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Something to Think About

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COMMON CENTS

Ah, the first Friday of the month. That can only mean one thing: the Employment Situation report. What will it tell us about the strength of the US economy? Are employers adding jobs, or cutting them? Is the American worker making more or less money than they were? Oh, the data embedded in the roughly 40 page report! And how the investment industry analyzes the stew out of it! Two words: good times.

I don't know how many folks work on compiling, sorting, and formatting all the necessary data, but it must be an army. Even so, no matter how tight the process, the best they can generate is a best guess. There is no possible way to adequately canvass 300 million individuals and umpteen different employers each month. Well, I suppose there is, but it would cost way too much money, and that wouldn't be fitting when we have pensioners' checks to cut and countries to occupy.

Even so, one day it will be mostly automated, if it isn't already.

On my way home from Orlando, off the interstate, last Sunday, I drove through any number of small, sleepy, Southern towns. Some were still quaint, as though straight out of a movie set, but the majority looked like they had seen better days. I am not saying derelict, but empty storefronts are empty storefronts, no matter how you want to spin it.

With a couple of exceptions, it would appear many of these towns are subsisting on fast food joints, dollar/discount stores, and storefront churches. Even some of those businesses didn't look real healthy. Frankly, some of it was downright depressing.

Clearly, you don't see the whole picture from the highway. In fact, you often see the worst of a community through the windows of your car. Even so, when I stopped for gas at some place in southern Georgia, I thought to myself: "what in the world do all these people do for a living here?" From what I could tell, with my limited knowledge, there were a fair number of pecan and pine trees, a few slop houses, and the rundown gas station where I was. Surely there had to be something else. It had to be my ignorance of rural America, right?

Yes and no.

Being something of a complete bleah, I looked up some of the towns and counties we had driven through to determine the Poverty Rate in those areas. What I found didn't surprise me in general: the areas I thought looked hardest hit had a Poverty Rate, when I could find it, higher than the national average, and typically higher than the state average. Some towns were lower than I expected, and other towns were higher. For instance, I thought the Poverty Rate in Town X would have been 50% or more, judging from what I could see; however, it was only around 30%, which is still ridiculously high….particularly when you consider the official poverty rate for a family of 4 is $23,850.

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Change before you have to

Jack Welch

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To put that number into perspective, 2 people working 35 hours per week at the Federal minimum wage of $7.25/hour at a fast food joint would be enough to lift a family of 4 out of poverty. So, to have such a high percentage of the population living in poverty would suggest there aren't even enough fast food jobs to go around in some of these places. As a result, while the overall poverty rate might be around 30%, the number of people under 18 living in poverty is upwards of 45-50% in a couple of these towns.

Not surprisingly, again, when I could find the data, most of these same places have seen a pretty steady decline in population over the last 50 years or so. I guess, in so many ways, when the economic opportunities started drying up, as evidenced by the high poverty rates, a lot of the people with get up and go got up and left.

This has a point: the longer a community goes without business opportunities, the harder it will be to get them in the future due to the declining capabilities, and marketability, of the local workforce. This creates a death spiral, of sorts. Talk about being a downer, huh?

However, this was on my mind when I was reading this morning's incredibly mediocre Employment Situation release. How much longer can our workforce subsist on lower end jobs and maintain its competitive, if not comparative, advantage over foreign competition in the global economy? Sure, the government reported the economy created 192K net, new jobs in March 2014. That is the good news. The bad news is we created: 40.8K jobs in 'administrative & waste services,' mostly temp work, and; 30.4K at 'food services & drinking places,' and; 8.5K in 'home health care services,' and; 9K at 'food and beverage stores,' and; 7.6K social workers. Hmm.

Not surprisingly, as a result, the average hourly wage in the US fell a penny from $24.31 to $24.30. This means, despite the overall job growth, the average American worker didn't gain any ground last month. Further, it would also imply the majority of new jobs paid less than the old ones destroyed. Since, a salary or wage is a reflection of an employee's value to its employer, and thereby to the economy as a whole, the March 2014 Employment Situation report would suggest the average US worker is less marketable than they were. Put another way, their skill set is diminishing.

Now, wait a minute Norris; this is only one month. It is if not spurious then certainly cavalier to make such a leap, and you would be mostly right. Still, the average weekly earnings index for the last 3 years through February 2014 is up a paltry 5.79%, or 1.89%. By comparison, the Consumer Price Index (the official inflation gauge) is up 6.02% over that same time frame, or 1.97%. What does that suggest? Well, it could mean the average American worker is, um, fungible.

Essentially, they are no better nor worse than the rate of inflation, of normal growth, or, put another way: the value of their work hasn't maintained its purchasing power over the last 45 years, in aggregate. For all the talk we have had about productively gains in the United States, you know, the average worker hasn't kept up with the CPI since the year I was born, 1968. As such, the increase in median household income since that time, although it has dropped recently, has been due to an increase in, drum roll please, the labor force participation rate for females. Thank you ladies; we couldn't have done it without you...literally.

But that is the average worker; it doesn't necessarily apply to everyone as the table on the following page suggests. It shows, straight from Census Bureau data, the average household income for various 'quintiles' in constant 2012 dollars. Frankly, the data is somewhat depressing, like the rest of this piece today. It clearly demonstrates the bottom 40% of US households haven't seen an appreciable change in their purchasing power in my lifetime. The top 20% certainly have. Put another way: the rich are getting richer, and everyone else isn't.

The obvious objection is people move between income quartiles during their working career; I know I have, and then some. However, a lot of people don't, particularly when economic opportunities aren't readily available, and obvious, as during my trek home from Orlando. What is the implication?

Something to Think About Cont.

It would appear the US has two economies: one for the urban rich and/or well-educated, and one for everyone else.

Year	Number (thousands)	Upper limit of each fifth (dollars)				Lower limit of top 5 percent
		Lowest	Second	Third	Fourth	
2012	122,459	20,599	39,764	64,582	104,096	191,156
2002	111,278	22,866	42,599	67,851	107,230	191,446
1992	96,426	20,203	38,707	60,770	93,010	158,771
1982	83,918	19,190	36,498	55,766	83,158	137,270
1972	68,251	19,879	38,285	56,583	80,987	130,340
1968	62,214	19,220	36,438	52,228	73,386	114,810

I mean look at that. Over that, what, 44 year time frame, the 20% household income percentile has seen an increase in its purchasing power of $1,300, AND has actually seen it decline by close to $2,300 over the last decade. Really? With all the money we have spent on education and technology and training over that time? With all the effort to eradicate poverty and to do this or that? To have basically tread water for 40+ years is, I will say it, embarrassing.

Then to know the jobs we are busy creating in today's economy are at the lower end of the income curve, and, voila, this chart isn't an aberration. This chart is our reality, and we can artificially increase wages at the lower to alter household income, but increases in the past don't appear to have done much of anything, at least in our table.

In so many ways, we have to start creating economic opportunities. We need to start being more productive, in aggregate. Put another way: we simply have to be more productive than the remainder of the world is cheap in order to create potential across all income spectrums. That is if increasing purchasing power is the goal. How do we do that? How do we create something other than 30K jobs in restaurants and bars, and another 40K doing temp work? After all, I have grown weary of seeing basically the same Employment Situation report month after month after month.

The good news is we have a wealth of data on what we have done, and, it hasn't necessarily produced great results. So, let's try something a little different. Let's educate and train a little differently. Let's think outside the box, and get it done. It doesn't have to be this way if we don't want it to be….that is the key, we have to want it.

Perhaps, then the army of minions at the Bureau of Labor Statistics who put out the Employment Situation report the first Friday of each month will be able to report some awesome news for a change.

Disclosure