better than the Establishment Survey. In the last month, **the rising price of gasoline may have hit employment hard in the lowest sectors**. The figures reported below for high school dropouts, African Americans, and the unincorporated self-employed (see bulleted items below) support this theory. So does the anecdotal evidence: in our neighborhood, several occupied, middle-class homes have been letting the lawns grow high before getting them cut and housecleaning services have been forced to advertise aggressive discounts.

Increased suffering for those at the bottom will likely have at least some negative impact on companies such as Walmart, Kohl's, and J.C. Penney. Pricing power for a wide range of industries (including fast moving consumer goods like P&G, Church and Dwight, etc.) will suffer. There is more than a little risk that profit margins for the S&P 500, etc. will begin reverting to the mean sooner rather than later. To some extent, a loss of pricing power will,

of course, tend to counteract inflation. There are political and fiscal implications as well. Public opinion polls already show a majority of Americans (including a majority of Republicans) in favor of higher taxes on the wealthy. There could be a major shift in electoral politics in the U.S. and elsewhere.

There are several disturbing results in the latest report:

- The employment to population ratio (which we think is the single most important figure in the whole report) has declined to 58.4% from 58.7% a year ago.
- Unemployment among high school dropouts rose from 13.7% to 14.6% in a month.
- Unemployment among African-Americans rose from 15.5% to 16.1% in a month. For some curious reason, the BLS reported that the 16.1% rate "showed little change in April." Apparently, working at a computer terminal in a government office does not enhance ones awareness of the realities of life on a flesh and blood level.
- There has been a loss, year over year, among the unincorporated self-employed, of 242,000 jobs. This is a 2.7% loss, which means that **the unemployment rate among this class of workers may have risen as much as 2.8% over the last year**.
- There was a loss of 31,000 jobs, year-over-year, in the Finance and Insurance sector (this was all in insurance and depository credit intermediation). Last year, Meredith Whitney predicted a loss of 80,000 financial jobs. If the QE2 bubble proves unsustainable (How could it prove otherwise?), then her prediction may yet prove accurate, albeit premature.
- Although the total number of jobs in the Household Survey has risen by 99,000 in the last two months, the number of **full-time jobs** has **declined by 221,000**. (The BLS does not report this figure, but it can be computed from the numbers they give).
- In the Leisure and Hospitality sector (13.2 million employees), year-over-year hourly nominal wages are up 0.5% and average earnings are up only 0.6% to $283.61 per week. Since individuals at this wage level spend a very large proportion of their income on gasoline and food, many of them must be experiencing **a decline in *real* (adjusted for the inflation rate on the goods they buy) wages of more than 10%.**

There is one oddity in the report. In the utilities sector, year-over-year, hourly wages have gone from $29.83 to $31.65 for production and non-supervisory employees, but from $32.24 to $36.89 for all employees. The BLS report doesn't give figures for supervisory employees, but we can do a back-of-the-envelope calculation. If management is 10% of total employees, then their wages have gone from $53.93 to $84.05 an hour. If management is 30% of total employees, then their wages have gone from $37.86 to $49.12 an hour. These numbers make no sense; no enterprise is going to give its line supervisors an annual raise of 30% to 55%. Perhaps the oddity is a result of top management bonuses being unduly large this year, or unduly small last year. The pattern for the economy as a whole is the opposite (supervisory raises have been smaller than non-supervisory raises) and no other industry shows the kind of discrepancy seen in the utilities sector.