Weekly Economic Commentary

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Lessons From the Labor Market

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Highlights

The unemployment rate for younger workers remains elevated.

The shifting dynamics of the labor market since the mid 2000s means that more skills and more education are required today to land a job.

Employment opportunities vary by industry, but in general, the more skills and the more education, the better.

More than four million children were born in the United States in 1990, the most in any year since the tail end of the baby boom in 1961. Twenty-two years later, in 2012, more than 1.8 million will earn a bachelor's degree and either enter the workforce or move on to more schooling (graduate school). In addition, approximately 3.2 million students, most born in 1994, will graduate from high school this spring, and face the same choices as college grads. While the unemployment rate for those in the 16-to-24-year-old age group remains disturbingly high, more education and more skills can raise the odds of landing a job. The good news is that latest data on job openings in the economy, as measured in the Job Openings and Labor Turnover (JOLTS) data, reveals that nearly 3.8 million open jobs awaited this year's graduates, the highest number of job openings in four years. The bad news is that many of those open jobs require skills and education that may not match this year's graduating class.

Twenty-two Years Later, Higher Education Continues to be a Driver for Employers

The ability to attend and finish college and earn a degree has a major impact on the unemployment rate. The unemployment rate for people who have earned at least a college degree is 4.0%, still more than double what it was prior to the onset of the Great Recession, but have only half the unemployment rate (8.0%) for those who have graduated from high school, but not earned a college degree. Your odds of landing one of those aforementioned 3.8 million open jobs are even worse if you do not have a high school diploma. The unemployment rate for high school dropouts is 12.5%, 8.5 percentage points above that for those with a college degree. At its widest during the Great Recession, the difference in the unemployment rate between those with a college degree or more and those without a high school diploma was nearly 11 percentage points. The Great Recession, and its aftermath, has clearly taken a big toll on workers with less education, fewer skills, and limited experience.

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Data through April 2012 reveals that the overall unemployment rate stood at 8.1%, as 12.5 million people were unemployed out of a labor force of 154 million. The good news for new entrants to the labor force (essentially high school and college graduates) is that the unemployment rate among these new entrants was only 0.9%. The bad news is that this is triple what it was prior to the onset of the Great Recession and has not been this high on a consistent basis since the aftermath of the severe 1981–82 recession. New entrants to the labor market today need to have more skills, which often means more education, and more experience than ever to land that first job.

LPL Financial Research Weekly Calendar

2012	U.S. Data	Fed	Global Notables
14 May			■ Eurozone: Finance Ministers Meeting ■ Italy: Bond Auction
15 May	■ CPI (Apr) ■ Empire State Mfg Index (May) ■ Retail Sales (Apr) ■ US House of Representatives holds hearing on "Too Big To Fail" ■ Homebuilder Sentiment (May)	Duke*	■ **France/Germany: Hollande/Merkel Meet in Berlin** ■ Eurozone: GDP (Q1) ■ Germany: ZEW Sentiment Survey (May) ■ Germany: Bond auction
16 May	■ Housing Stars and Building Permits (Apr) ■ Industrial Production (Apr)	**Minutes of April 24–25 FOMC meeting released** Bullard	■ Eurozone: CPI (Apr)
17 May	■ **Initial Claims (5/12)** ■ Phila. Fed Mfg Index (May) ■ Leading Indicators (Apr)	Bullard	■ Japan: GDP (Q1) ■ **Spain: Debt auction** ■ France: Debt auction
18 May			■ **G8 Summit Meeting (Camp David, MD)** ■ China: Property price index (Apr)

Hawks: Fed officials who favor the low inflation side of the Fed's dual mandate of low inflation and full employment

Doves: Fed officials who favor the full employment side of the Fed's dual mandate

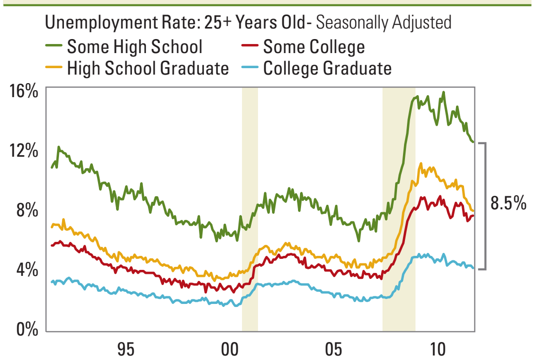
* Voting members of the Federal Open Market Committee (FOMC)

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Job Openings and Labor Turnover Survey (JOLTS) is a survey done by the United States Bureau of Labor Statistics to help measure job vacancies. It collects data from employers including retailers, manufacturers and different offices each month. Respondents to the survey answer quantitative and qualitative questions about their businesses' employment, job openings, recruitment, hires and separations. The JOLTS data is published monthly and by region and industry.

The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.

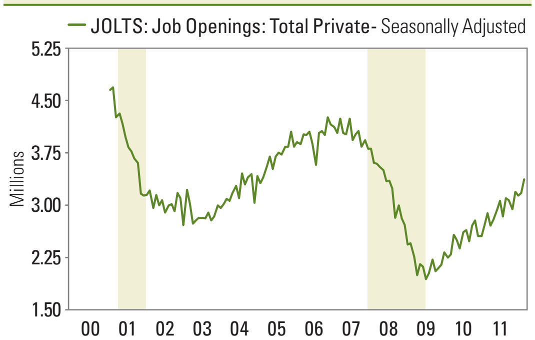
1 The Gap Between The Unemployment Rates For Those With A College Degree and Those Without a High School Diploma Is Stunning



Source: Bureau of Labor Statistics, Haver Analytics 05/14/12

Shaded areas indicate recession.

2 There Are 3.8 Million Open Jobs Today, Up From Just 2.2 Million At The Start of the Recovery



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Those five million new high school and college graduates in 2012 can expect to look for work for around 20 weeks, which is the median number of weeks an unemployed person is looking for work these days. The good news here is that the median duration of unemployment has come down in recent months and is well below its Great Recession highs. In the year after the end of the Great Recession, it took the median unemployed worker 25 weeks to find a job, but at 20 weeks today, it still takes two-and-a-half times longer than it took to find a job in the mid-2000s, when the median duration of unemployment was around eight weeks. As we will see later, in the mid-2000s, it was relatively easy for an unskilled worker to step into the labor force to find a job relatively quickly. The shifting dynamics of the labor market since the mid-2000s mean that more skills and more education are required today to land a job.

The latest data on unemployment rates by industry help to tie together some of the issues previously noted. The unemployment rate in the construction industry, which stood at fewer than 5.0% during the peak of the housing boom in mid-2006, soared more than five-fold to 27% by early 2010. Few other industries suffered as much during the recession, although the unemployment rate in the financial, mining, manufacturing, and government sectors were badly hurt as well, with the unemployment rates in these industries increasing by three and four-fold from pre-recession levels by early 2010. The economic recovery that commenced nearly three years ago in June 2009 and the jobs recovery that began in early 2010 have helped to drive the overall unemployment rate down to 8.1% from its peak of 10%. There were only 2.2 million open jobs when the economic recovery began, as measured by the JOLTS data, and now there are 3.8 million.

Mining for Jobs

The general improvement in the economy helped to drive the unemployment rates in many of the hardest hit industries lower, as well. For example, the unemployment rate in the mining sector, which soared to over 16% in early 2009 as energy prices and energy demand collapsed, fell to just 4.2% in April 2012, and is nearly back to its 2004–2006, pre-Great Recession average. In fact, despite numerous regulatory hurdles, the job count in the mining and oil and natural gas industries has increased by 30% from 2009, and employment in this industry is well above its prior peak, even as overall employment remains well below its 2007 peak.

Generally speaking, jobs in the mining industry require more specialized skills, like being able to operate the complex machinery in and around a mining or drilling operation and education. Many of the jobs in the mining industry also require advanced degrees in engineering and sciences. The outlook for the growth in this sector of the economy looks promising, given rising energy prices around the globe and the prospects for more relief on the regulatory front after the Presidential and Congressional elections in the fall.

Manufacturing Jobs

Similarly, the unemployment rate in the manufacturing sector, which surged from under 4% in 2005 and 2006 to as high as 13% in 2010, has now moved down to under 7%. Job openings in the manufacturing sector now stand at 326,000, only slightly below the open manufacturing jobs seen in 2007. Today, there are nearly three times more open manufacturing jobs than there were at the end of the recession.

As we have noted in recent *Weekly Market Commentaries*, the manufacturing sector has benefitted in recent quarters from a move by some U.S. corporations to bring manufacturing jobs back to the United States. Political arm twisting, along with poor quality control overseas, the narrowing wage gap between workers and the United States and many emerging market nations, and low fuel costs here in the United States have helped to foster this trend. Although no hard data exists on this, anecdotal evidence suggests that manufacturing jobs being "on-shored" require more education and skills than ever before. This helps to explain the huge gap in the unemployment rate between those with less than a high school education (i.e. low skills and less educational attainment) and those with a college degree or higher.

Trimming Jobs from the Budget

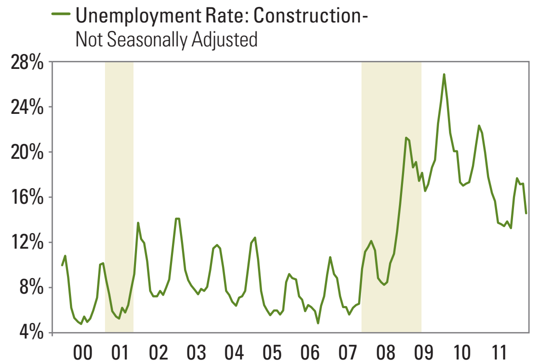
Although the worst may be over in terms of job reductions at the state and local government level, the outlook for sustained job growth in the government sector is muted at best.

The unemployment rate in the government sector, which hovered around 2% in the mid-2000s, soared to 6.5% in mid-2011 as state and local governments cut workers to better align costs (salaries and benefits for government employees) with lower tax revenues. At nearly 4% today, the unemployment rate for government workers remains nearly double what it was prior to the recession, but is unlikely to move down much further given the ongoing budget issues at the federal and state and local levels. The number of open jobs in the government sector (per the JOLTS data) stands at around 375,000 jobs, little changed over the past few years.

Although the worst may be over in terms of job reductions at the state and local government level, the outlook for sustained job growth in the government sector is muted at best. The prospects for more budget cuts at the Federal level in the next few years (many of which will ultimately filter down to the state and local level) suggest that only the most highly skilled and highly educated workers will be likely to hold on to their current jobs, or be hired into new jobs in this segment of the labor market.

Building New Jobs

The construction industry was arguably the biggest beneficiary of the housing boom that began in the late 1990s. In 1992, there were around 4.5 million construction jobs as the economy struggled to dig out of the 1990–91 recession. By the end of the decade, the number of construction jobs had increased by 50%, to 6.8 million. After a brief lull in the early 2000s, as the economy recovered from the mild 2001 recession, construction employment increased by another one million to nearly 7.8 million by 2006. The unemployment rate for construction workers stood at just 4.5%. At this point, nearly 7% of all private sector jobs were in the construction industry, 3 The Unemployment Rate In the Construction Industry Remains Uncomfortably High, Underscoring the Difficulty of Lower Skilled Workers in Finding Work



Source: Bureau of Labor Statistics, Haver Analytics 05/14/12

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the highest since the late 1950s. Again, while there is no hard data on this, traditionally an entry level job in the construction industry was a way for an unskilled worker to break into the labor force. At the same time, however, increasingly complex construction methods, regulatory issues, engineering advances, etc., have also provided plenty of high paying jobs for workers with a higher level of skills and educational training. In mid-2006, the unemployment rate for those workers with less than a high school education hit an all-time low of 5.8%.

Since then of course, the housing bubble burst, commercial construction dried up, and construction employment plummeted. From a peak employment level of nearly 7.8 million, the number of persons employed in the construction industry plunged by 30% to 5.4 million by early 2011, a level last seen in the mid-1990s. The unemployment rate for construction workers moved from 4.5% in 2006 to 27% in 2010, increasing more than five-fold. It stands at 15% today, down from the peak, but still nearly four times as high as it was in 2006, and approximately double the unemployment rate for the entire economy. Similarly, the unemployment rate for those without a high school degree, at 12.5%, is below its peak of nearly 16%, but remains very close to all-time highs. The good news is that the housing market is in the process of stabilizing nationwide, and construction employment appears to have stabilized as well. The recent JOLTS data says that there are nearly 100,000 open construction jobs in the economy today, up from less than 30,000 in early 2010. At the peak, there were nearly 300,000 open construction jobs. The economy is unlikely to see that many open construction jobs anytime soon, but as with the other sectors discussed in this publication, those most likely to retain their jobs in the highly specialized construction trades are likely to be those with the best skills and the most education.

On balance, the labor market continues to track toward a modest pace of job growth (150,000 to 200,000 net jobs created per month). For the freshly minted high school and college graduates leaving school and entering the workforce this spring and summer, the right mix of skills and experience will be necessary to land that first job. The unemployment rate among people aged 16 to 19 (roughly equivalent to high school dropout and those with a high school diploma) is a staggering 25%, down from 27% in 2009 and 2010, but still among the highest youth unemployment rates on record. For those aged 20 to 24, which includes some college graduates, the unemployment rate is still a daunting 13.2%, well off its 2009–2010 peaks, but still among the highest on record. The data suggest that more education, not less, and more skills and work experience will provide this year's graduates with a better chance at beating those odds. ■

LPL Financial Research 2012 Forecasts

- GDP 2%*
- Federal Funds Rate 0%^
- Private Payrolls +200K/mo.†

Please see our *2012 Outlook* for more details on LPL Financial Research forecasts.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

* Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

^ Federal Funds Rate is the interest rate at which depository institutions actively trade balances held at the Federal Reserve, called federal funds, with each other, usually overnight, on an uncollateralized basis.

† Private Sector – the total nonfarm payroll accounts for approximately 80% of the workers who produce the entire gross domestic product of the United States. The nonfarm payroll statistic is reported monthly, on the first Friday of the month, and is used to assist government policy makers and economists determine the current state of the economy and predict future levels of economic activity. It doesn't include:
- general government employees
- private household employees
- employees of nonprofit organizations that provide assistance to individuals
- farm employees

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The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

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