Philadelphia Council for Business Economics

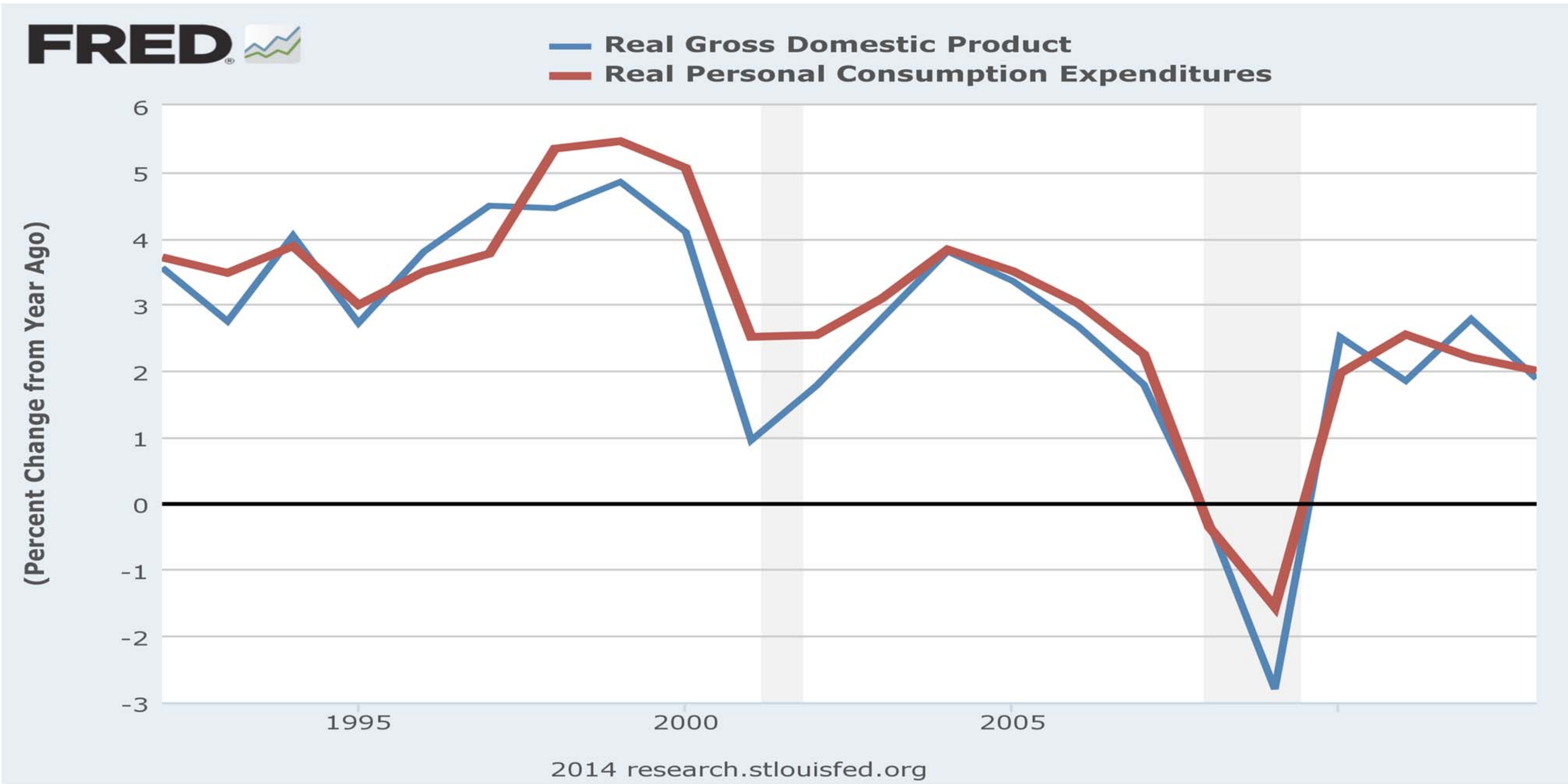
A Chapter of the National Association for Business Economics (NABE)

Is This the Year of "Take This Job and Shove It"?

Joel L. Naroff, Ph. D.

President, Naroff Economic Advisors, Inc.

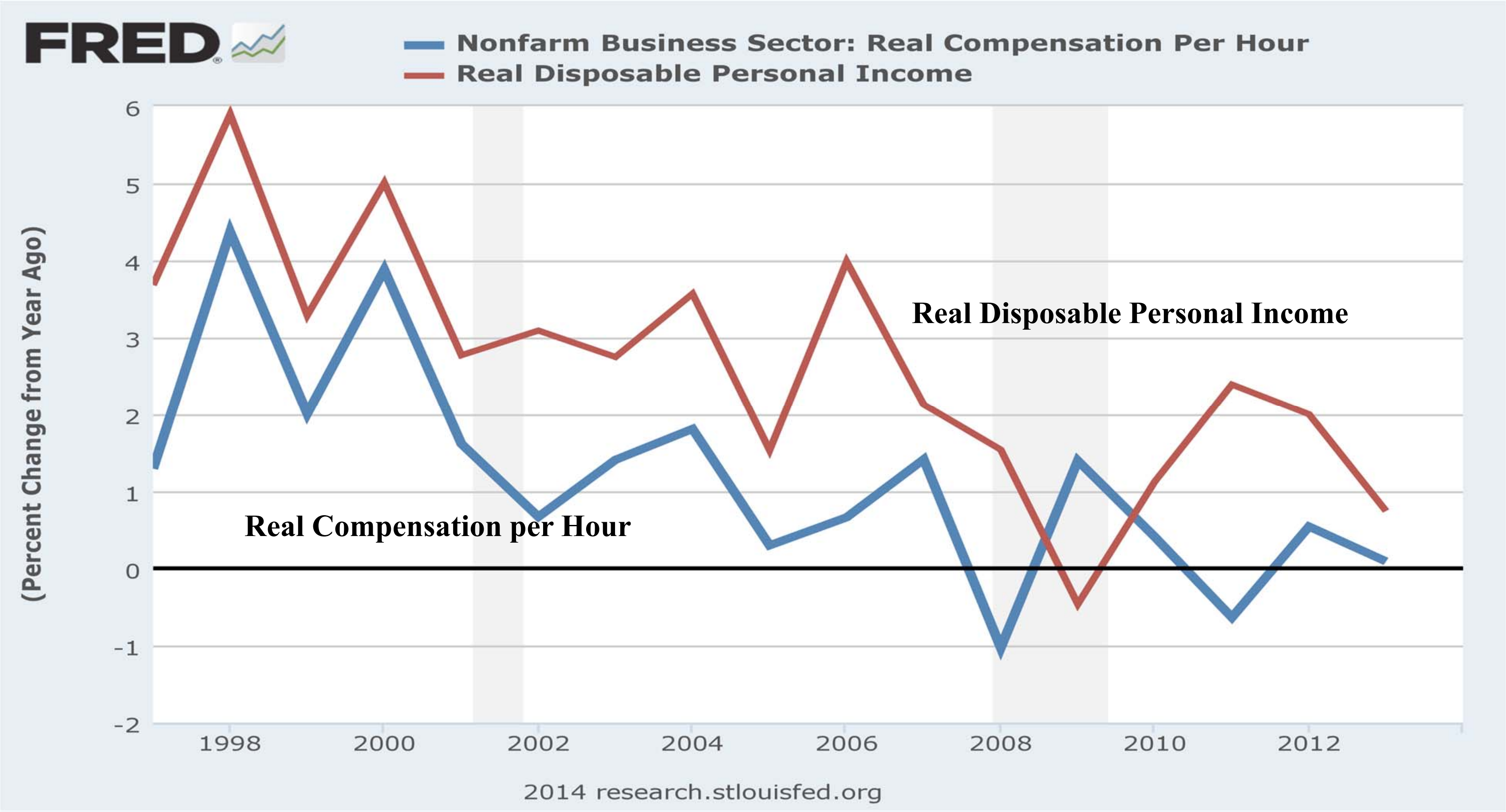
The Disappointing Recovery Is Being Driven By Weak Consumer Spending



If you want 3% or more growth,

you need 3% or more consumption growth

Problem: Household Incomes Are Stagnant!



It's hard to grow quickly in a consumer-based economy when household income growth is weak!

Until the Unemployment Rate Falls Further, Wages Will Not Grow!

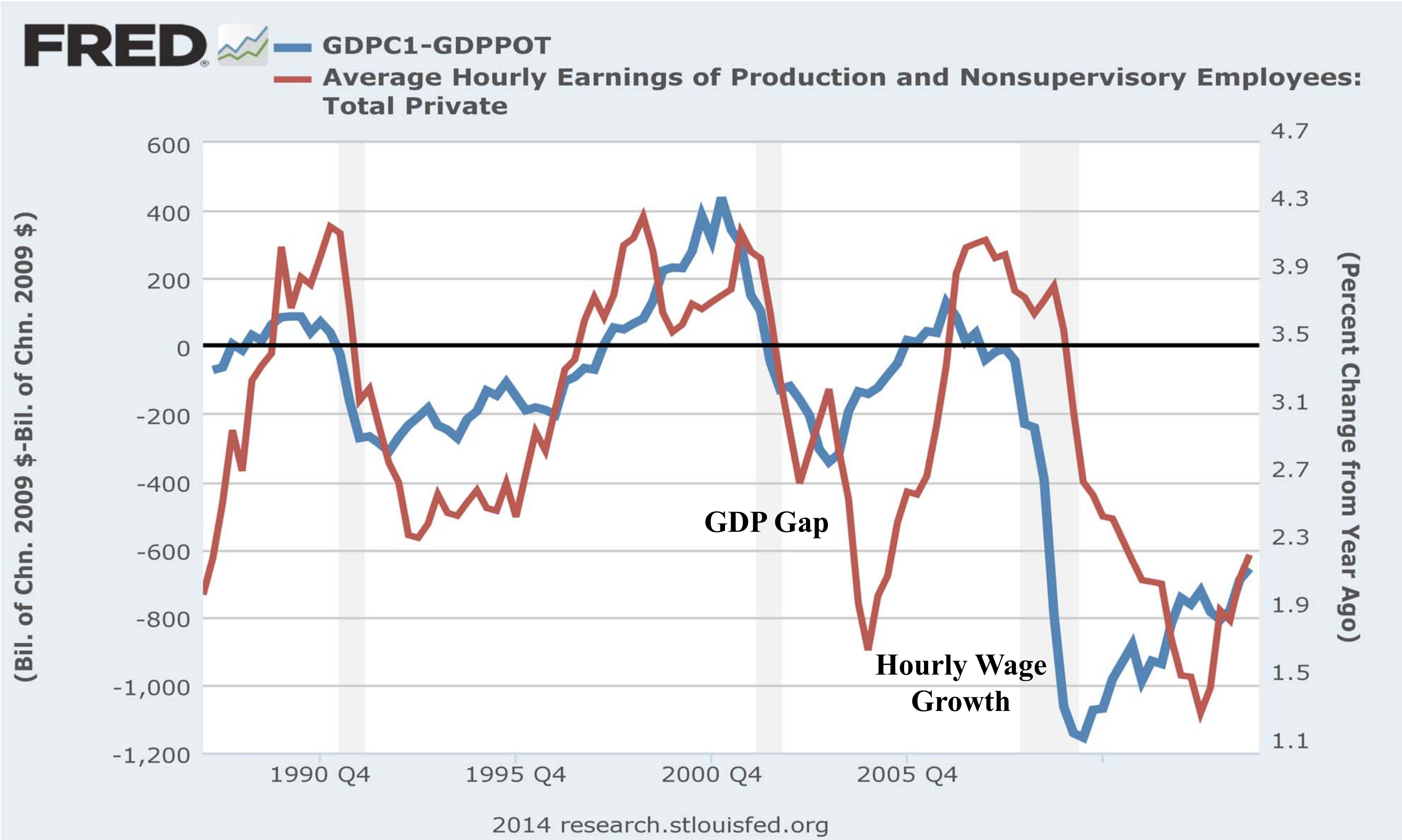
Limited Job Growth

High Unemployment Rates

Modest Income Growth

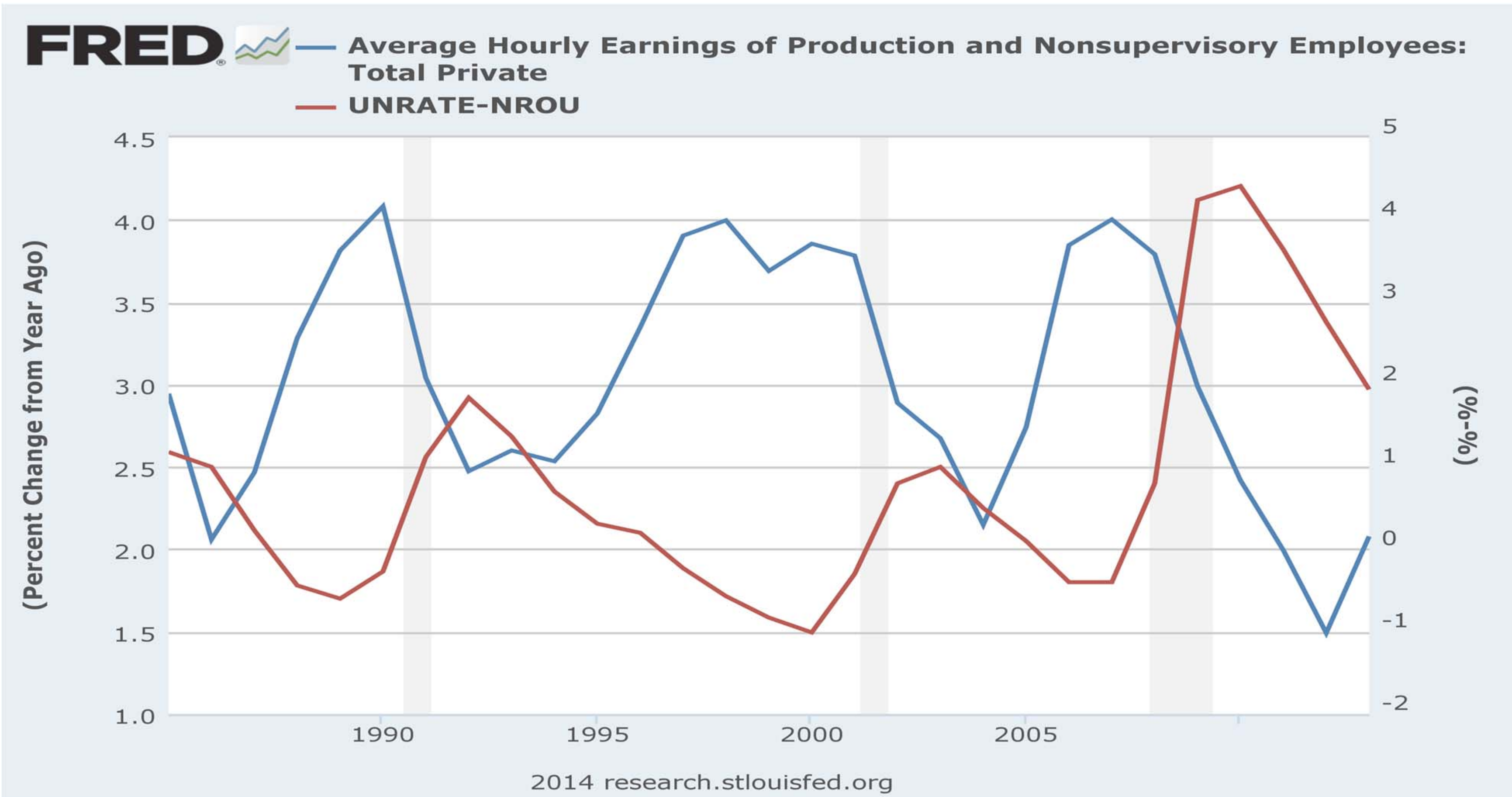
Modest Spending

Reducing the Output Gap Would Help



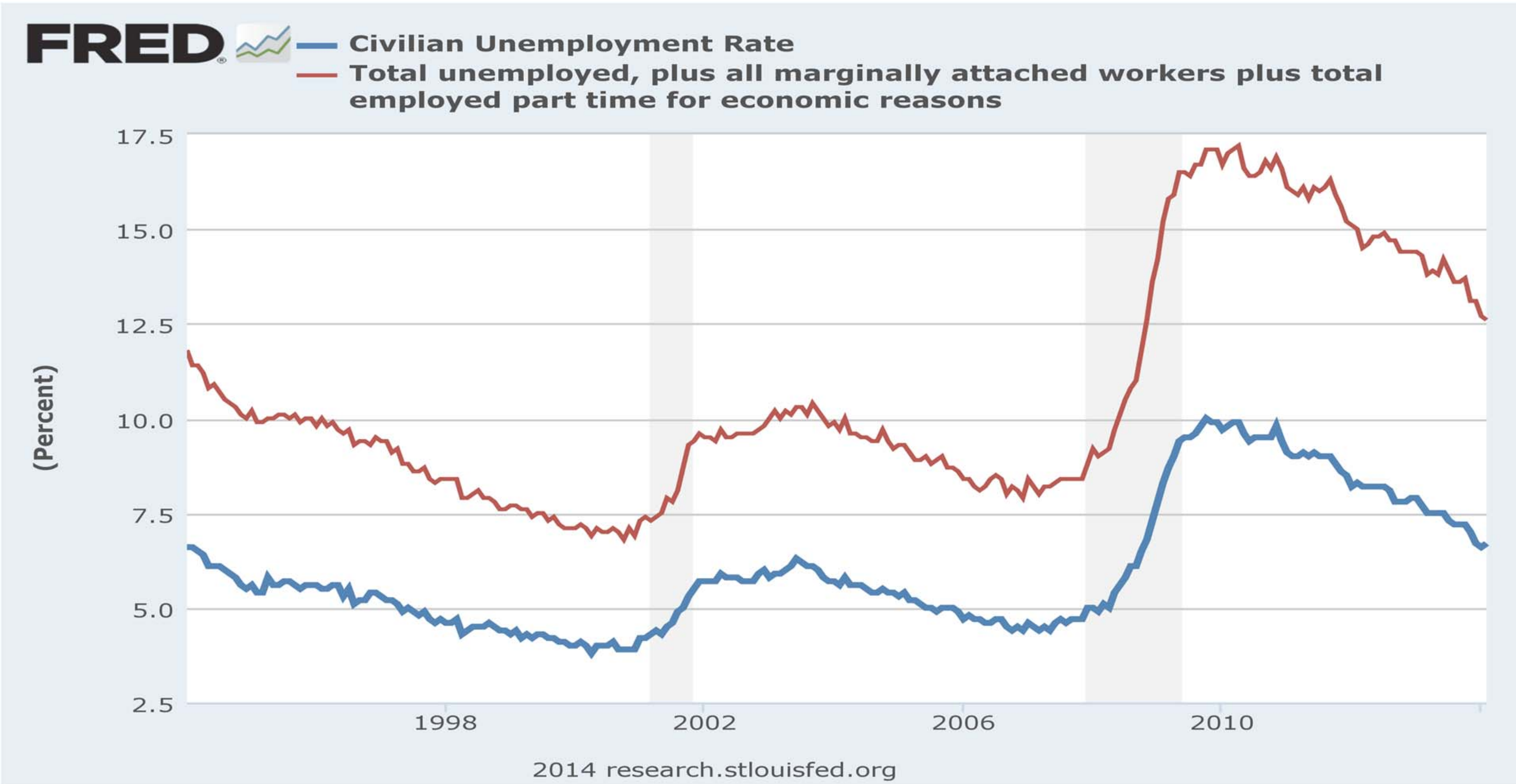
You still need spending to increase for growth to accelerate

How Do You Get Wages Growing Faster?
Narrow the Unemployment Rate/Full Employment Gap



It's all about the unemployment rate!

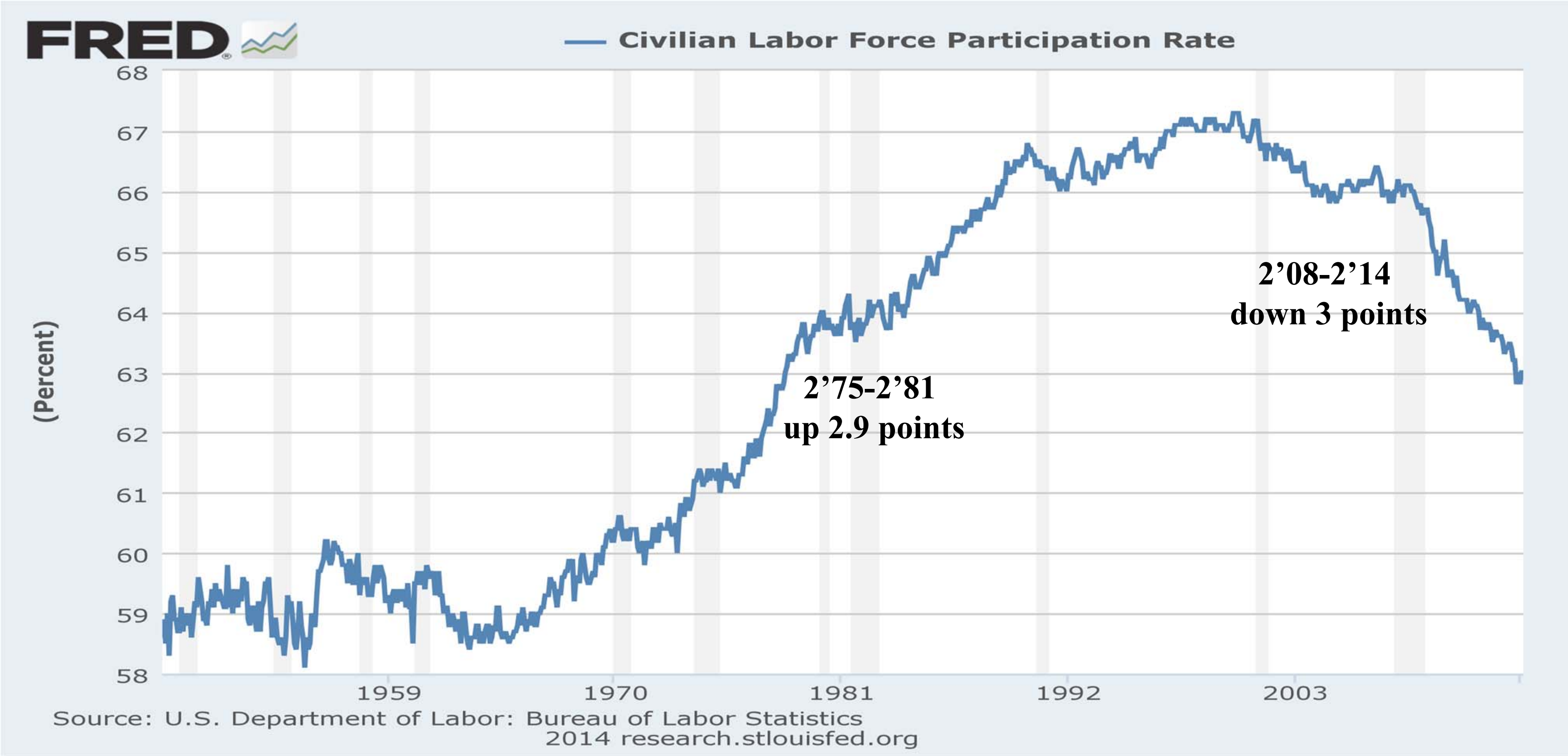
The Unemployment Rate Is Coming down



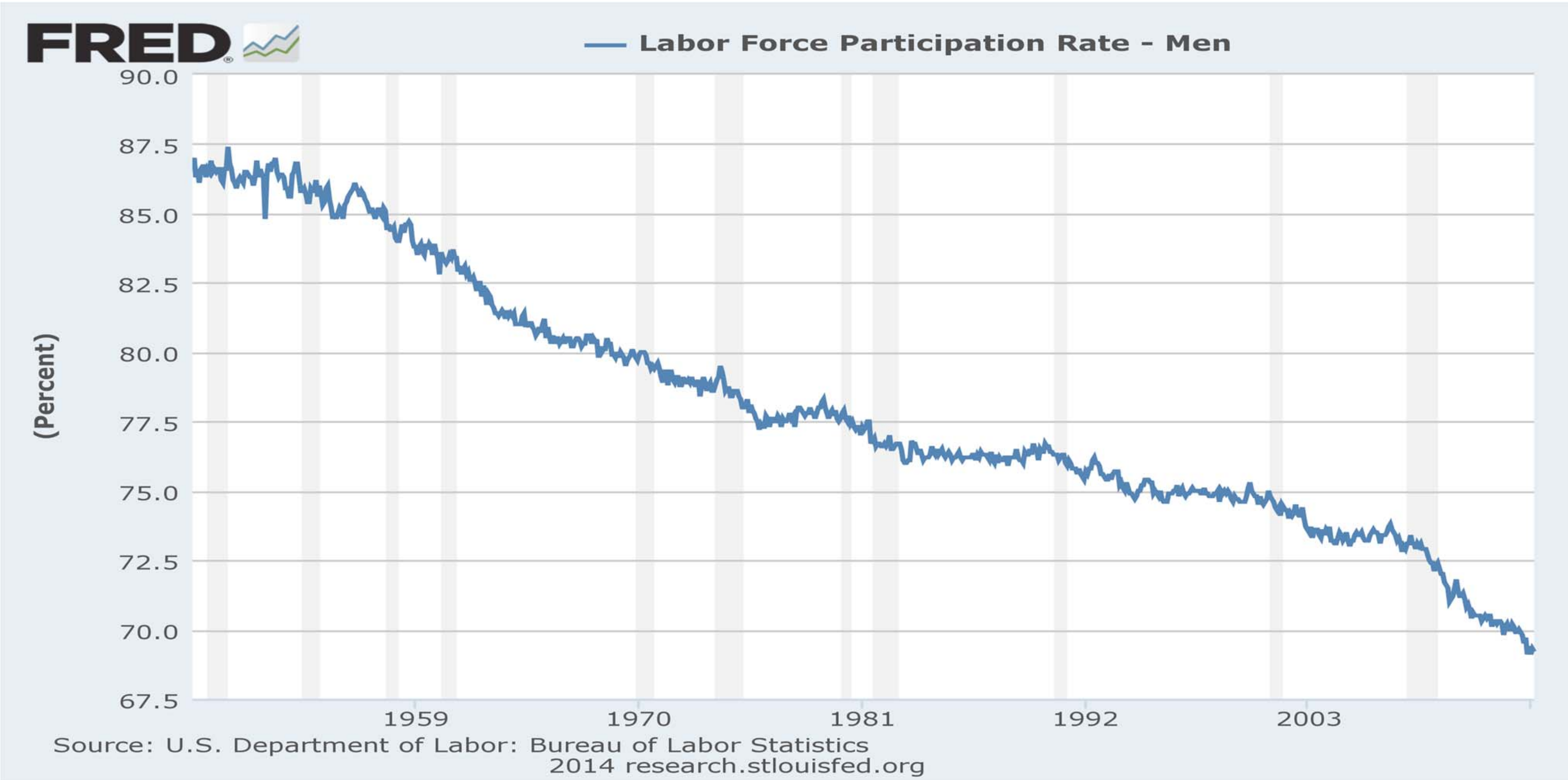
But is it an accurate measure?

(Not if you are Jack Welch)

Labor Force Participation Rates Are Falling: Is It Secular Or Cyclical?



Male Labor Force Participation Rates Have Fallen for 65 Years!



That's not a cyclical trend, though there may be a short-run cyclical component

Female Labor Force Participation Rate Peaked in April 2000

Fourteen years is pretty much of a trend.

Besides Boomers, Teenagers May Be A Major Factor in the Declining Participation Rate

Age Group	Pre-Recession Peak (Date of Peak)	Latest Level (January 2014)	Change from Peak
16 and older	66.8% (July 2007)	62.5%	-6.4%
16 – 19	53.5% (July 2006)	30.4%	-43%
20 – 24	78.1% (July 2008)	69.5%	-11%
25 – 34	83.5% (August 2008)	81.1%	-2.9%
35 – 44	84.6% (October 2008)	82.5%	-2.5%
45 – 54	82.4% (November 2008)	79.2%	-3.9%
55 – 64	65.4% (October 2008)	63.4%	-3.1%
65 and older	17.3% (September 2008)	18.7%	+8.1%

Source: Challenger, Gray & Christmas, Inc., with unpublished non-seasonally adjusted data provided by the U.S. Bureau of Labor Statistics

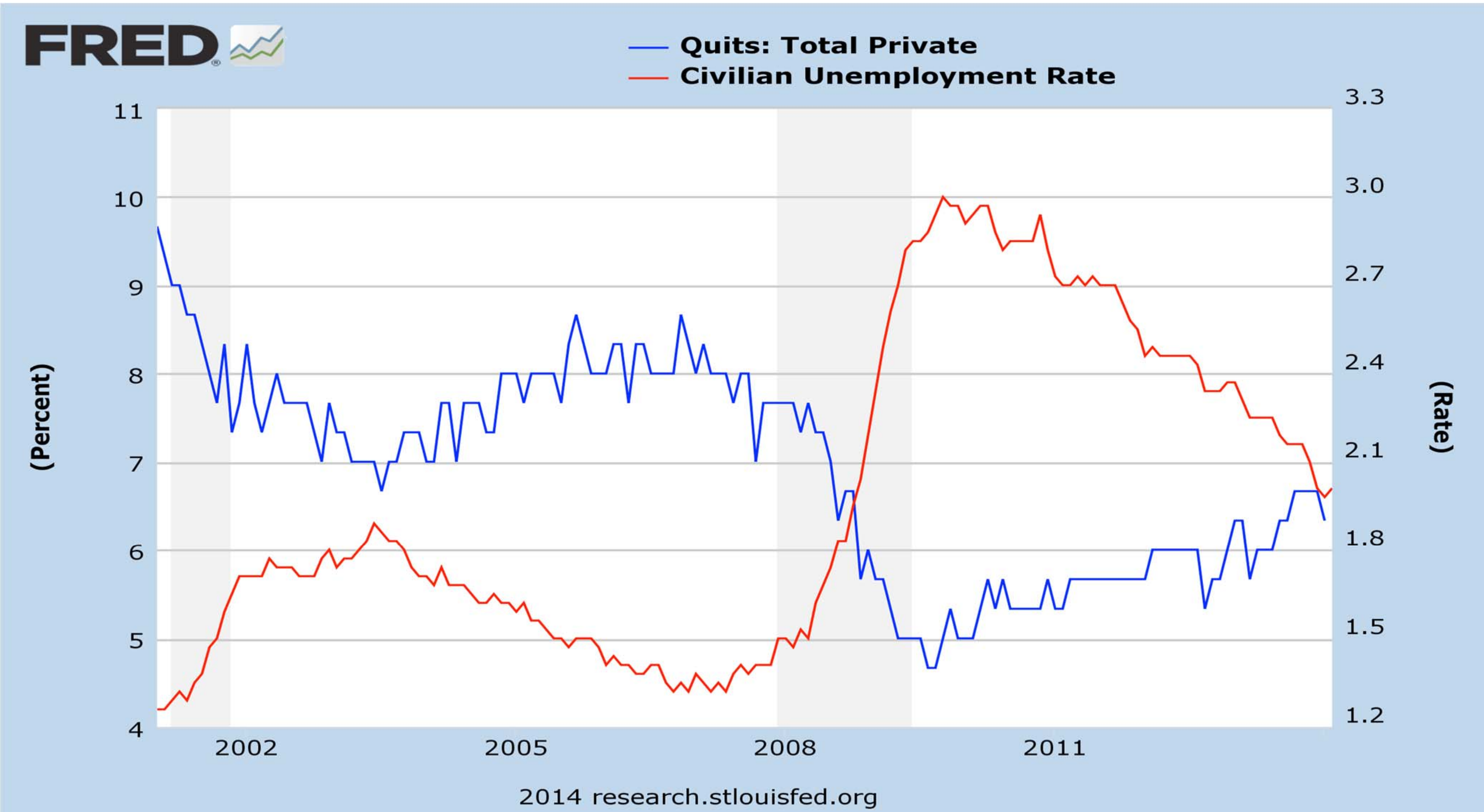
If they come back into the market, they may not restrain wage gains

Other indicators are also pointing to the labor market tightening

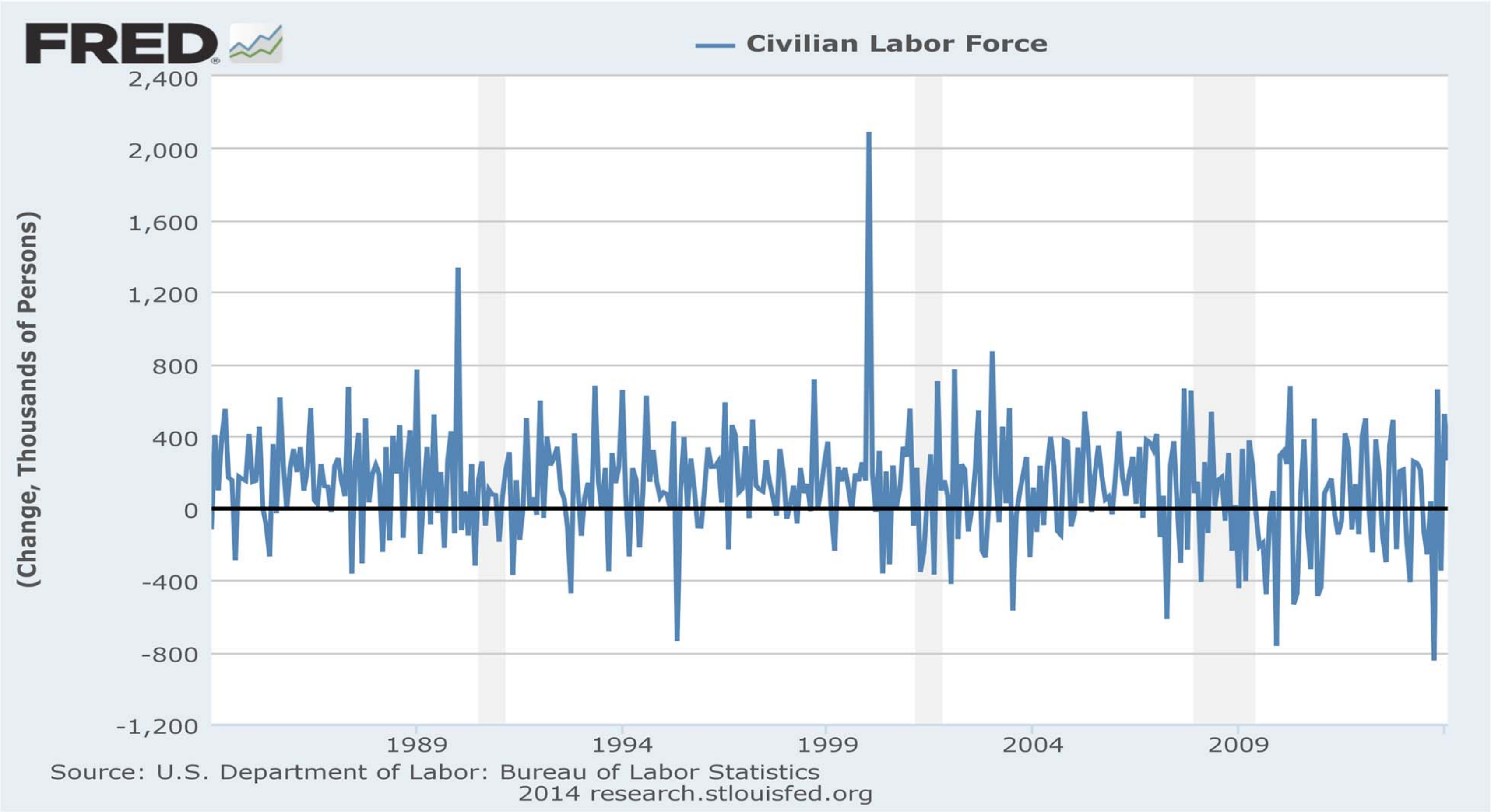
Jobless Claims Are Near Historic Lows - When Adjusted For Labor Force

The Number of Unemployed Per Job Opening Is Dropping Dramatically

The Rise In Quits Is Also Confirming the Unemployment Rate Decline



This Is Not An Audio Chart



It's monthly changes in the labor force!

The tightening labor market is real and workers want out badly

- ***Businesses are totally unprepared for having to bid for workers.***
  - ***Wage gains should accelerate sharply as firms try to retain workers and attract new employees.***
- ***Workers per openings are starting to decline and labor shortages in regions, industries and occupations are beginning to appear.***
- ***Quit rates are likely to increase much faster as workers become more confident and tell their employers to:***

Take this job and shove it!

What does the tightening labor markets imply for the Fed and Interest Rates?

If the unemployment rate falls below 6% by year's end, the Fed will tighten in 1Q '15

Big Picture Economics: How to Navigate the New Global Economy

by Joel Naroff and Ron Scherer