First Trust
Monday Morning OUTLOOK
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No Extension Needed

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No one can know with absolute certainty exactly how much the brutal winter weather affected jobs. But, the 162,000 increase in February private sector payrolls was a positive shock to the consensus. January, at 145,000, was surprising, too.

The Labor Department also has a monthly survey on civilian employment, an alternative measure of jobs that includes small business start-ups. The February total was just 42,000. But the Labor Department said 601,000 people missed work last month because of weather, compared to an average of 357,000 over the previous ten Februarys.

In other words, if weather had been typical for February, civilian employment would have climbed by roughly 300,000. If we add that number to the January gain of 638,000, the total is over 900,000 so far this year.

The civilian survey is very volatile, especially in January, but the improvement – along with the payroll data – coincides with the expiration of extended unemployment benefits at the close of 2013. These benefits extended the normal 26-weeks of unemployment insurance payments to 99 weeks and studies show that this affects work incentives.

Extended benefits follow a decades-old pattern of government expansion in redistribution. In the past 30 years, government transfer payments (excluding, Social Security, Medicare, and veterans' benefits) have increased an average of 6.9% per year. Meanwhile, worker compensation – both cash and fringe benefits, combined – are up 4.9% per year.

What's most interesting about this is that back in 1984, the unemployment rate was 8%, while today it's 6.7%. In other words, despite a drop in the unemployment rate, government income support programs have grown significantly faster than private earnings. In other words, the attractiveness of non-work has been expanding faster than the attractiveness of work.

Germany, for example, developed an extensive "cradle-to-grave" social welfare system in prior decades and consistently had an unemployment rate well above ours. But Germany started cutting back on benefits several years ago. It now has a 6.8% unemployment rate, well below its past 30-year average and the lowest in Continental Europe.

We believe the unemployment rate would have come down faster in recent years if the US had not extended jobless benefits. But, while extending benefits held back employment growth, it did not stop it.

If the Senate is successful at extending benefits, as it seems ready to attempt, the US would have a much tougher time getting the unemployment rate back down to the roughly 4.5% that prevailed before the recession. We could get there, but only with monetary policy staying too loose for way too long, and eventually paying a price with higher inflation, like occurred in the 1970s.

All of which makes us curious why lawmakers in Washington are seriously considering restarting the program of extended benefits. We understand the politics of unemployment, but with the jobless rate falling in the past few years, fewer unemployed were receiving these benefits. And rather than finding ways to encourage more people to stay out of the labor market, our elected leaders should be looking for ways to get more people back in, by restoring a more attractive balance between work and non-work.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-17 /7:30 am	Empire State Mfg Survey – Mar	6.0	**5.4**	5.6	4.5
8:15 am	Industrial Production – Feb	+0.2%	**+0.1%**	+0.6%	-0.3%
8:15 am	Capacity Utilization – Feb	78.6%	**78.6%**	78.8%	78.5%
3-18 /7:30 am	CPI – Feb	+0.1%	**+0.1%**		+0.1%
7:30 am	"Core" CPI – Feb	+0.1%	**+0.1%**		+0.1%
7:30 am	Housing Starts – Feb	0.910 Mil	**0.931 Mil**		0.880 Mil
3-20 /7:30 am	Initial Claims – Mar 15	324K	**326K**		315K
9:00 am	Existing Home Sales – Feb	4.620 Mil	**4.580 Mil**		4.620 Mil
9:00 am	Leading Indicators – Feb	+0.2%	**+0.2%**		+0.3%
9:00 am	Philly Fed Survey – Mar	4.0	**2.6**		-6.3