



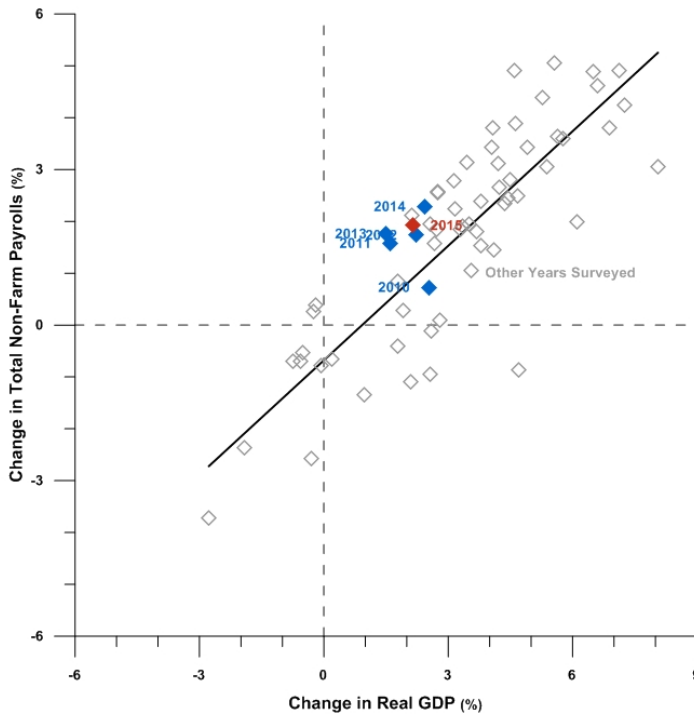
Straight from the Muse

Reflections of a Worldly Philosopher

No Disparity

Not Inconsistent, Just Consistently Mediocre

Calendar Year Trends in U.S. Real GDP and Non-Farm Payrolls
Sixty-Five Years -- 1951 to 2015



Notes:

The chart was created using data obtained from the Bureau of Labor Statistics' (BLS) and the Bureau of Economic Analysis (BEA).

The chart illustrates the relationship between annual percent changes in real gross domestic product (GDP) and non-seasonally adjusted total non-farm payrolls. GDP data obtained from the BEA; non-farm payroll data sourced from the BLS. Payroll data is unadjusted for recurrent seasonal trends causing monthly spikes and declines in employment levels. As compiled by the BEA, real GDP attempts to measure the growth or contraction in aggregate economic activity without the impact of fluctuating price levels.

Data for 2015 reflects changes in real GDP and non-farm payrolls from the 3rd Quarter 2014 to the 3rd Quarter 2015. All other annual fluctuations are based on calendar year periods.

(Sources: BEA; BLS; Worldly Philosopher estimates.)

There is confusion in the financial markets regarding the underlying strength of the U.S. economy. The expansion, while never strong by historical standards, recently has shown signs of sputtering with a raft of statistics pointing in contradictory directions.

Ever insightful media pundits tell us not to be alarmed. Yes there is a disparity in the numbers. But the most important statistic — monthly total non-farm payrolls — remains

robust, rising by an average 221 Thousand positions in 2015.

A recent specimen is an article entitled, *U.S. Growth and Employment Data Tell Different Stories*, by Nelson Schwartz, which ran in the January 17th edition of The New York Times. Schwartz contends investors should forget about the weak real GDP (or, Gross Domestic Product) and focus on the comparatively more robust non-farm payroll gains re-

"What is bureaucracy? An arrangement of individual incompetences for the purpose of general responsibility."

Anton Kuh (1890 to 1941), Austrian Journalist and Commentator

"By continuing a process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."

John Maynard Keynes (1883 to 1943), British Economist and Political Commentator

"Corporation, n. An ingenious device for obtaining individual profit without individual responsibility."

From the *Devil's Dictionary*

Ambrose Bierce (1842 to 1913?), American Journalist and Writer

Yeah, I am on Twitter too. Follow my sporadic tweets at [my-museclio](#).



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"A good politician is quite as unthinkable as an honest burglar."

H.L. Mencken (1880 to 1956),
American Man of Letters

"Any man can make mistakes, but only an idiot persists in his error."

Marcus Tullius Cicero (BC 107 to 44),
Roman Senator and Political Philosopher

"I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis. The great point is to bring them the real facts."

Abraham Lincoln (1809 to 1865),
16th President of the United States

ported in the Establishment Survey (of the monthly Employment Situation Report). Yes, the U.S. economy is expanding at a tepid pace; but employment gains have been, by historical measures, healthy.

Schwartz and his print, cable and internet colleagues serve as a chorus of sorts for the Obama administration. If non-farm payrolls advance by 200 Thousand or more in a month, the President, members of his Cabinet or his media proxy, will be in front of the television cameras without fail, crowing about job creation since the recovery commenced in June 2009. So despite the torpid growth in the overall economy (by real GDP growth), the labor markets point to an economy on the mend.

This narrative however is less than truthful. In part, its proponents are comparing apples and oranges. More precisely: they are drawing an erroneous conclusion because the two statistics are reported in different forms.

It is not an abstruse problem which would vex the likes of an Einstein or Feynman. No. The transformation involved is a simple one — an operation that a reasonably well-schooled fifth grader can perform without guidance. So a failure to express both series in the same format raises questions not only about the validity of the conclusions drawn but the commentators' intentions as well.

First let us discuss some definitions and conventions. GDP is a broad measure of aggregate economic activity, including both goods and services produced by the nation over a particular period (usually, a calendar quarter or year). Economists with the Bureau of Economic Analysis (BEA) measure GDP in two ways: at current price levels (nominal) or at constant price levels (real). The latter statistic attempts to gauge the quantity of transactions by negating the impact of changing prices. For this reason, real GDP receives most of attention. While the U.S. GDP is measured in trillions of Dollars (whether current or constant), the reporting convention for the headline number is to express it as a seasonally adjusted annual rate, or, SAAR in short. More concisely, quarter-to-quarter (or, year-over-year) fluctuations in real GDP are expressed as a percent change. So while the

aggregate Dollar value is available, the headline number is the percent change from one period to the next.

In contrast, the Bureau of Labor Statistics (BLS), the federal agency responsible for the Employment Situation Report, uses a different convention. Each month, the headline number for non-farm payrolls survey is the absolute month-to-month variation (adjusted for seasonal factors) in total employees (across the private and public employers surveyed).

Even a statistically shy reader at this point can spot the cause for concern and skepticism. The real GDP percent change is not dependent upon scale, or the absolute magnitude of the underlying measure. But the non-farm payroll change is. All factors being equal: the larger the absolute size of the labor force, the larger the magnitude of any month-to-month change.

This is precisely the flaw in the narrative. The last major post-war U.S. recession (prior to what has been deemed The Great Recession) ran from July 1981 to November 1982. At the recession's trough the seasonally adjusted payroll count was 88.8 Million. In comparison, at the end of the last recession in June 2009 (the putative beginning of the recovery), the corresponding NSA payroll count was 130.9 Million. In other words, The United States started the current recovery with almost 50 percent higher staffing.

Now consider the average monthly change in seasonally adjusted terms over the 66 months since each recession's trough. Why 66 months? Because the current recovery is dated to have commenced in July 2009. Five and one-half years — or 66 months — have elapsed since the Great Recession's bottom to the last non-farm payroll report (for December 2015).

For the 1982 recession, non-farm payroll gains averaged 245 Thousand jobs over the initial 66 months of the expansion. In contrast, since June 2009 monthly employment gains have averaged only 158 Thousand per month. Yes the rate has accelerated — slightly — to 221 Thousand per month in 2015. But in the corresponding last twelve months of the earlier expansion (June 1987 to



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May 1988), payroll gains averaged 269 Thousand per month. However one picks and chooses, the absolute pace of job creation in the current recovery trails that for the 1980/82 recession. So anyone who claims an average monthly gain of 200 Thousand net new jobs (in the current economic environment) is a sign of strength is either ill-informed or disingenuous.

The chart leading this essay is my attempt to set the record straight. The sole transformation made was to compute the calendar year percent change in non-seasonally adjusted total non-farm payrolls and plot the result against the corresponding annual percent change in real GDP. Annual pairs are illustrated for the last 65 years. The only excep-

tion is 2015. At the current time, the advance estimate for the 4th Quarter 2015 GDP is unavailable. Rather than wait, I have used the twelve months ending September as a proxy for the calendar year.

In the grand scheme of things this estimate does not alter the conclusion: the overall performance of the U.S. economy has been at best mediocre in each of the last six calendar years (2010 to 2015). Compared to other post-war years, as a nation we have never experienced the likes of the last six years of back-to-back sub-par performance.

Yes we have had two to three year stretches of stagnant growth in the past; but never six consecutive years since the end of

"It will be of little avail to the people that the laws are made by men of their own choice if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood."

James Madison (1751 to 1836), American Scholar and Statesman, 4th President of the United States

"The atmosphere of officialdom would kill anything that breathes the air of human endeavor..."

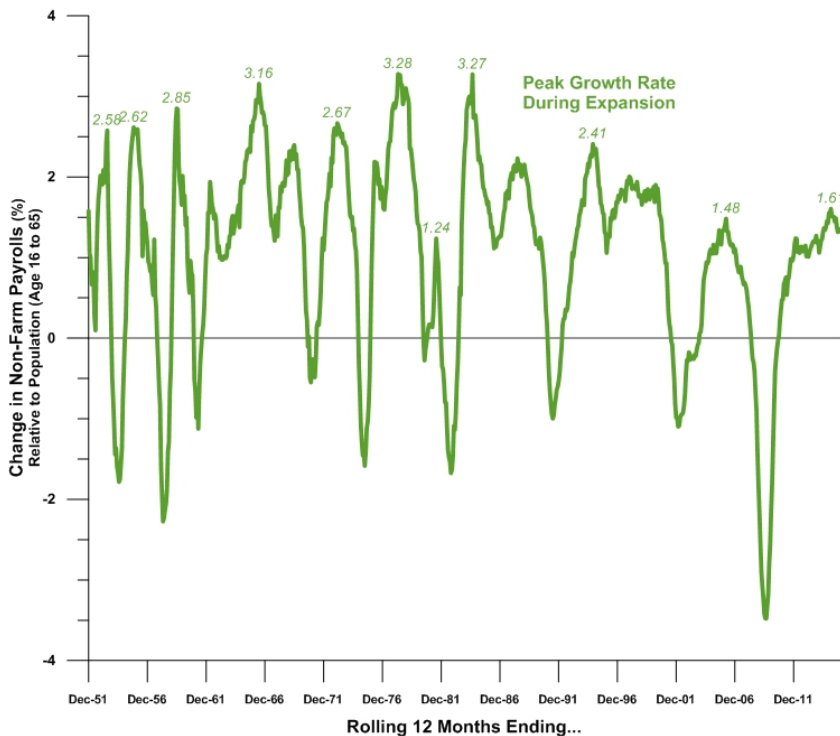
Joseph Conrad (1857 to 1924), British Author

"An unlimited power to tax involves, necessarily, the power to destroy."

Daniel Webster (1782 to 1852), American Senator, Statesman and Jurist

A Low Yield of Low Paying Jobs

Change in Non-Farm Payrolls to Average Working Age Population
Rolling 12 Month Periods -- Dec 1951 to Dec 2015



Notes:

The chart illustrates the growth in non-farm payrolls versus the average working age population (defined as the civilian non-institutionalized population between the ages of 16 and 65) over rolling 12 months period.

Source data in both the numerator and the denominator based on non-seasonally adjusted (NSA) counts. As the description implies, non-seasonally adjusted data is not adjusted for seasonal trends occurring during the calendar year. Typically such seasonal patterns occur annually.

(Sources: BLS; Census Bureau, Current Population Statistics; Worldly Philosopher estimates.)



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"It is the highest impertinence and presumption...in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense....They are themselves always, and without any exception, the greatest spend-thrifts in society. Let them look after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will."

Adam Smith (1723 to 1790),
Scottish Philosopher

"It is almost as though the universal conversion of political parties to private enterprise and the market has happened only because the state has found itself able to control our lives more effectively through regulation than through ownership."

Roger Scruton (b 1944),
British Philosopher and Man of Letters

the Second World War. Now some will counter this is a reflection of the severity and pervasiveness of the 2008 financial crisis. I do not disagree. I will contend though the policy response has not — long-term — helped.

When the federal government should have focused on creating certainty it instead sowed doubt. When the federal government could have provided fiscal carrots to induce long-needed structural change, it opted rather to buy votes. And, when the federal government should have reduced the burden of regulation, it chose instead to heap more rules onto the pile for American business to comply with.

For all the talk of change in Washington, it has repeatedly shown just how resistant it is to any reform of the status quo. Blame accrues to no single person, party or faction alone; there is enough to go around, to blanket both sides of the aisle, Democrat and Republican alike.

Now critics of this piece may contend due to structural changes in the demographics of the labor force, fewer new jobs are needed any way. The argument goes, as the U.S. population ages, labor force participation will decline causing a slow down in the growth of the supply of workers. This might solve the problem, except for one thing: it does not fit the facts.

Number one, the decline in labor force participation is occurring for other age groups, not for the segment of the population 65 years of age and older. Ironically, Americans over 65 have either delayed their exit from, or re-entered, the labor force. The participation rate for this age group is approaching 20 percent, a level last seen in the late 1960s.

A combination of circumstances has led to older Americans to postpone retirement. A low savings rate and the virtual abolition of the defined benefit pension (with of course, the exception of government employees) are key reasons why for most Americans approaching their so-called golden years their retirement strategy is to keep on working. As more Baby Boomers reach and pass the normal retirement age, many will have no other choice than to keep working. A factor increasing the

supply of labor.

Number two, the drop in the labor force participation rate among younger Americans has been fueled in part by a liberal granting of disability awards. This combined with an average monthly benefit that is not significantly below the earnings from a job at the minimum wage, has provided a perverse incentive to exit the labor force. Over the last fifteen years (to 2014), the number of disability insurance recipients has grown 76.9 percent. As a percentage of the working age population, the ratio has jumped from 3.3 percent in 1999 to 5.1 percent in 2014. A tightening of criteria, a systematic review of recent grants or a boost to the minimum wage may compel or induce individuals to re-enter the labor force.

And, number three, the Baby Boom "Boomlet" has not been completely absorbed into the labor force. While the peak 2009 cohort (in absolute numbers) is in the process of starting work or finishing their graduate studies, there are still more wending their way from adolescent to adulthood. Over the next decade jobs must be created to accommodate their entry into the workforce.

For these reasons, hoping for salvation from a prolonged secular drop in the labor force participation rate may prove to be foolish. And, not to say un-American as well. We consider our nation the land of opportunity not a desert of wasted potential. Meaningful work as Sigmund Freud observed is an essential ingredient for a well balanced life. Until the last decade, the U.S. economy has excelled in creating work for all willing and able to earn their keep. But in recent years job creation has sputtered despite claims to the contrary.

Alas, there is no discrepancy in the direction of economic statistics. They all unfortunately point to stagnation and mediocrity.



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"The more numerous the laws, the more corrupt the government..."

Publius Cornelius Tacitus (AD 57 to 117),
Roman Senator and Historian

"A strong conviction that something must be done is the parent of many bad measures."

Daniel Webster (1782 to 1852),
American Senator, Statesman and

"The American Republic will endure until the day Congress discovers it can bribe the public with the public's money."

Alexis de Tocqueville (1805 to 1859),
French Political Philosopher