

VERY INTERESTING

MARCH 2024 MARKET COMMENTARY

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Comedian Arte Johnson, in the 1960's show "Rowan and Martin's Laugh In", had a character that would respond to bits with the phrase, "very interesting..." The same could be applied to the employment data released this morning, Friday, March 8, 2024.

In the release, the US economy added 275,000 jobs verses the 200,000 expected by FactSet. However, what was really interesting (at least to us) was the fact that the unemployment rate moved UP (to 3.9% from 3.7%) even though there weren't any meaningful changes to either the civilian labor force or those not in the labor force. (According to the Bureau of Labor Statistics, the civilian labor force was little changed in February at 167.426 million, up from 167.276 in January and nearly identical to December's 167.451. Those not in the labor force were also virtually unchanged in February at 100.285 million, up marginally from 100.285 million in January.)

How can the unemployment rate move up when the economy adds more jobs than expected and the labor force is virtually unchanged?

At first blush, if you get an increase in the unemployment rate while adding more jobs than expected might indicate that more people were convinced to re-join the labor force. As such, one would expect the Not in the Labor Force statistic to decline. (Not in the Labor Force differs from Unemployed. While both groups are not employed, the definitionally unemployed are still considered to be part of the labor force.) That was not the case with the current data. Instead, we believe that the fault lies within something called "Population control adjustments".

Population control adjustments are done each January to better reflect the annual additions to the non-institutional population age 16 and older, due to birth rate, immigration, etc. Absent these adjustments, the population estimates used to determine the labor force and non-institutional population would be faulty. That said, we believe that the adjustments can introduced a bit of “noise” into beginning of year data. Specifically, the number of unemployed dropped by more than 140,000 from December 2023 to January 2024, only to rise again by more than 300,000 in February 2024.

\Some might point to seasonality as a reason for the jump in unemployed people. While that certainly could be an issue, the data that is use most frequently for public consumption (picked up by the press, etc.) is the seasonally adjusted data which removes the impact of seasonal employment for things like Christmas. More appropriate, in our mind, it a maxim often told to me early in my career, “one month of data does not a trend make.”

We also find it hard to believe that the unemployment rate could ratchet much higher given that there are currently 2.7 million more jobs available than unemployed people. While there is certainly the possibility of some mismatch between the skillset of the currently unemployed and the skills needed for the open jobs, the gap between open jobs and unemployed people likely puts a cap on the unemployment rate. If that gap begins to close in a more meaningful way, we might get more concerned. Until then, we look at the data and, like Arte Johnson, respond with, “very interesting.” Source: US Bureau of Labor Statistics, JOLTS data, Employment Situation Summary, Adjustments to Household Survey Population Estimates in January 2022, “Labor force, employment, and unemployment concepts.”

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