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First Trust Advisors L.P.

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Monday Morning Outlook

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Payroll Growth: The 1990s Versus the 2000s

As far as economic recoveries go, the current one may be the most maligned in history. One glaring weakness, which pessimists never tire of pointing out, is that payroll job growth in this cycle has been weaker than in the 1990s. Over the past three years, payroll jobs have grown at an average monthly rate of 180,000. At the same point in the previous cycle (1994-96) payrolls grew at an average monthly rate of 244,000.

But don't despair. While the data is accurate, it is highly misleading. After digging beneath the surface, the jobs market is just as strong today as it was in the mid-1990s.

First, the unemployment rate was higher in 1994 than it was in 2004, 6.6% versus 5.4%. As a result, pent up demand for labor in the 1990s helped lift job growth.

Second, there has been a massive decline in young people who want a job. Without the drop among 16-24 year olds, a higher share of the population would be participating in the labor force today than a decade ago.

Notably, most of the drop in labor force participation among the young is due to increased school enrollment. Not only do students work less than non-students, but today's students are working less than their predecessors. About 44% of teenage students were in the labor force in the mid-1990s versus about 36% in the past few years. In our view, this is a sign of prosperity and suggests support for productivity growth in the future once these more educated workers eventually get a job.

Third, Baby Boomers were in their peak working years in the 1990s and are now moving toward retirement. Labor force participation tends to peak at about age 40 and declines rapidly after age 50. In the mid-1990s the typical Baby Boomer was about age 40 and <u>none</u> of them were older than 50. Now, about half of Boomers have passed age 50.

Last, the Labor Department uses two major surveys for job creation. The establishment survey asks businesses how many are on their payrolls. That's the source of the payroll data, which has been weak relative to the 1990s. The household survey asks people directly if they are working. This survey generates data on civilian employment, which has increased at an average monthly rate of 189,000 in the past three years, almost exactly the 191,000 rate in 1994-96.

If someone has two jobs, the payroll data counts them twice, while the household survey does not. In the 1990s, the number of workers holding multiple jobs was rising, which boosted the payroll data relative to the household data. Lately, the number of these multiple job holders has fallen, helping move the two surveys back in line. Clearly, this suggests that the 2000s may actually have a healthier job market than the 1990s. This view is buttressed by the fact that in the past two years average hourly earnings are up 8.4, the fastest pace since 1990.

Given all these important demographic changes, payroll growth has actually been healthy, not weak. A useful analysis published last year by the Federal Reserve Bank of Kansas City suggests payrolls need to grow at an average monthly rate of about 120,000 to keep the unemployment rate steady. Looking back, payroll employment has grown at a 1.07% annual rate since March 1998, when the unemployment rate was also equal to today's 4.7%. Applying this rate of growth to the current level of payrolls suggests that the US needs 123,000 new payroll jobs every month to hold the unemployment rate steady.

A little digging is all it takes to show that the unfairly maligned economy is actually doing quite well. The good news is that all this concern creates a "wall of worry" that the stock market continues to climb.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-15 / 7:30 am	Empire State Mfg Index - Oct	13.0	**18.5**	***28.8***	14.7
10-16 / 8:15 am	Industrial Production - Sep	+0.1%	**+0.2%**		+0.2%
8:15 am	Capacity Utilization - Sep	82.1%	**82.2%**		82.2%
10-17 / 7:30 am	CPI - Sep	+0.2%	**+0.2%**		-0.1%
7:30 am	"Core" CPI - Sep	+0.2%	**+0.2%**		+0.2%
7:30 am	Housing Starts - Sep	1.285 Mil	**1.293 Mil**		1.331 Mil
10-18 / 7:30 am	Initial Claims - Oct 13	312K	**310K**		308K
9:00 am	Leading Indicators - Sep	+0.3%	**+0.3%**		-0.6%
11:00 am	Philly Fed Survey - Oct	7.0	**5.8**		10.9