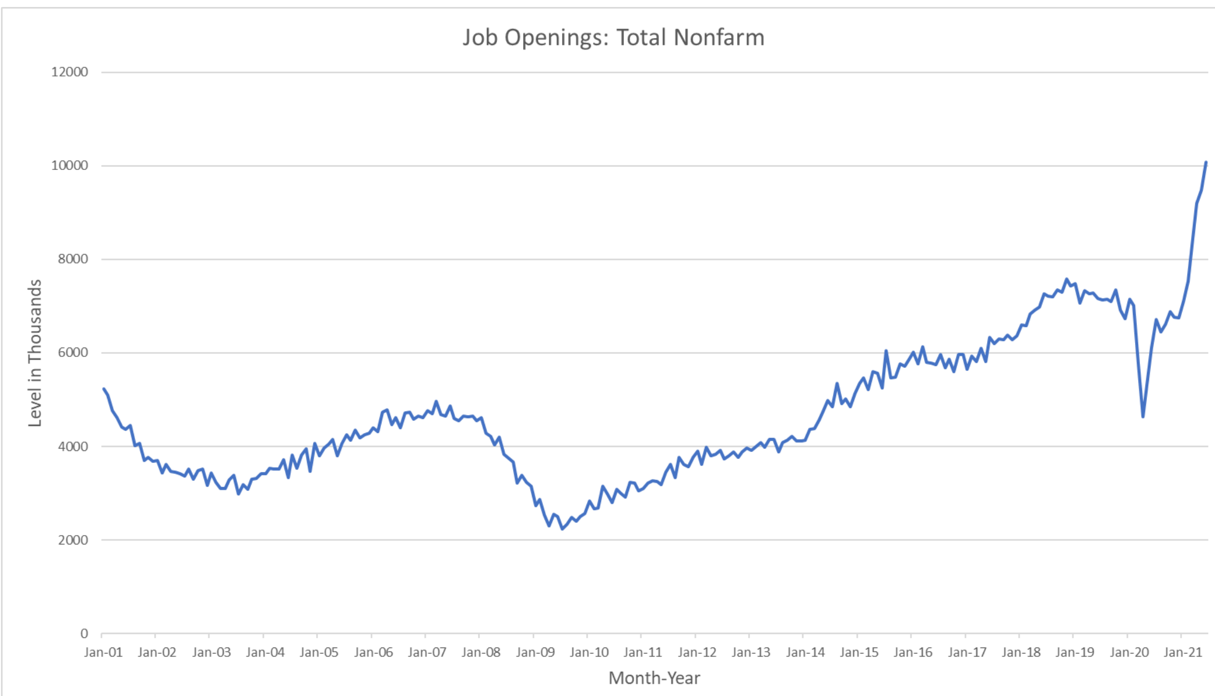
Market Commentary: Jobs – All-time High Job Openings vs All-time Low Job Participation: What Gives?

August 2021

Serfdom in Europe was destroyed by the Plague. It was destroyed because there were too few serfs to do the work demanded by landlords (due, unfortunately, to death)[1]. Less directly, after the destruction that the Plague wrought, we imagine there were quality of life issues (for the era) that came about as well which compelled Serfs to reject the status-quo. Essentially, Serfs could name their price after years of being on the wrong side of the supply/demand equation due to overpopulation in Europe.[2]

Thankfully, Covid is not in the same league as the Plague. But sometimes it is informative to think of extreme scenarios to tease out potential effects of a major event. We seem to be at an inflection point regarding jobs in the US market, and we have some confusing data:

Job Openings are at an all-time high: [3]



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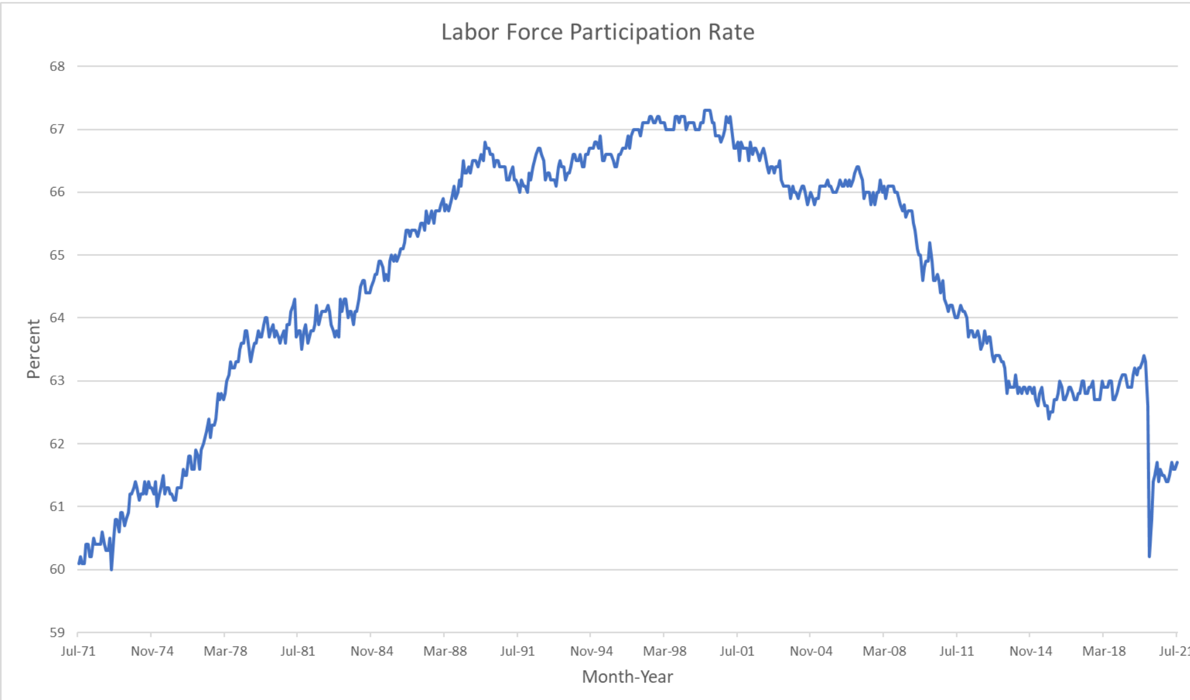
[1] [Consequences of the Black Death - Wikipedia](https://en.wikipedia.org/wiki/Consequences_of_the_Black_Death)

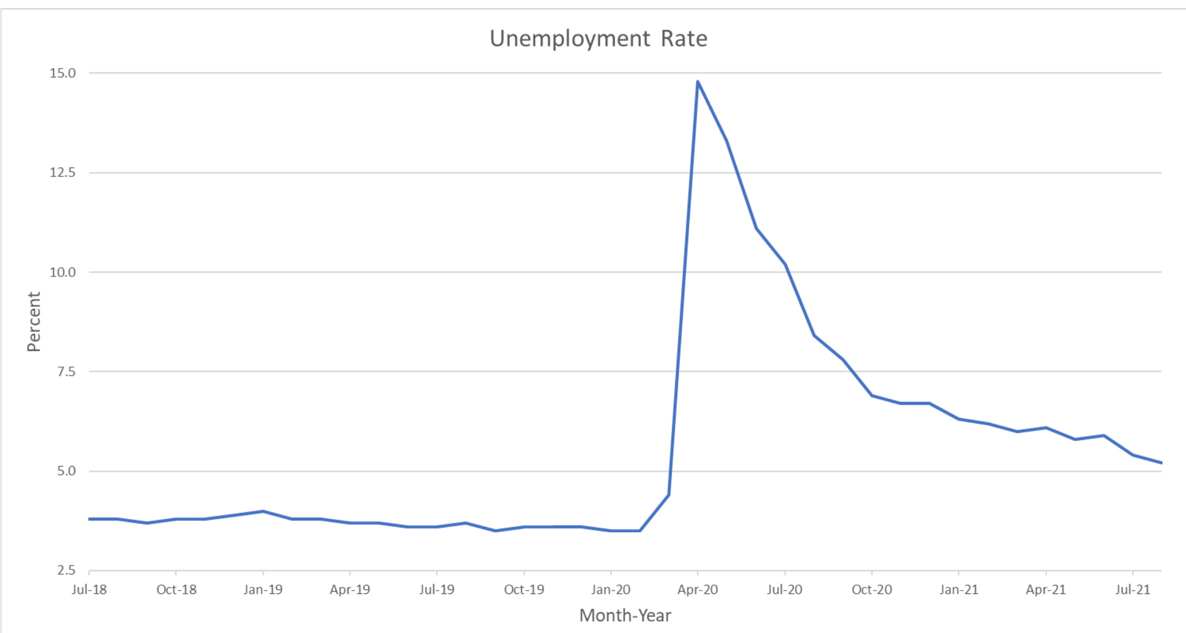
[2] While the plague was disastrous for Europe short term, many historians believe this led to a number of benefits that may just have led to Europe's eventual dominance of the globe. The benefits were due to the breaking of long held institutions leading to competition and innovation.

[3] Graph data source: https://fred.stlouisfed.org/series/JTSJOL

Yet Labor Force Participation are near 50-year lows: [4]



And despite historically high job openings, unemployment levels have been leveling off above levels prior to Covid: [5]



So, what gives? And why do we care?

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[4] Graph data source: https://fred.stlouisfed.org/series/CIVPART

[5] Graph data source: https://fred.stlouisfed.org/series/UNRATE

Let's tackle why we care first:

- **Monetary Policy**: One of the main objectives of the Federal Reserve ("Fed") is maximum employment[6]. Job opening data point to a healthy economy with the potential of maximum employment. This should lead to normalizing or even tightening of monetary policy through reversing buying programs and ultimately increasing interest rates. Note this article from the Federal Reserve Bank of Dallas highlighting that the labor market may be tighter than levels of employment suggest.
- **Inflation**: Inability to fill jobs results in less supply. The need to increase wages results in increased product costs. Both result in inflationary pressures. Inflationary pressures also lead to pressure on the Fed to increase interest rates.
- **Political Disruption**: A bit more esoteric, but a lack of ability by the market to fill jobs and a twin lack of ability for the population to find jobs results in opposing frustrations that play out politically.

Thoughts on what gives:

- **Temporary Government Assistance**: While a seeming political landmine[7], if one gives a potential employee an equivalent amount of money when not working, that potential employee may choose to not take a job. If one factors in potential costs of childcare, transportation, an unliked job and so many other factors, it may be a no-brainer not to work. The initial reason for heightened government assistance programs was to provide (1) a social safety net and (2) counteract to deflationary elements of Covid[8]. And it is always extremely hard to figure out when to end these programs. But the logic/math is straightforward: government assistance + above mentioned factors leads to less pressure to get a job.
- **Longer Term Trend of Labor Force Participation Declines**: The labor force has been declining as our population ages and as more people simply give up looking due to a lack of jobs in their region, a lack of qualifications, or because, given personal factors, it simply does not make sense to work[9]. In the short-term, the Fed anticipates that 1/3 of the recent participation decline is due to early retirement. The other 2/3 will potentially come back but ultimately it points to a participation rate of 63% which still remains at a roughly 50 year low.
- **Qualification / Location Mismatch**: Current themes in the US economy have created a winner-take-all reality. Note Seattle vs. Cleveland (sorry to those who live in Cleveland!). Jobs are not evenly spread across this country. Our education system, as well as the ability to relocate, has eroded over the decades (note our Explorations titled: Is Our Empire Crumbling?). It is worth noting that middle class and above can relocate more easily than ever – especially given new remote options. This does not hold true for poor people who are generally stuck in their own region due to a number of constraints. All of this is contributing to an inability to fill jobs.
- **Covid Adjustments**: Going back to our hypothesizing about how certain serfs may have felt after surviving the Plague, some portion of the population may have decided that they will simply not go back to the job they had prior. It is not worth it. As government assistance slows, financial pressures may force some back in – though we hope they are able to follow their dreams.

While we still believe that inflationary concerns are most likely transitory, as discussed in our June Market Commentary, there are a number of job market characteristics we are watching carefully as the job market is a material factor in Fed decisions and can play out politically as well.

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[6] Federal Reserve Board - 2020 Statement on Longer-Run Goals and Monetary Policy Strategy

[7] A shame. More vs less government is an interesting conversation. An argument that flies in the face of logic is not.

[8] There is a rabbit-hole I would love to go down here in regards permanent government assistance as slightly discussed in our 2019 Us vs The Machine Explorations but alas, it is too off topic, and we do not have many answers – it is just interesting.

[9] Contrary to some popular belief, poor people generally make logical economic choices. Note footnote 5.