

The Devil is in the Details

February 13, 2006

When is it that a lower unemployment rate is bad news rather than good? The answer is – under present circumstances. The following is the math.

	Last Month		This Month	
Unemployed	1,000		800	
Labor Force	10,000	10%	9,800	8%

Please note the chart below, which comes courtesy of Northern Trust Company, as reported in John Mauldin's weekly E-Mail. What has been happening during this expansion and recovery is that even though the labor force is expanding, the number counted as being in such are declining. Why? They have given up looking for work and are thus eliminated. In the math example above 200 less were unemployed and have left the labor force. Nothing good comes from this. It is also note worthy that the labor force participation rate has leveled off since 2000. Before that the growth rate had slowed down due to demographics. It has been since 2000 that the major cost cutting done by business has been at the expense of their labor pool. The mantra of the period has been stay home or work for the same money.

