First Trust
Monday Morning OUTLOOK

630-517-7756 • www.ftportfolios.com June 4, 2018

Jobs, Jobs, Jobs

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In over thirty years of watching the economy we've seen recessions, recoveries (both slow and fast), panics, lulls, and boomlets. But we've rarely seen a job market this strong.

Everything is hyper-politicized these days, and we get accused of playing politics all the time. But what we care about deeply, what drives our focus, is the growth that creates opportunities for individual skills to shine in service to others. The development of assets – both physical and intellectual - to build for the future. But it all starts with work, and there are now more Americans working than ever before – over 148 million, to be precise.

Nonfarm payrolls grew 223,000 in May and are up 2.4 million in the past year. Civilian employment, an alternative gauge of jobs that better measures small business start-ups, grew 293,000 in May and is up 2.3 million in the past year.

And, importantly, it's the private sector driving growth, not government. Government jobs are up a *total* of 21,000 in the past year. Meanwhile, manufacturing payrolls are up 259,000 in the past year, the fastest twelve-month increase since 1998. If technology is supposed to be killing employment in manufacturing, I guess they didn't get the memo.

No matter how you slice it, things look good.

But we're not done. The unemployment rate dropped to 3.8% in May, tying the lowest reading since 1969. We think we're headed lower, forecasting a 3.2% rate by the end of 2019 with a chance for a 2-handle on the unemployment rate sometime in 2020.

May also saw the black unemployment rate fall to 5.9%, the lowest reading since record keeping started in the early 1970s. Black employment is up 3.5% per year in the past two years, versus a 0.9% per year gain for whites. As a result, the gap between the black and white unemployment rates is now only 2.4 percentage points, the smallest gap on record.

Let's keep it going. In the past twelve months, the average jobless rate among those without a high school degree is 6.0%, also the lowest on record (going back to the early 1990s).

Still, people bemoan wage growth. We've never thought average hourly earnings (which do not include irregular bonuses, commissions, or tips) are a good measure of living standards. "Real" (inflation-adjusted) average hourly earnings are up just 0.2% from a year ago and up 7.2% from the start of the last recession. But, again, this does not include the one-time bonuses many companies paid after the tax cut was enacted late last year.

In addition, there's evidence that the Labor Department's measure of wage growth is being held down by the retirement of older, more highly paid Baby Boomers, while new-hire Millennials are just beginning to climb the compensation ladder. So while average hourly earnings for all workers are up 2.7% (not adjusted for inflation), if you take out new entrants and retirees, wage gains are up 3.3% in the past year. We expect this to accelerate, pushing overall wages higher as well.

It's a tight labor market, with initial claims at the lowest level ever as a percent of total employment and wages rising fast enough to pull people off the disability rolls and back into the job market.

This will help improve the low labor force participation rate. Participation among prime-age workers – those 25-54, who are either working or looking for work – was 81.8% in May, the same as the average for the past year.

To put that in perspective, that's higher than it ever was before 1986. The averages by decade are 67.4% in the 1950s, 70.0% in the 1960s, 74.2% in the 1970s, 81.1% in the 1980s, 83.7% in the 1990s, and 83.1% in the first decade of the 21st Century. Even the all-time high for any twelve-month period, back in 1998-99, was 84.2%, not substantially higher than it is today.

So, while participation is down from when the U.S. population was younger on average, it's way up compared to the 1950s-60s, which many view as a strong period for the labor market.

Back in the 1950s and 60s, redistribution of income was well below today's levels. If the U.S. really wants more people in the labor force it must either reduce government benefits for not working or wait for the private sector to raise wages enough to pull people off government programs. With the recent strength in the labor market, the latter seems more probable. Tax cuts and deregulation will keep the job market strong.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-4 / 9:00 am	Factory Orders – Apr	-0.5%	**-0.4%**	-0.8%	+1.7%
6-5 / 9:00 am	ISM Non Mfg Index – May	57.6	**57.6**		56.8
6-6 / 7:30 am	Int'l Trade Balance – Apr	-$49.0 Bil	**-$49.1 Bil**		-$49.0 Bil
7:30 am	Q1 Non-Farm Productivity	+0.6%	**+0.3%**		+0.7%
7:30 am	Q1 Unit Labor Costs	+2.8%	**+2.9%**		+2.7%
6-7 / 7:30 am	Initial Claims – June 2	221K	**221K**		221K
2:00 pm	Consumer Credit – Apr	$14.0 Bil	**$19.9 Bil**		$11.6 Bil