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Commentary

“Jobs and Unemployment: It’s Complicated”

The Bureau of Labor Statistics (“BLS”, established in 1884) tells us the U.S. unemployment rate is 4.4%. Yet, in December of 2016 President-Elect Trump declared the unemployment rate to be “totally fiction,” and earlier in his campaign stated that the unemployment rate was probably over 20% and as high as 40%. Who’s right? Well, there are nuances and truths to both sets of figures, so please read on . . .

- **The ‘Official’ Unemployment Rate:** For decades the BLS has polled 60,000 people every month about their employment status, publishing 6 different sets of unemployment data. The numbers are not “totally fiction.” The one we hear about all the time is the “U-3” which includes as unemployed only those people who are actively looking for work and haven’t found it yet.
- **So What was Mr. Trump Talking About?** Probably about the employment-population ratio, which looks at all people over 16 and reports the percentage of those who are working, about 60% right now. But, that pool includes retirees, kids in school, homemakers, and the disabled. It’s not used much, for obvious reasons.
- **One other Useful Measure:** The “U-6” report from the BLS looks at those people who want a job and do not have one, no matter how hard they’re looking (discouraged workers) *and* people working part-time who want to be full-time. This rate is about 9.4% right now.
- **Why the Unemployment Rate is so Important:** When people work, they spend. And our U.S. economy is based about 70% on consumption (purchasing) of goods and services. *More* people working means more spending and the economy grows faster. With fewer people *looking* for work, companies eventually raise wages to attract the people they want. Higher wages lead to even more spending, and companies sell more stuff, and hire more people. Get the picture?
- **A Question about Immigrants:** It’s been said that immigrants –legal and illegal- have kept other Americans from coveted jobs. Well, the top four occupations of immigrants are: working in private households, textile and leather manufacturing, agriculture, and hotel/hospitality (PEW Research). These are hardly the occupations that the politicians are haranguing about.
- **An Observation about Immigration and Jobs:** Our population is aging. Unless we have a rise in birthrates, the percent of people working will continue to decline, and the economy will likely slow. The birth rate of U.S. born mothers has been flat for years, but has been offset by higher birthrates of foreign-born mothers (PEW). Slowing immigration can dramatically lower the overall birthrate, putting fewer people into productive jobs. Already the construction and agriculture industries report severe labor shortages of 20-30% (Association of General Contractors of America; Western Growers Association). Immigrants can play a very important part in our economy both in the short and long term.
- **The Problem of Mismatched Skills:** According to CompTIA (the information technology trade association) there are over 600,000 technology positions currently unfilled in this industry that comprises 4% of our workforce. That’s 100 times that of the

coal industry. Only 11% of employers believe higher education is very effective in readying graduates for needed skills (Career Advisory Board). And the BLS predicts that there will be 1.4 million *more software* development jobs than applicants by 2020. The message: we are not training people for many of the jobs that are needed today and tomorrow.

- **There's no Substitute for Training and Education:** People with college degrees have an unemployment rate of 2.4%; those with some college, 4%; with a high school degree but no college, 5%; and with no high school degree, 7.9% (FactSet, JPMorgan). Before long, vocational and trade training will take a much greater role, especially in information technology. Properly trained people will find jobs.
- **Will we Bring Manufacturing Back?** In 2004 manufacturing comprised 10% of the workforce, and today it's between 8% and 9% (BLS, National Association of Manufacturers). The manufacturing sector will never look like it did 15 or 20 years ago. Our economy has changed and more tasks are automated (increasing productivity and reducing costs). Some jobs have gone overseas, probably for good. Most companies simply do not have idle plants waiting to throw the power switch to "on," to be filled with well-trained workers. To upgrade plants, re-tool, buy new equipment, and retrain workers is cost prohibitive in many industries, and would grossly raise prices to consumers in most cases.

It's important to think about jobs and employment as there will continue to be disruptions to entire industries due to technological advancements, among other things. Yet, these advancements are likely to create as many new jobs as they "destroy." The question is can we train workers fast enough and well enough to fill them?

So, no, the unemployment rate is not a politically made up number. The rate, by any of the 6 measures used, is less than half of what it was during the Great Recession. At Premier Wealth Management, LLC we will always try to have a close relationship with the truth, and share with you what we feel are accurate and useful observations.

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