

BULL AND BEAR BULLETIN

Job Market: The Good and Bad

As we approach the fifth year of economic expansion, monthly job creation has been consistently near the thirty year average of 127,000 jobs (Chart 1). Last month was no exception, with 162,000 jobs created. On the surface, the monthly additions may seem encouraging, but the lack of significant job creation has left the unemployment rate over 7.50%. Furthermore, the jobs being filled on a monthly basis have not been in fields that are traditionally considered high paying careers.

At the basic level, jobs sustain economic growth. Jobs give households a source of income, help build long-term wealth and create optimism that translates into economic activity. Unfortunately, the government cannot create jobs, but can only foster or destroy an environment for job creation. Job creation starts with consumer confidence and demand and progresses toward business confidence and earnings. When any one of these variables is in question, job creation suffers.

In today's economy, consumer confidence continues to be on the mend but spending remains in a weak position due to a lack of strong wage growth (Chart 2). Household income has been restricted by the lack of high paying jobs and the growing number of workers forced to accept part-time employment. As the data reflects, there is a clear relationship between the decline in wage growth and the increase in the number of part-time jobs created (Chart 3).

If households are forced to accept less monthly income to sustain employment, it is difficult to envision an environment where consumer confidence returns to a level that reflects optimism and unrestrained spending. If consumer spending remains restricted, even on a modest basis, business confidence and hiring may fail to bring the unemployment rate back below the long-term average.

To make matters worse, many businesses may look to reduce the expected costs associated with the Patient Protection and Affordable Care Act by cutting employee hours or only hiring part-time employees. This unintended consequence of the healthcare legislation will clearly act against any gains associated with the gradual improvement in consumer confidence.

In an economy where stability remains in question, any job creation may be considered a positive. The wealth effect created by job stability and wage growth is critical in a period of time when households are also increasing their savings rate and paying down debt. In order for the economy to achieve sufficient stability that would allow the Federal Reserve to reduce its influence on the economy, there needs to be an improvement in the industries associated with higher paying jobs.

It is our hope that necessary household replacement cycles, savings exhaustion, improved balance sheets and increasing confidence will continue to drive the economy forward and will ultimately produce the jobs necessary to sustain a full economic recovery. Until this dynamic takes hold, we anticipate continual stimulus from the Federal Reserve and further market volatility.

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Chart 1

Net Non-Farm Payroll Monthly Change

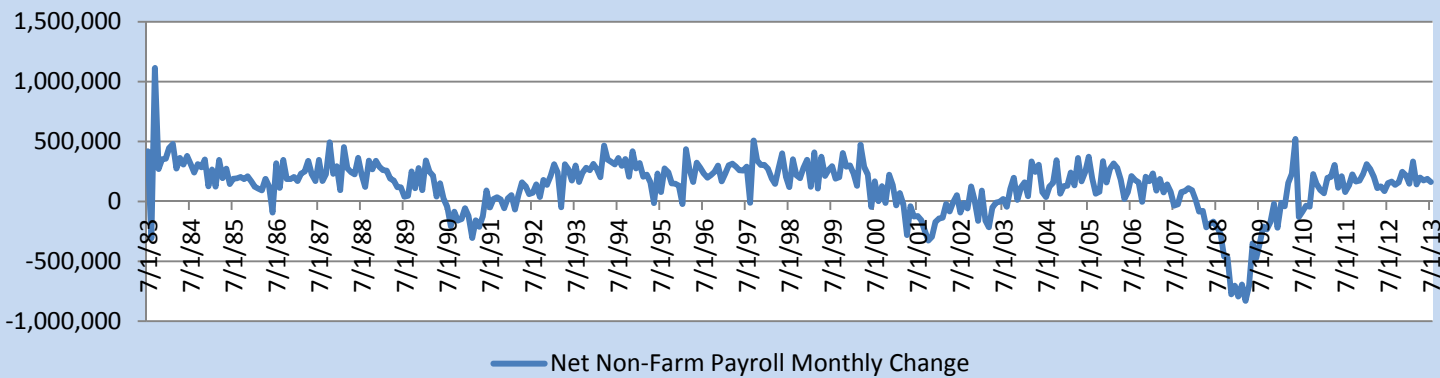


Chart 2

U.S. Personal Income vs. Personal Outlays

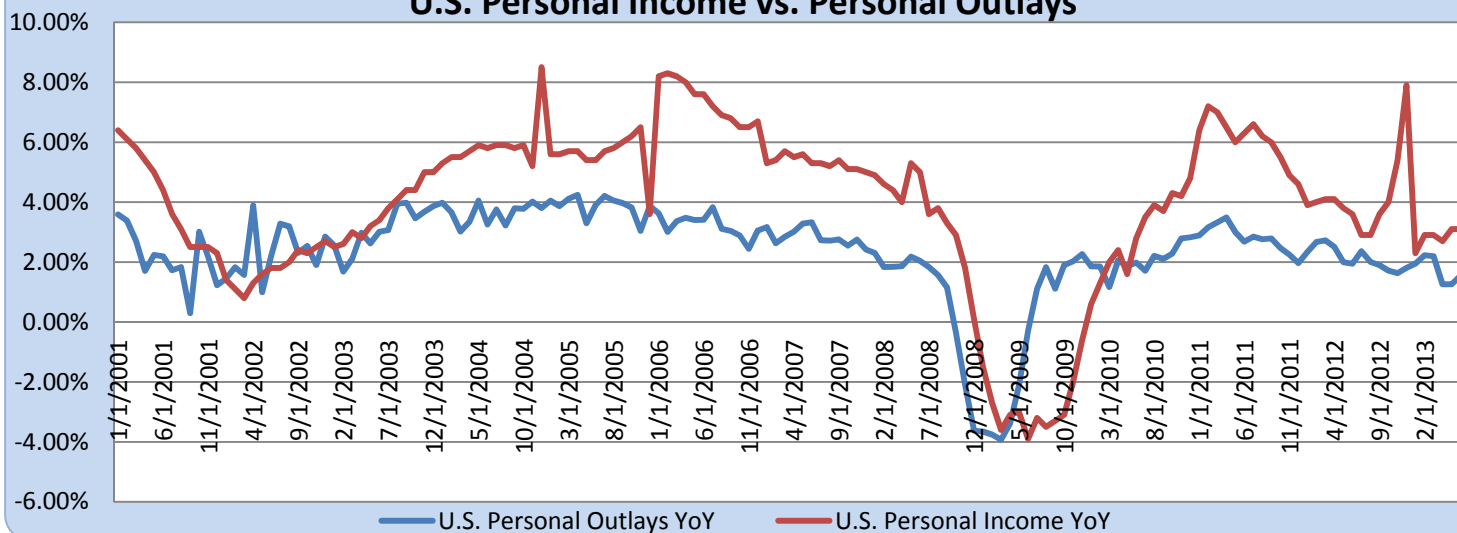
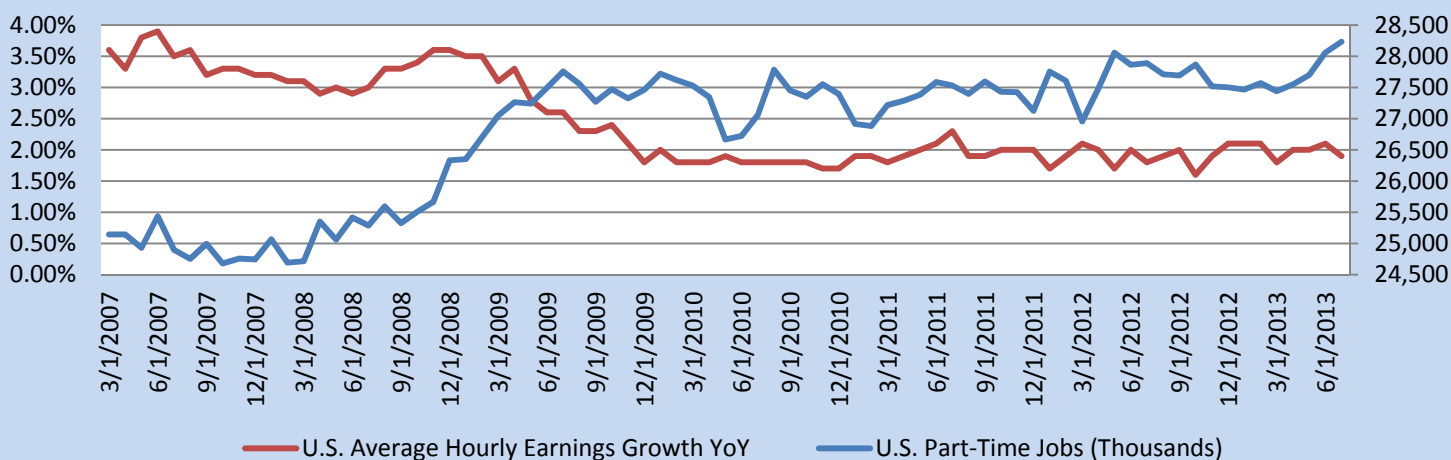


Chart 3

Part-Time Job Creation vs. Average Hourly Earnings Growth



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