Cornerstone
Staffing Solutions

Observations regarding the January 2018 Employment Situation

By Steven R. Drexel, President and CEO of Cornerstone Staffing Solutions, Inc.

"January 2018 was a solid month, reassuring in that it eliminated any anxiety that may have been caused by December's below trend performance. The unemployment rate remained constant for the fourth consecutive month at 4.1 percent suggesting that the tight labor market may not be contracting as quickly as expected. Moreover, the labor force participation rate also remained constant for the fourth consecutive month, at 62.7 percent. The most encouraging metric in the report was the improvement in average hourly earnings which grew at a year-over-year rate of 2.9%, the highest rate since April of 2009. While one month does not make a trend, this is a long-awaited step in the right direction."

Summary

On Friday February 2nd, the Bureau of Labor Statistics ("BLS") released its monthly summary of labor market activity covering January 2018. The consensus expectation called for moderate growth of around 175,000 new positions. The official report indicated that January's job growth exceeded the expectations posting an encouraging 200,000 net new jobs. January's growth brought the three-month average rate up to 192,000 positions – this was better than the 181,000 average for full-year 2017, suggesting that the growth rate is sequentially improving. Further, this rate of growth is surprising given that employment has been improving now for a quite extended 88 consecutive months (the longest run of this kind).

January 2018 was a solid month, reassuring in that it eliminated any anxiety that may have been caused by December's below trend performance. The unemployment rate remained constant for the fourth consecutive month at 4.1 percent suggesting that the tight labor market may not be contracting as quickly as expected. This is particularly supported by the realization that the broadest measure of unemployment that includes those marginally attached and working part time for economic reasons, increased a tenth to 8.2 percent. Moreover, the labor force participation rate also remained constant for the fourth consecutive month, at 62.7 percent. The most encouraging metric in the report was the improvement in average hourly earnings which grew at a year-over-year rate of 2.9%, the highest rate since April of 2009. While one month does not make a trend, this is a long awaited step in the right direction. Unfortunately, the average workweek declined by two tenths of a day which offset the better wage news from an average weekly earnings perspective.

Focusing on prime-age workers (25-54 years old) corrects for the oversized influence of the aging baby boomers that are causing the workforce to be older on average, which likely suppresses the collective rates of employment and participation. Focusing on prime-age workers also corrects for the younger segments of the population who continue in school or career training. The median duration of unemployment provides insight into how easy it is for unemployed workers to re-enter the workforce. Let's look to these less popular or secondary metrics in order to get a sense of how long the labor market can keep growing:

- Seventy-nine percent of prime-age workers were employed during January, down slightly from December yet still notably below the 80.3 percent peak during the previous expansion in January 2007;

- The labor force participation rate for prime-age workers also dropped by one-tenth of a point to 81.8 percent, well down from the high of 83.3 percent at the end of the last expansion during November of 2006; and

- The median duration of unemployment was up slightly to 9.4 weeks during January. This is much lower than the 25-week peak rate during 2009, but still elevated compared to the 7.5-week duration that was the lowest point of the last expansion during June of 2006.

The industry sector metrics reported that a notably weaker share of the industries grew during January as 57.9 percent expanded or were unchanged compared to 65.5 percent during December which was a more typical reading. Prominent increases in employment by industry segment included the following:

- Construction (+36k) – surprisingly strong for several months;
- Leisure and hospitality (+35k) – consistently strong;
- Health care and social services sector (+25.8k) – always robust;
- Professional and business services (+23k) – including temporary help;
- Retail trade (+15.4k) – quite a reversal from December's 25.6 decline;
- Manufacturing (+15k) – encouraging given long-term, trends;
- Transportation and warehousing (+11.1k);
- Wholesale trade (+9.8k);
- Financial activities (+9k);
- Mining (+6k) – long suffering but recently recovering; and
- Government (+4k) – nearly reversing a 6k decline during December.

The noteworthy declining industry sectors included the following:

- Information (-6k) - consistently soft;
- Nondurable goods (-3k)- typically growing slowly;
- Utilities (-1.4k); and
- Motor vehicles & parts (-0.3k) – stalled.

In summary, the Employment Report for January was quite solid and reassuring. This is consistent with other up-beat employment indicators like initial jobless claims, job openings, confidence surveys, muted layoff announcements, robust hiring plans and supply manager's employment indexes which all tend to confirm that the labor market remains enduringly buoyant. Employment grew by 2,173,000 positions during 2017. This is down from a peak of just over 3 million during 2014 -- but still flowing at two-thirds the peak rate, suggesting that the well has not run dry. The unemployment rate is indeed very low but labor force participation and the employment to population ratios are low, even among prime age workers, suggesting better wages might draw more workers off the sidelines and into the labor market thereby fueling continued growth.

The broader economy is enjoying an unusual convergence of favorable factors including improving global and domestic growth, improving retail sales by consumers, improving fixed investment by businesses, improving industrial production, and still low inflation. Consumers are enjoying higher net worth as employment expands, housing prices recover, and the stock market surges ahead. Businesses benefit from lower marginal tax rates, a friendlier regulatory environment, and improving earnings. It's hard to find a weakness in either the global or domestic near-term outlook. Over the longer-term government deficits and income distribution loom as potentially serious policy challenges.

The current expansion, persisting into nine years in length, is quite extended (compared to an average expansion of five or six years). This is likely the solace for missing the typically robust rebound growth out of the chute as well as enduring a very historically severe, financial crisis-induced recession immediately prior to this expansion cycle. The expansion looks to continue for a few more years.

As the expansion ages, there is a practical limit to the rate of growth. Expect jobs growth during 2018 to average about 175,000 positions per month while the unemployment rate trends slightly down. The risk of recession remains low given the absence of any signs of growing imbalances or a looming financial bubble.

Word on the street

In the real world of staffing and employment services, there is less concern about orders but more concern about recruiting given the scarcity of available talent. Year-over-year sales growth remains in the single-digit range but is stronger than employment in general. Wage rates particularly at the low-end have improved better than the published metrics. Direct hire placements have been unusually strong for 20 months or more. Job openings remain high but fill ratios are lower. Thankfully, improving employment opportunities fuels worker optimism and inspires courage in more candidates to try a new position.

Please feel free to contact me if you have any questions or comments.

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