RESEARCH

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July 15, 2014

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2014 First Half Jobs Report

The Wizard of Jobs:
How the U.S. Could Generate Over 1.3 Million Private Sector Jobs in Six Months and Still be in a Slump

Report Data Summary

- The U.S. economy generated an average of 222,000 net new private sector jobs in the first six months of 2014 (H1 2014), for a total of 1,331,000 positions.

- Yet 56% of the jobs created offered workers wages or hours that were so low as to produce average weekly gross pay of $614, versus the other 44% of jobs created that offered wages and hours commensurate with what we would normally characterize as "good" full time jobs. These jobs produced average weekly gross pay of $1,137, almost twice as much as the majority of jobs created.

- Compensation for those high wage jobs during H1 2014 fell relative to inflation by an average of 0.16%, while wages for the lowest paying jobs rose by an average of 0.36% relative to inflation—suggesting little pressure on overall wages except in the very low wage sectors. Overall, wages fell 0.07% relative to inflation during the first half of the year.

- The labor force participation rate ended H1 2014 at levels unseen since the mid-1970's, before the entry of large numbers of women into the labor force, and the employment-population ratio remains over 4% below trend levels for the 30 years prior to the Great Recession.

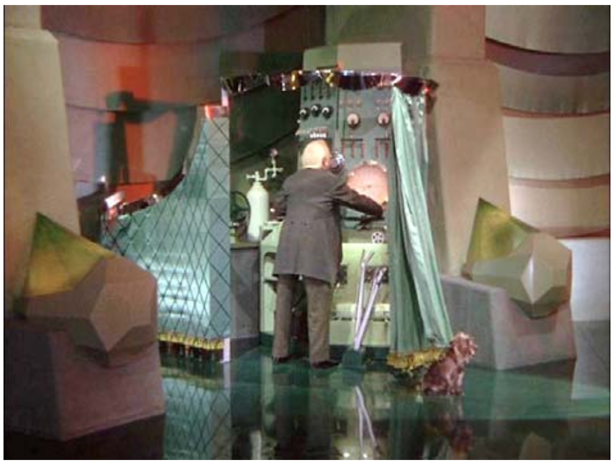
- The fall in the labor force participation rate has been incorrectly attributed, by many economists and media outlets, to factors relating to the retirement of baby boomers, yet the data clearly shows that the participation by those 55 years of age and older has reached historic highs since the Great Recession, while the principal erosion has been experienced in younger age brackets. Labor force participation by 25 to 34 year olds, for example, has fallen by 4% from its high in 2000.

- In the Education and Healthcare super-sector—the largest sector, accounting for 21.5 million jobs—wages fell by 0.57% relative to inflation, dragged down by the Nursing and Social Assistance subsectors which accounted for 38% of the jobs created in the super-sector, which offers wages averaging just over $15.50/hour for positions offering employment averaging just over 30 hours per week.

- While jobs are being created at a good pace, and job openings rose materially in the second quarter of this year, the U.S. economy is beset by a number of headwinds emanating from the jobs sector, among them:

- Labor slack, both domestically and—in the goods producing sectors—globally, in H1 2014 eroded disposable income on an inflation adjusted basis in the best paying sectors of the jobs market;
- The majority of new net jobs creation was in sectors offering either part time work, low wages, or both; and
- The overwhelming portion of job openings in the monthly Job Openings and Labor Turnover Survey (JOLTS) are in part time and low wage category, dwarfing superior paying openings in the goods producing sectors—the latter of which are growing at the slowest pace of almost all employment sectors.

"Pay No Attention to that Man Behind the Curtain"



In "*The Wonderful Wizard of Oz*," L. Frank Baum's ingenious turn of the century, political-economic screed, the Wizard - in the real world that precedes Dorothy's dream, the kindly old snake oil salesman and fortune teller - declares "pay no attention to the man behind the curtain," when his existence in unceremoniously revealed, in the movie version, by Toto the dog. Oz, by that time was—after all—a fairly cheerful place with great faith in its system and it's mysterious guiding hand and there was much innocence to be lost by learning that it's leader was really rather powerless.

But after living all those years in fear of the recently liquidated Wicked Witch of the West, what need did Oz really have for a continuing wizard myth? And we are—in the end—left feeling that the people of Oz would govern themselves just fine after the Wizard's departure for Kansas with Dorothy.

The U.S. Bureau of Labor Statistics has no curtain covering its complex data. But that complexity itself permits a curtain of interpretation to be drawn over that data by its many analysts, by media headline generators, and by politicians. A spin that leaves many people wondering how they are supposed to feel so good, when our wicked witch of an economic slump is still out there threatening the livelihoods of many.

So it is time again, as we did six months ago, to pull back the curtain and have a hard and honest look at what the employment picture really looked like in the first half of 2014. And that picture was still very muddled.

The U.S. produced over 1.3 million jobs in H1 2014, but over 56% (740,000) of those jobs were in sectors that pay an average of only $614 per week ($31,928 per year), compared to the other 44% of jobs created (591,000) that were in sectors that pay an average of $1,137 per week ($59,124 per year). Of the lower paying jobs, a full 207,000 of the 1.3 million jobs created in H1 2014 were in the Leisure and Hospitality sector, in which the prevailing weekly pay is $362 ($18,842 per year).

The low wage sectors, Retail Trade, Administrative and Waste Services (aka. Temps and Trash), and Leisure and Hospitality, taken together offered a prevailing wage of $16.19 per hour at the end of the half. Interestingly, this was an increase of 1.66% for the six months, which was slightly higher than CPI inflation (by 0.36%) for the period. Hourly pay for higher wage jobs, however, fell relative to inflation, by 0.16% on average. Owing to the very short hours offered in the low wage categories of jobs (29.73 hours per week on average), it would appear that low wage labor has hit a floor at survival level and bounced back some, while the better paying positions saw less bargaining power on the part of labor. Overall, wages fell by 0.07% relative to headline CPI inflation. The table on the following page illustrates the foregoing:

Halfway Point

2014 6 Month Private Sector Jobs Analysis

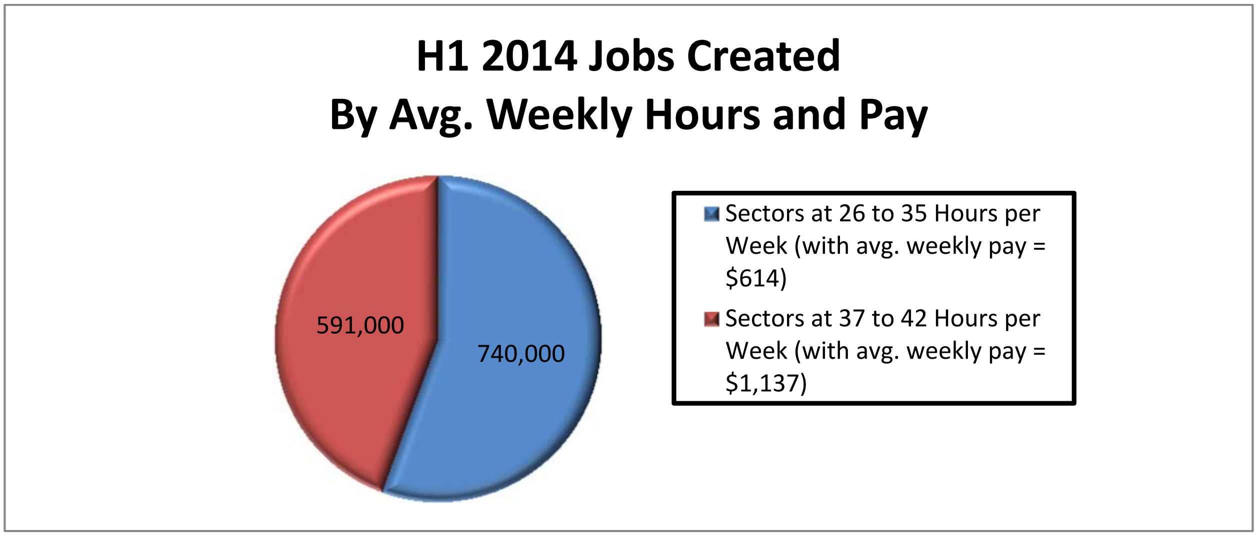
	Number of Jobs					*Part Time vs Full Time*
	Dec-13	**Jun-14**	**Var**	**Percent of Private Jobs Created**	**Percent of Total Jobs Beginning of Year**	**Average Weekly Hours (Jun-14)**
HIGH WAGE JOBS						
Goods Producing	18,811	19,043	232	17.43%	16.28%	40.6
Wholesale Trade	5,797	5,878	81	6.09%	5.02%	38.8
Transportation and Warehousing	4,547	4,619	72	5.41%	3.94%	38.3
Utilities	551	551	-	0.00%	0.48%	41.9
Information	2,674	2,657	(17)	-1.28%	2.31%	37.0
Financial Activities	7,901	7,944	43	3.23%	6.84%	37.2
Education and Health	21,242	21,462	220	16.53%	18.38%	**32.7**
Professional and Tech*	8,201	8,353	152	11.42%	7.10%	37.0
Management of Companies*	2,109	2,137	28	2.10%	1.83%	38.6
Other services	5,480	5,503	23	1.73%	4.74%	**31.7**
Totals and Weighted Averages**	**77,313**	**78,147**	**834**	**62.66%**	**66.91%**	**36.2**
LOW WAGE JOBS						
Retail Trade	15,262	15,357	95	7.14%	13.21%	**31.3**
Administrative and Waste Services*	8,532	8,727	195	14.65%	7.38%	**34.9**
Leisure and Hospitality	14,435	14,642	207	15.55%	12.49%	**26.2**
Totals and Weighted Averages**	**38,229**	**38,726**	**497**	**37.34%**	**33.09%**	**29.79**
Grand Totals	**115,542**	**116,873**	**1,331**			**34.10**
Average Private Sector Jobs per Month			**222**			

	Hourly Wages					**Pay**
	Dec-13	**Jun-14**	**Percentage Var**	**6 Month CPI Inflation***	**Real Wage Growth (Decline)**	**Average Weekly Gross Earnings**
HIGH WAGE JOBS						
Goods Producing	$ 25.44	$ 25.74	1.18%	1.30%	-0.12%	$ 1,045.04
Wholesale Trade	$ 27.87	$ 28.10	0.83%	1.30%	-0.47%	$ 1,090.28
Transportation and Warehousing	$ 22.71	$ 22.90	0.84%	1.30%	-0.46%	$ 877.07
Utilities	$ 35.51	$ 35.38	-0.37%	1.30%	-1.67%	$ 1,482.42
Information	$ 33.43	$ 33.96	1.59%	1.30%	0.29%	$ 1,256.52
Financial Activities	$ 30.37	$ 30.84	1.55%	1.30%	0.25%	$ 1,147.25
Education and Health	$ 24.55	$ 24.73	0.73%	1.30%	-0.57%	**$ 808.67**
Professional and Tech*	$ 36.80	$ 37.47	1.82%	1.30%	0.52%	$ 1,386.39
Management of Companies*	$ 36.02	$ 36.20	0.50%	1.30%	-0.80%	$ 1,397.32
Other services	$ 21.72	$ 21.93	0.97%	1.30%	-0.33%	**$ 695.18**
Totals and Weighted Averages**	**$ 27.30**	**$ 27.61**	**1.14%**	**1.30%**	**-0.16%**	**$ 1,015.75**
LOW WAGE JOBS						
Retail Trade	$ 16.66	$ 16.99	1.98%	1.30%	0.68%	**$ 531.79**
Administrative and Waste Services*	$ 18.45	$ 18.73	1.52%	1.30%	0.22%	**$ 653.68**
Leisure and Hospitality	$ 13.65	$ 13.83	1.32%	1.30%	0.02%	**$ 362.35**
Totals and Weighted Averages**	**15.92**	**16.19**	**1.66%**	**1.30%**	**0.36%**	**$ 495.19**
Grand Totals	**23.54**	**23.82**	**1.23%**	**1.30%**	**-0.07%**	**$ 843.26**

* Hourly wage data for these job categories, as well as 6 month inflation data is for November 2013 to May 2014. Final June 2014 data not yet available.

** Hourly wage and hours worked totals weighted by number of jobs in each job category at beginning of period and/or end of period.

At the top of the following page is a graphic breakdown of the severe polarization in jobs created during the first half of 2014:



Based upon the "headline" pace of job creation, and the headline (U-3) unemployment rate that has fallen from 6.7% at year-end 2013 to 6.1% in June 2014, some economists have predicted impending tightness in labor and expect accelerating upward pressure on wages. The H1 2014 data, however, should be read very differently:

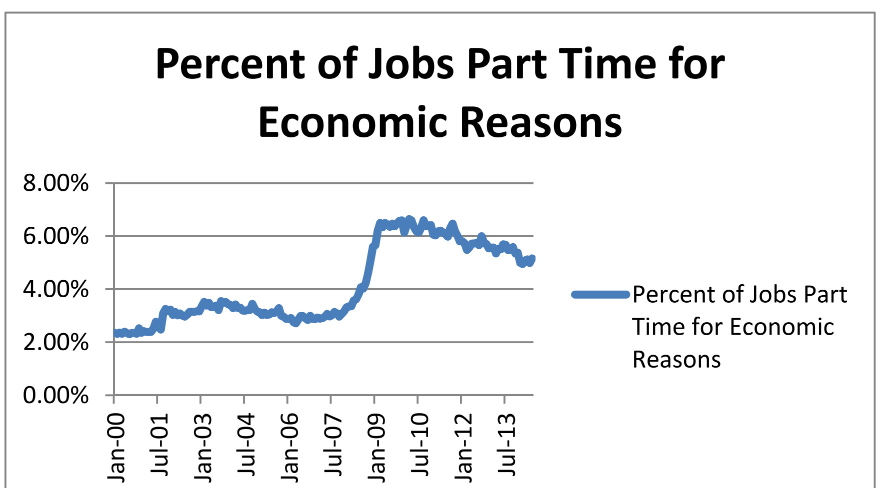
(i) Overall, there is a scarcity of job openings relative to qualified workers and apparently weak wage pressure in many of the higher paying skilled job sectors, as reflected in the inability of labor to command wages that rise even at the at the very low level of recent inflation;

(ii) In the professional and technical services sector, however, there is some evidence of high level wage pressure—wages grew at 1.82% over the past six months—but that sector, although at the center of the highly publicized tech services economy, is just over 7% of the total positions in the economy;

(iii) The majority of the minimal wage pressure that exists at all, is being felt at the extraordinarily lowest levels of the jobs economy, in sectors that—on average—pay less than $500 per week; and

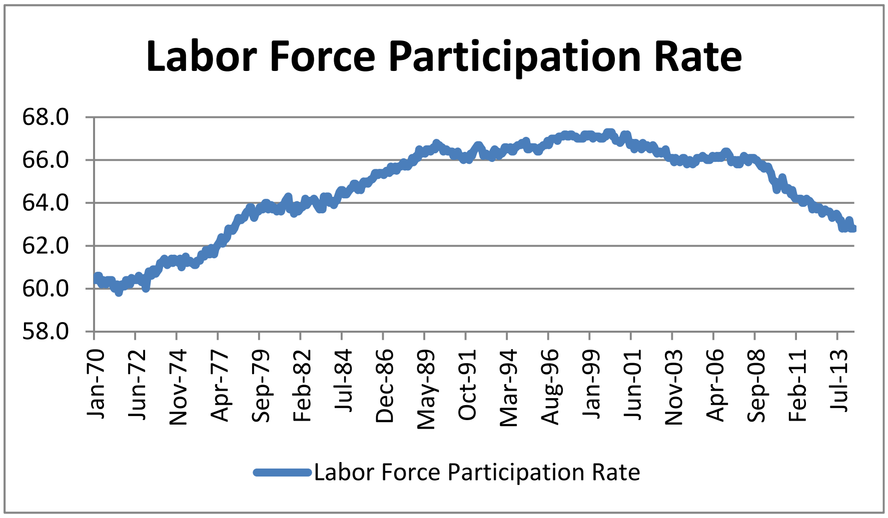
(iv) Most of the employment in the low wage sectors consists of part time jobs at wages that were so low in previous post-Great Recession years (and less than $16/hour at the end of 2013) as to have brought about actual labor protest movements, actions on the part of states to increase minimum wage levels, and rhetoric (but not actual legislation) on the same topic at the federal level. It is not surprising, therefore, that wages rose in excess of the inflation rate in those sectors during the first half of 2014.

To the last point, the graph to the right illustrates how the percentage of part time jobs held by people who would prefer to be in full time jobs—while having fallen a bit since the peak of the Great Recession—has not come anywhere near to pre-recession levels. The level of those working part time for economic reasons in June of 2014 (5.16%) was actually the highest reading of the year on both a percentage and a nominal basis.

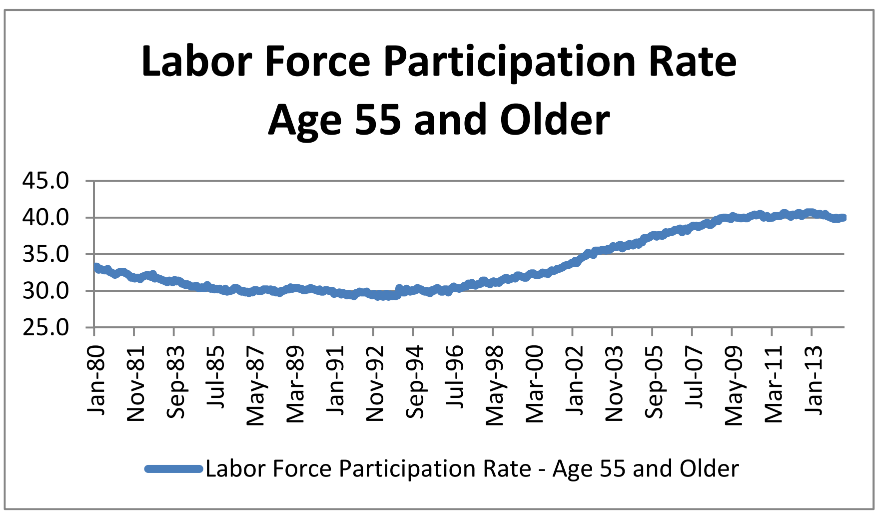


"I've a Feeling We're Not in Kansas Anymore"

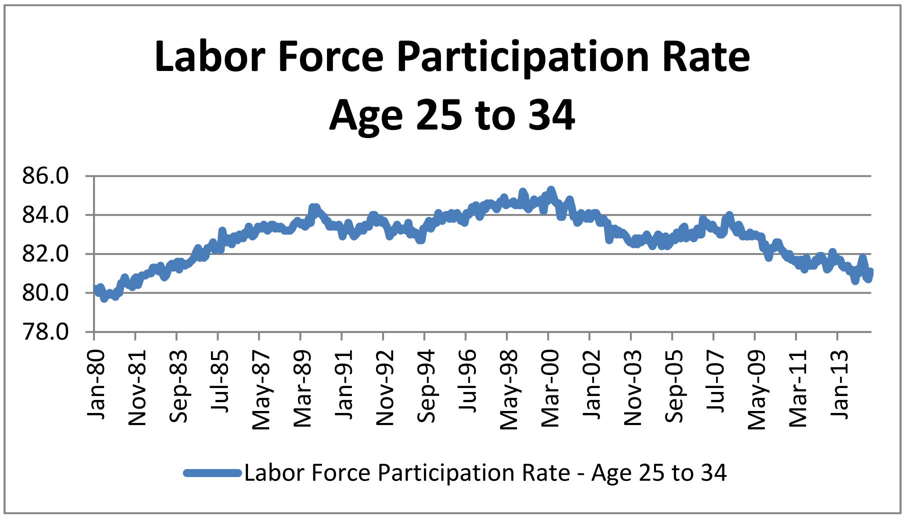
Underlying the fall in the U-3 unemployment rate during H1 2014 was not an increase in positions relative to the number of employable individuals in the U.S. during the same period, but rather the continued slide in the number of individuals who are deemed to be in the labor force, relative to the employable population. The U.S. labor force participation rate (LFPR) reached its peak at the turn of the last century and had fallen precipitously since the Great Recession. The decline continued unabated throughout the first half of 2014, falling to a level unseen since the mid-1970s—prior to the entry of a majority of women into the labor force—as follows:



The above decline is often attributed, by some apologists, as relating to an increase in the rate of retirement of those in the "baby boom" demographic, the oldest of whom are thought to be beginning to retire. As it turns out, however, those in the 55 and older demographic are remaining in the labor force as never before. Below is a graph showing the degree to which the LFPR in the 55 and older portion of the population has hit and remained at new highs since the Great Recession:



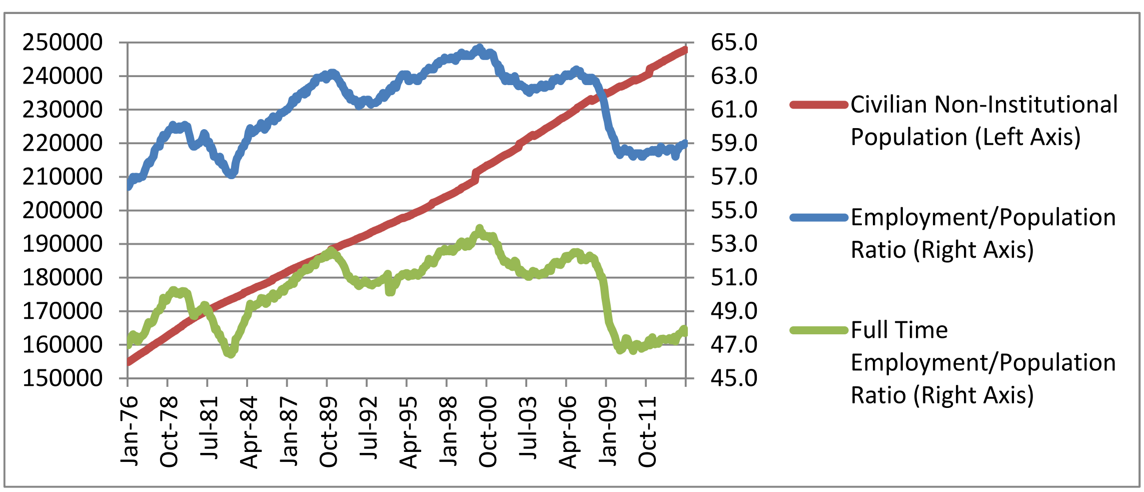
The 55 and older labor force in the U.S. consists of some 33.8 million people. A similarly sized demographic (34.2 million) is the 25 to 34 year old group – which is in its prime working years. While those 55 and older have been hanging on to their jobs by their already overworked finger nails, those in the 25 to 34 year cadre have seen their level of entry into the labor force fall back to levels of the early 1980s.



Given the duration and magnitude of the present economic slump, the foregoing is not all that surprising. Older people cannot afford to retire and "make room" for younger workers, jobs are not growing fast enough to keep up with the overall growth in the population (even as, on a nominal basis, in H1 2014 the U.S. had technically replaced the jobs lost during the Great Recession), and overall demand for labor in high wage countries, such as the U.S., is weak as a result of offshore competition from emerging markets and continued technological developments.

Nevertheless, even as the Chair of the U.S. Federal Reserve Board of Governors, Janet Yellen, shared her concern about evident continuing labor market "slack" this year, others have been pounding economic worry drums about impending wage growth. Even some economic polling data has seen a rise in businesses saying they are having difficulty filling positions. We don't see these concerns and statements being consistent with the broader data. Yes, a business interested in hiring very low wage employees at the severely depressed rate they were paying twelve months ago will have some trouble filling those positions, as will a smattering of high tech firms. But there is simply no shortage of employable labor in the U.S. and no systemic pressure on wages.

This conclusion is perhaps best illustrated the below graph. While the employable population has continued to grow, the ratio of those employed to population fell like a rock during and after the Great Recession, and remains at or around levels seen last in the early 1980s. And the percentage that is employed full time is now under 50%. If the below isn't labor slack, what is?



"If I Only had a Brain…and a Heart"

One consistent generator of jobs, during the post-Great Recession years, has been the Education and Healthcare super sector. It is generally accepted that medical care and education are quasi-"guild" industries that are well protected from international competition and benefit from third party payer systems (student loans and health insurance, to be specific), which gives the super sector pricing power that is lacking in other parts of the economy. It is the largest jobs sector overall and generated more jobs than any other sector in the service economy in the first half of 2014.

But the super sector showed wages declining substantially (0.57%) relative to inflation in H1 2014, and experienced nominal wage growth of only 0.73%. This was because nearly half (84,000) of the jobs created in the healthcare component of the super sector were in the low wage Nursing Home and Social Assistance categories. As fewer than 15% (32,000) of the 220,000 jobs in the super sector were in education, it is on healthcare that our attention needs to be focused. The Nursing Home and Social Assistance jobs are both low wage (under $16/hour taken together) and low hours (around 30 hours per week, on a blended basis), with gross pay averaging under $500/week. Together, those two subsectors account for 6.6 million jobs in the economy, more than many other super sectors. Although they are in the relatively higher wage education and healthcare super sector, these large categories of jobs have more in common with retail and leisure industry positions from the standpoint of gross pay.

H1 2014
Education and Healthcare Supersector

	Dec-13	Jun-14	Var (000s)	Average Weekly Hours (Jun-14)	Average Hourly Wages (Jun-14)	Average Weekly Gross Earnings
Education	3,365	3,397	32	n/a	n/a	n/a
Ambulatory Care	6,567	6,662	95	32.1	$ 29.97	$ 962.04
Medical Labs	240	240	-	36.8	$ 27.73	$ 1,020.46
Hospitals	4,793	4,802	9	36.1	$ 29.52	$ 1,065.67
Nursing Homes	3,245	3,260	15	32.6	$ 16.33	$ 532.36
Social Assistance	3,272	3,341	69	29.7	$ 15.34	$ 455.60
Total Healthcare	18,117	18,305	188			
			-			
Grand Total	21,482	21,702	220			

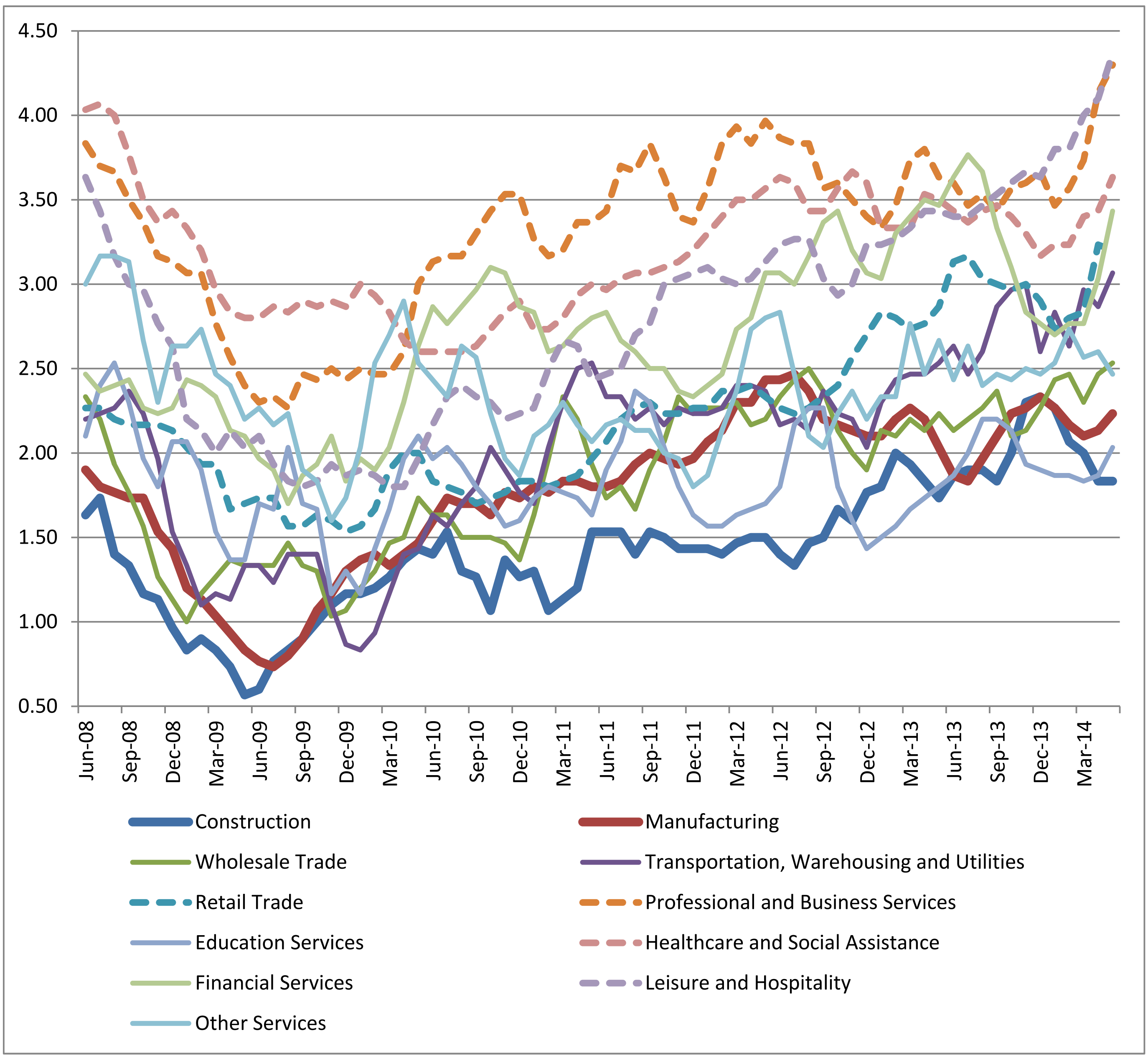
JOLTS for Janet

Janet Yellen (not the Wicked Witch of the East, Evanora, from the recent "*Oz, The Great and Powerful*" pictured at right—Chair Yellen is more of a Glinda the Good Witch type), is said to be quite taken with the monthly Job Openings and Labor Turnover Survey (JOLTS). As a result, business and economics media types have—over the past few years—become somewhat enamored of this relatively derivative, but handy, index. As with other jobs data, however, to appreciate the true state of the economy it is important to separate and evaluate each of the line items (let's call them "bolts" of JOLTS) in the index.

During this first half of 2014 (through May. June's data is not yet available), we saw the level of job openings grow by around 17% from the level at year-end 2013. But, as with much of the other data in this report, the overwhelming portion of job openings in the JOLTS are in part time and low wage categories, dwarfing superior paying openings in goods producing sectors—the latter of which (manufacturing and construction) are growing at the slowest pace of almost all employment sectors.

The graph below illustrates the rate of growth in job openings in the low wage sectors with dashed lines (note the recent acceleration) and manufacturing and construction with solid/bold lines.

Rough JOLTS
Three Month Rolling Average Percentage Rate of Growth



Somewhere Over the Rainbow

It has been five years since the U.S. unemployment rate peaked at 10%, and we have seen significant improvement in getting people into some form of gainful employment. But the "dreams that we dare to dream" about a normalized labor picture in the U.S. have yet to come true. Per capita aggregate wages are not recovering from the economic tornado that ripped through advanced economies from late 2007 on. Until they do, until the quality—not just the quantity—of U.S. job creation improves, we can click our heels together all we want, but the U.S. will not be able to wake up from its economic nightmare and move itself forward.