Bull & Bear Bulletin

Volume 9, Issue 4

June 2018

Cultivating relationships for over 30 Years Since 1984

Valicenti Advisory Services, Inc.

400 East Water Street
Elmira, NY 14901
607-734-2665
Fax: 607-734-6845

447 East Water Street
Elmira, NY 14901
607-733-9022
Fax: 607-734-6157

24 West Market Street
Corning, NY 14830
607-936-1203
Fax: 607-936-0213

www.valicenti.com

Asset management as individual as you

An on-line publication by The Investment Committee

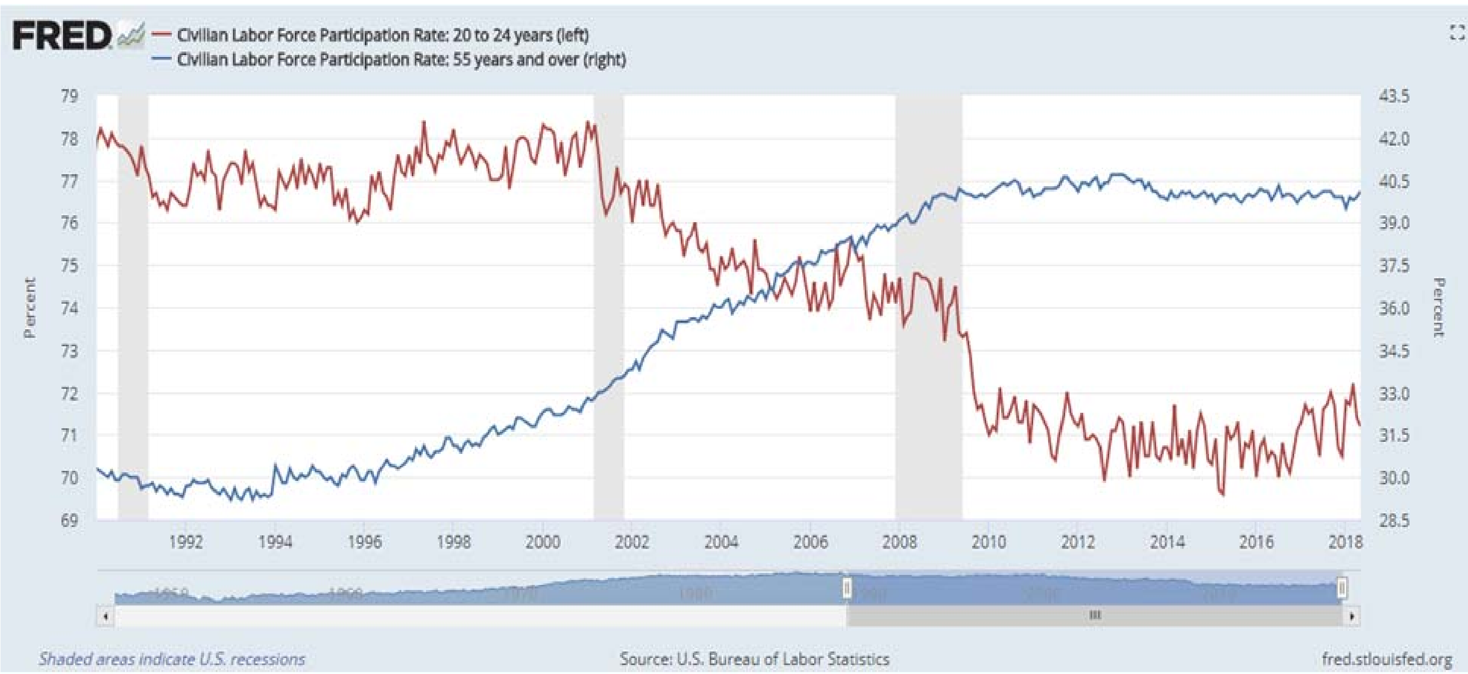
A Different Kind of Work

The manner of work has dramatically changed over the past few decades. The first major shift in the United States was in the 1840s/50s, when America became an industrial society. Following the industrial revolution, we became a postindustrial society, where the majority of GDP is derived from services rather than goods (approximately 80% now). After the tech bubble burst in 2000, technology and software became mainstream, allowing us to further indulge in a service based economy with more reach and less manual work. This, however, has caused some interesting ripples in our job markets and may have further impacts in the future.

For the general populous, the first employment number people gravitate to is the unemployment rate, which just printed at only 3.8%, a near business cycle low! What most people don't know though is that there are six unemployment rates ranging from 1.7% to 8.4%. The exact details of those are beyond the scope of this article, but what needs to be noted is the definition of the official unemployment rate. To be considered unemployed, a person must be jobless *and* looking for a job. Those that are no longer looking for work are removed from this metric and one must look at the labor force participation rate. By taking those employed or looking for work, divided by the working age population (labor force participation rate) gives us a sense of what percent of people are engaged in impacting our GDP. In this case, we have the lowest rate of employees to the working age population since 1977.

Many people posit why this has occurred but some reasons include: an older workforce retention, further education demands, more skills required to work, and technology. As shown in the graph below, people over the age of sixty-five are much more active in the job market now, whether because of need or better health. This has created a workforce that employers can rely on, but also creates a harder market for young, first-time job seekers to enter. Without initial access, young people have flooded to colleges to acquire skills necessary to increase job prospects. While in college, many will not be employed, pulling down on the participation rate. Additionally, as more and more students attend colleges and companies adopt new technology, even more education is necessary to enter the job market. This further flows through the economy as those without a college education are farther removed from work demands. Finally, on the demand side, technology has streamlined workflow, making operations more efficient but the demand for employees (in aggregate) lower. This has led to some very highly skilled, high paying jobs and many employees on the sidelines or with a smaller paycheck than desired.

What happens next should be viewed with intrigue though. Most companies have already streamlined their operations, but is there more to do? After the rush to colleges in this past decade, we'll have a generally more educated population than in the past. What will this new knowledge unlock? Though academia's halls are filled, many labor-intensive, skilled job openings remain vacant. Will there be a resurgence to trade skills? Previously, creative destruction has led to replacements for work, but we may not have seen that fully materialize yet. While the labor force participation rate is so low, there are many potential employees to participate in the next wave of innovation. What's the next step in our economic and employment evolution?



Source: St. Louis FRED, BLS