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What a Difference a Month Makes – Disaster in the Labor Markets in June 2015: moving from Encouraged Worker in May to very Discouraged Worker Effect in June

Disaster in June's Labor Report: Labor Force down; Employment down; Unemployment down (but didn't move to Employed); Not in the Labor Force way up!

Employment Situation – June 2015 (released July 2, 2015)
http://www.bls.gov/news.release/archives/empsit_07022015.pdf

(Excerpt from) Household Data
Summary Table A. Household Data, seasonally adjusted

(numbers in thousands)

Category	May-15	Jun-15	Change from May 2015 - June 2015
Employment status			
Civilian Noninstitutional Population (CNP)	250,455	250,663	208
Labor Force (LF)	157,469	157,037	(432)
Labor Force Participation Rate (LFPR)	62.9%	62.6%	-0.3%
Employed	148,795	148,739	(56)
Employment-Population Ratio	59.4%	59.3%	-0.1%
Unemployed	8,674	8,299	(375)
U3 Unemployment Rate	5.5%	5.3%	-0.2%
Not in the Labor Force	92,986	93,626	640

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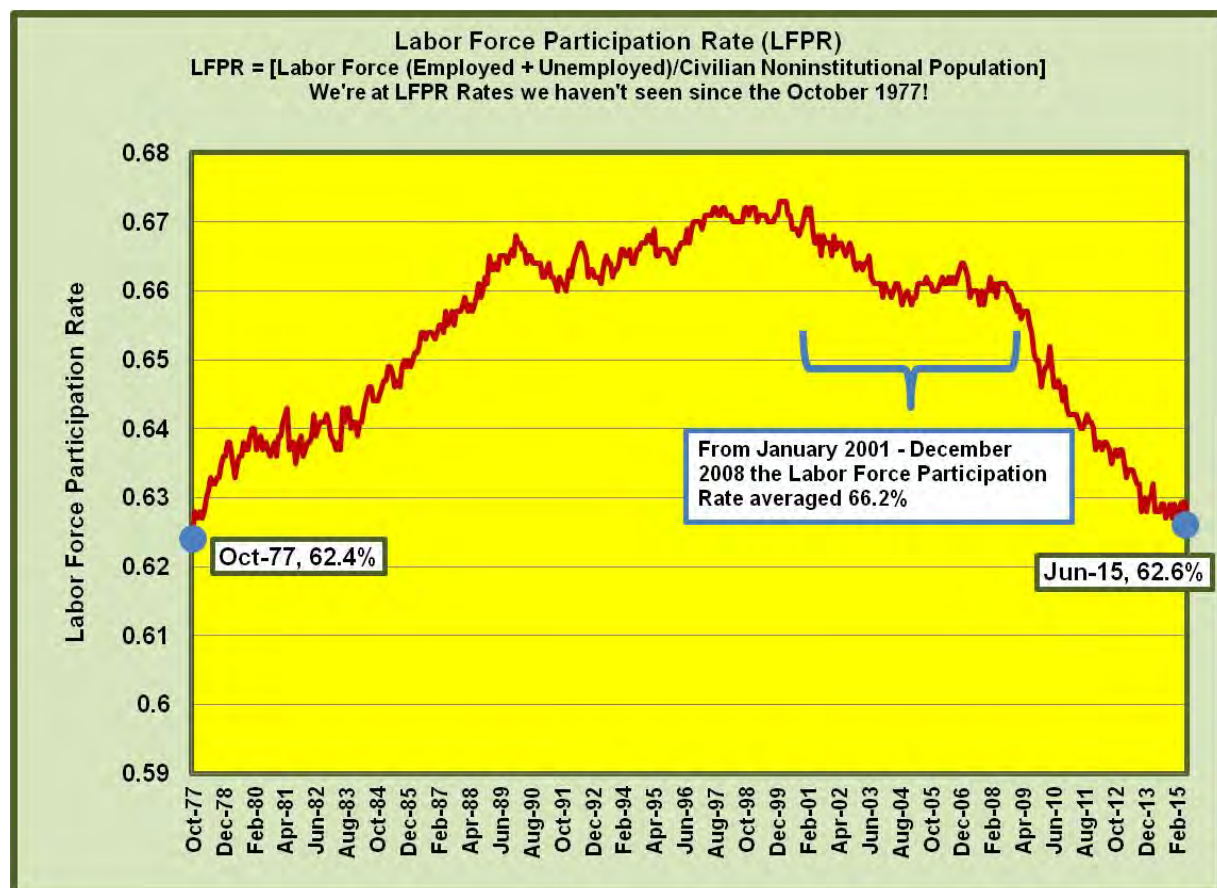
Digging into the Monthly Employment Numbers

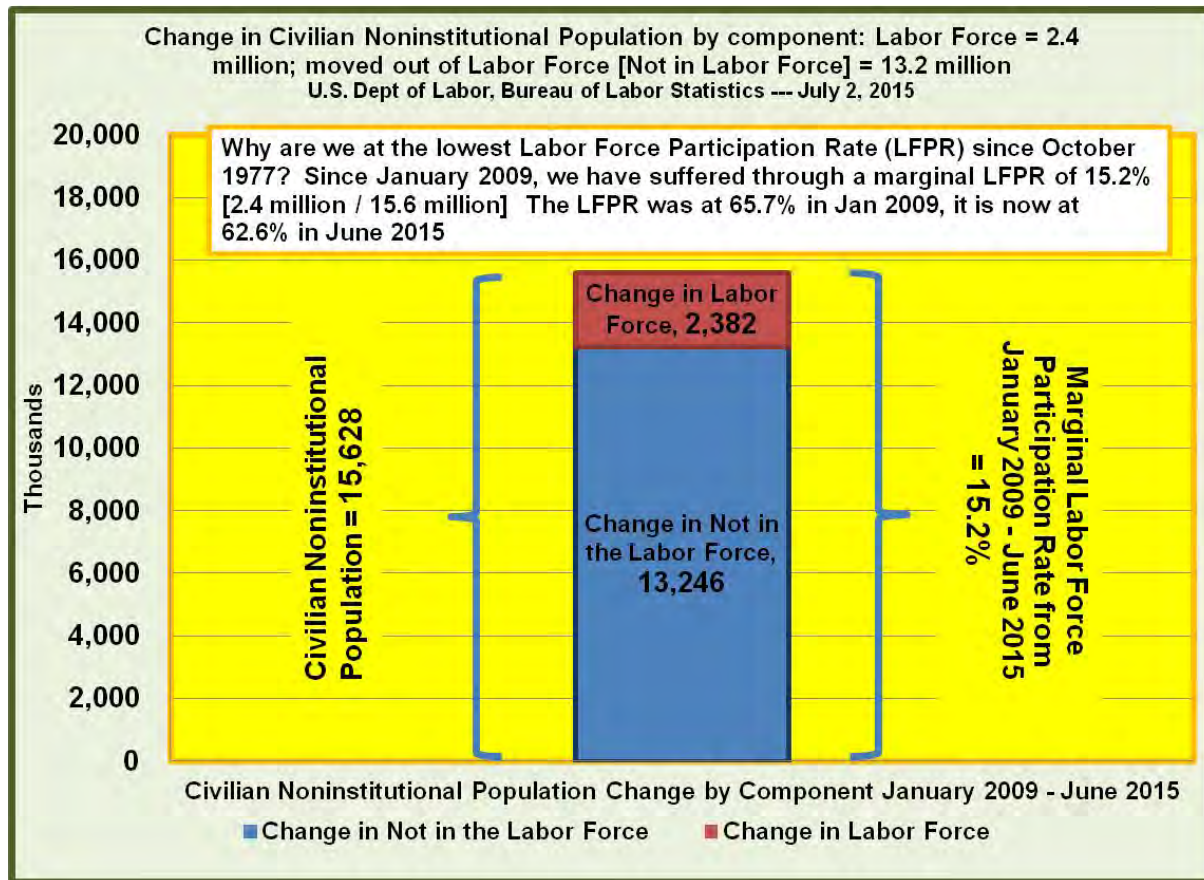
+ In the latest news release we saw an increase in the Civilian Noninstitutional Population (CNP) of 208,000 (those people 16+ who are not in the military, prison, or counted in some other institutionalized setting).

+The Labor Force [(LF) (those Employed -56,000 + those Unemployed -375,000 actively seeking employment)] DROPPED by 432,000! It's no wonder the U-3 unemployment rate fell from 5.5% to 5.3%...everyone left the labor force!

+Since the LF fell by 432,000 and the CNP grew by 208,000 (a respectable number), this depressed the Labor Force Participation Rate which FELL 0.3%, moving from 62.9% in May to 62.6% in June – a **452 MONTH LOW!**

The LFPR was 62.4% in October 1977...that was a different time altogether with increasing numbers of women entering the labor force the 62.4% was actually quite a bit higher than in previous months --- going back years.





+Employed dropped by 56,000 in the Current Population Survey while it rose 223,000 in the Payroll or Establishment Survey. We've discussed the often diverging paths of the two surveys, but suffice to say that the Establishment Survey represents a narrower scope than the Current Population Survey.

http://www.bls.gov/web/empsit/ces_cps_trends.pdf

"Because the household survey has a broader employment definition than the payroll survey, the household employment level (green line) exceeds that of the payroll survey (blue line)."

+Employment-Population Ratio fell by 0.1%, the result of the 56,000 fall in Employment, while the Civilian Noninstitutional Population CNP grew by 208,000 (Employed -56,000 / CNP 208,000): the Employment-Population Ratio needle moved from 59.4% to 59.3%.

+Unemployed dropped by 375,000! Now how can that be a bad thing you ask? The key to this is that U3 Unemployment counts those people who are not employed, but are actively seeking employment. Stick with this for a moment...

+The Unemployment Rate dropped by 0.2%, going from 5.5% in May to 5.3% in June 2015. How can this be viewed as a negative thing? The key here is to focus on the unemployed as a measure of those not employed, but SEEKING EMPLOYMENT. Since the Employed also fell by 56,000, then this means that those 375,000 leaving from the ranks of the unemployed didn't find employment at all --- on a net basis. So where did they end up?

+Not in the Labor Force rose by an incredible 640,000 in the month of June...wow! What does this mean? Well, on a NET BASIS, we saw the following:

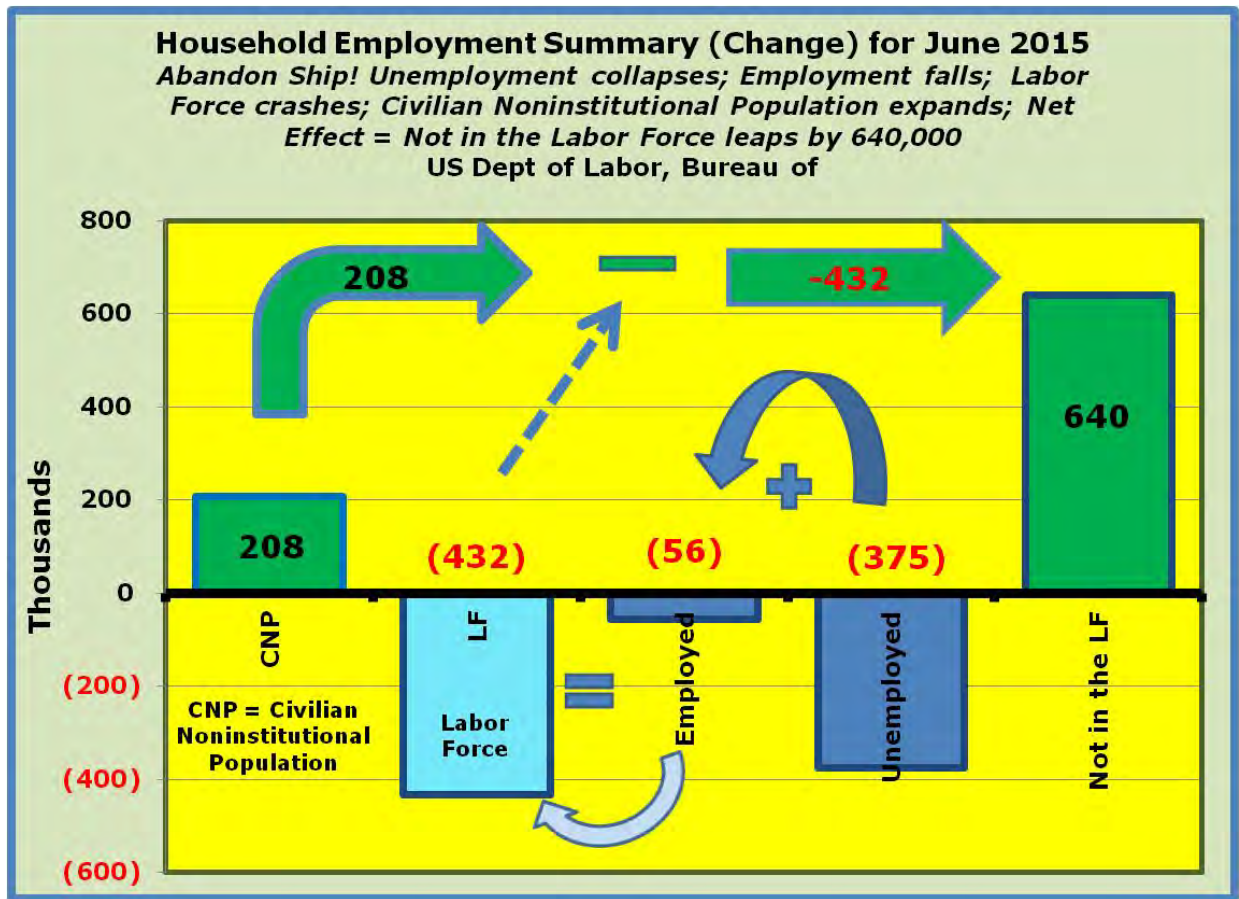
CNP grew by 208,000

The LF dropped by 432,000 (of that -56,000 were attributable to a drop in employment and -375,000 from a drop in unemployment).

Change in the CNP 208,000 = LF -432,000 + Not in LF 640,000

Change in Not in LF = Change in CNP of 208,000 less a negative 432,000 LF
Change in Not in LF = 640,000

So, in essence, with the Labor Force collapsing by more than the working age population actually grew, then this means that on a net basis 640,000 people moved to the sidelines back from the LF (again, combined with the new additions to CNP).



What does this latest monthly (Labor) report signal?

Last month we were talking about the Encouraged Worker Effect, where you have unemployment rates on the rise (along with employment) because of the prospect of new jobs being created on the horizon. Keep in mind that to be classified as unemployed in the Household Survey, you are not employed, but actively seeking employment...meaning you haven't completely given up.

For June 2015, we have an entirely different picture being painted, with employment down (56,000), unemployment down (375,000) and while the Civilian Noninstitutional Population rose by a normal 208,000, there was nowhere for those new entrants (or re-entrants) to go. Again, looking at the Employment Picture on simply a net basis, we ended up with 640,000 people moving completely out of the labor force.

The discouraged worker comes into play when you see a drop in the unemployment due to the fact that people give up on seeking employment. That is the 375,000 dropping out of the unemployed in conjunction with the 56,000 exiting from the

employed, for a total of 432,000 leaving the Labor Force...let's not forget that the 'Not in the Labor Force' grew by 640,000 due to the dropouts from the Labor Force (432,000) and the net effect of the additions to the Civilian Noninstitutional Population (208,000) who were not absorbed into the Labor Force.

The Takeaway for the June 2015 Employment Report...

The good news in terms of the Fed taking their promised action on pressuring up the Fed Funds Rate (sooner rather than later)...if this keeps up (collapsing LFPR, Employment Population Ratio, etc.), the Fed won't act on that threat for some time to come.

The bad news: if we continue down this same path, in spite of the ballyhooing in the media over lower unemployment rates and job growth in the payroll survey, wages will continue to stagnate, younger workers will find it increasingly difficult to find work (yes, we will have the LFPR by age group report out soon) and things like the Social Security receipts will continue to fall, driving us ever more quickly to a zero balance in the Trust Fund.

Happy 4th of July 2015!