WHAT LOW UNEMPLOYMENT MEANS FOR THE U.S.

# Overview

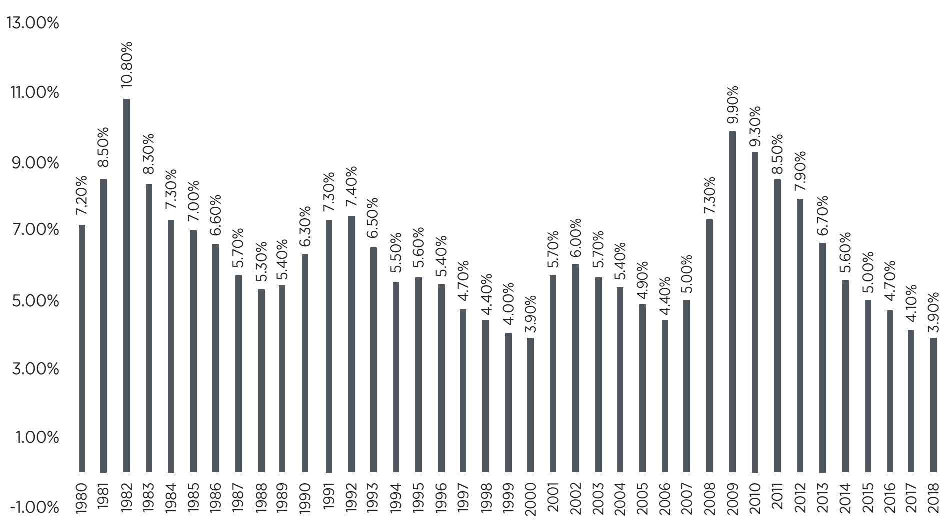
The Bureau of Labor Statistics (BLS) calculates the unemployment rate by dividing the number of people working by the number of people unemployed. Not everyone outside the working world is classified as "unemployed," just those without a job who have been actively searching in the past four weeks.

That removes many groups from the equation, such as stay-home parents who have cursory thoughts about getting a job or those who searched for work before giving up a month ago. It also excludes people who quit their job to take off a month (or longer) off work. For this reason, there is some debate about whether the "real" unemployment rate should be much higher.

The rate is updated by the BLS on the first Friday of each month, and it's generally considered more meaningful to compare it to the same month from the previous year than monitoring differences month by month. That's because seasonal factors impact employment levels, such as students working in the summer, or the holiday retail rush.[2]

In October 2018, unemployment fell to 3.7 percent, its lowest rate in 49 years.[1] Although this number offers at-a-glance insight on the nation's economic status, there are many ways to interpret data. Digging deeper into the calculation of unemployment rate and what it means for the country suggests that even though more people have jobs, there may still be work to do.

**Unemployment Rates: 1980-2018[3]**




# Women in the Working World

The labor force participation rate is defined as the working-age population (16 and older) who are employed or actively looking for work. When broken down by demographics, this metric doesn't instill the same level of optimism as the graph above.

For example, 77 percent of U.S. women were employed in 1997, but that percentage had dropped to 75 percent in 2017. The numbers continue to rise in other industrialized nations, like Canada, where 83 percent of women work.[4]

Researchers concluded one reason women tend to leave the workforce is because the U.S. doesn't require the generous parental leave policies seen in other countries. In addition to longer maternity leaves, some places incentivize women to return to their jobs by providing a source of income replacement, protecting their income level and allowing benefits to accrue during the absence.

One study determined the United States' GDP would rise $2.1 trillion by 2025 if every state made the same improvement in gender parity as the top state did over the past decade.[5]

## Wages Not Keeping Pace

While employment is up, wages are still tepid relative to historical standards. According to Pew Research, today's average wage adjusted for inflation has no more purchasing power than it did in 1978, and employees with the highest wage increases are in the upper echelon of the pay scale.[6]

Despite the low inflation we've enjoyed for several years, wages are not keeping pace with the real costs of living. Housing prices have increased exponentially since the real estate market's post-recession recovery, and the costs of health care, college tuition, food and transportation are all rising faster than worker income.[7]

## Unemployment's Impact on the Market

Although unemployment levels are considered a measuring stick for the country's economic state, they're a "lagging indicator" because employers tend to procrastinate laying off workers when the economy begins to decline and delay new hiring when it starts to expand. In other words, it's more of a confirmation that a recession is already underway or has entered recovery.

The Federal Reserve is concerned the tight job market may eventually lead to higher inflation. As of October 2018, there were 1 million more job openings nationwide than the number of unemployed workers.[8]

A low unemployment rate is generally good news, but it does put pressure on the Federal Reserve to raise interest rates. With more people employed, consumer spending increases. This higher demand tends to reduce supplies, which can increase the prices of goods and generate higher inflation.

When setting monetary policy, the Fed's objective is to maximize employment and keep inflation in check. When it raises rates, it costs companies more to borrow money for expansion and eventually impacts stock prices. Thus, there is a subsequent impact on stock market performance.

A study analyzing every month dating back to 1948 showed the 20 percent of months with the lowest unemployment rate were actually followed up with the lowest average returns in the S&P 500. Conversely, the 20 percent of months with the highest unemployment rates led to the highest average stock market returns. A sustained high unemployment rate usually prompts the Fed to take action to stimulate the economy.[9]

***"The bull market on Wall Street is vulnerable for a most unlikely reason: U.S. unemployment is particularly low."[10]***

The Wealth Report

# Final Thoughts

This is a classic good news/bad news scenario. Low unemployment and low inflation coupled with bull market performance can last only so long, and we may be headed toward the end of this positive economic cycle. This is an excellent time to review both your investment portfolio and your entire financial picture to evaluate if you are well-positioned to weather changes on the horizon.

As always, it's a good idea to consult with your financial advisor before making any major adjustments to help ensure your strategy is aligned with your personal objectives and circumstances.

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[1] Mary C. Daly, Joseph H. Pedtke, Nicolas Petrosky-Nadeau and Annemarie Schweinert. Federal Reserve Bank of San Francisco. Nov. 13, 2018. "Why Aren't US Workers Working?" https://www.frbsf.org/economic-research/publications/economic-letter/2018/november/why-are-us-workers-not-participating/. Accessed Jan. 8, 2019.

[2] Kimberly Amadeo. The Balance. Oct. 19, 2018. "Unemployment Rate Effect and Trends." https://prospect.org/article/low-unemployment-bad-news-good-news. Accessed Jan. 8, 2019.

[3] Kimberly Amadeo. The Balance. Jan. 4, 2019. "Unemployment Rate by Year Since 1929 Compared to Inflation and GDP." https://www.thebalance.com/unemployment-rate-by-year-3305506. Accessed Jan. 8, 2019.

[4] Mary C. Daly, Joseph H. Pedtke, Nicolas Petrosky-Nadeau and Annemarie Schweinert. Federal Reserve Bank of San Francisco. Nov. 13, 2018. "Why Aren't US Workers Working?" https://www.frbsf.org/economic-research/publications/economic-letter/2018/november/why-are-us-workers-not-participating/. Accessed Jan. 8, 2019.

[5] Kerri Anne Renzulli. Time. April 8, 2018. "How Better Pay for Women Would Kickstart Amazing Economic Growth." http://time.com/money/4286527/women-equal-pay-economy/. Accessed Jan. 9, 2019.

[6] Drew Desilver. Pew Research Center. Aug. 7, 2018. "For most U.S. workers, real wages have barely budged in decades." http://www.pewresearch.org/fact-tank/2018/08/07/for-most-us-workers-real-wages-have-barely-budged-for-decades/. Accessed Jan. 9, 2019.

[7] Josh Bersin. Forbes. July 3, 2018. "The Ugly Side To Today's Low Unemployment Rate." https://www.forbes.com/sites/joshbersin/2018/07/03/the-ugly-side-to-todays-low-unemployment-rate/#3558f3753e99. Accessed Jan. 8, 2019.

[8] Kimberly Amadeo. The Balance. Oct. 19, 2018. "Unemployment Rate Effect and Trends." https://prospect.org/article/low-unemployment-bad-news-good-news. Accessed Jan. 8, 2019.

[9] Mark Hulbert. MarketWatch. Oct. 23, 2018. "Opinion: Low unemployment on Main Street is a warning sign for Wall Street." https://www.marketwatch.com/story/why-low-unemployment-is-a-red-flag-for-stocks-2018-10-23 . Accessed Jan. 8, 2019.

[10] Ibid.