



# U.S. Job Market Much Worse Than It Appears

I am out of commission today following a small surgery, so I want to thank my new friends at Morningside Hill Capital Management for standing in for me with today's posting. **The question over the strength of today's job market is key to understanding the durability of the economy and the markets going forward.** Pavel Velkov, CFA, and the entire team at Morningside Hill, take a deep dive into the statistics to get down to the startling conclusion.

***"The US jobs market has been described as the backbone of the recovery ? 82 months of continuous jobs growth with unemployment hitting 4.5% ? the lowest since 2007. However, the perceived strength in jobs creation is at odds with other economic indicators. President Trump ran on a campaign that repeatedly touted ?jobs, jobs, jobs.? His emphasis on jobs creation and bringing employment back to America struck a chord with voters. Trump?s election in itself contradicts the popular narrative that the US jobs market is tight and robust. Wages, disposable income, and real earnings growth along with low productivity and overall slow economic growth all challenge the BLS?s jobs numbers and thus Wall Street?s perception that the jobs market is tight. Since the monthly jobs report is eagerly awaited as the most important piece of economic data for financial markets, it warrants a deep dive in order to understand what is going on under the hood. Before we delve into the data,***

here are some highlights of our findings.

- **The Bureau of Labor Statistics (BLS) has been systemically overstating the number of jobs created**, especially in the current economic cycle.
- **The BLS has failed to account for the rise in part-time and contractual work arrangements**, while all evidence points to a significant and rapid increase in the so-called contingent workforce.
- **Full-time jobs are being replaced by part-time positions**, resulting in double and triple counting of jobs via the Establishment Survey.
- **A full 93% of the new jobs reported since 2008 and 40% of the jobs in 2016 alone were added through the business birth and death model** ? a highly controversial model which is not supported by the data. On the contrary, all data on establishment births and deaths point to an ongoing decrease in entrepreneurship.
- **Jobless claims have recently reached their lowest level in 43 years which purportedly signals job market strength**. Since hiring patterns have changed significantly and increasingly more people are joining the contingent workforce, jobless claims are no longer a good leading economic indicator. Part-time and contract-based workers are most often ineligible for unemployment insurance. **In the next downturn, corporations will be able to cut through their contingent workforce before jobless claims show any meaningful uptick.**

Overall, we have found the headline jobs number, unemployment rate and jobless claims to be poor macroeconomic indicators, since they have failed to account for significant shifts in labor market dynamics."