LPL RESEARCH

WEEKLY ECONOMIC COMMENTARY

KEY TAKEAWAYS

The U.S. economy created another 252,000 net new jobs in December 2014 and 3 million over the course of 2014, with the most net new jobs added since 1999.

The labor market still has a long way to go to get back to "normal," which may keep the Fed on hold for raising rates until late 2015.

The size of the mining economy relative to the U.S. economy is not big enough to make a meaningful difference economy-wide. However, in certain states, the expected drop in mining-related employment and economic output may have an impact.

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DRILLING INTO THE LABOR MARKET

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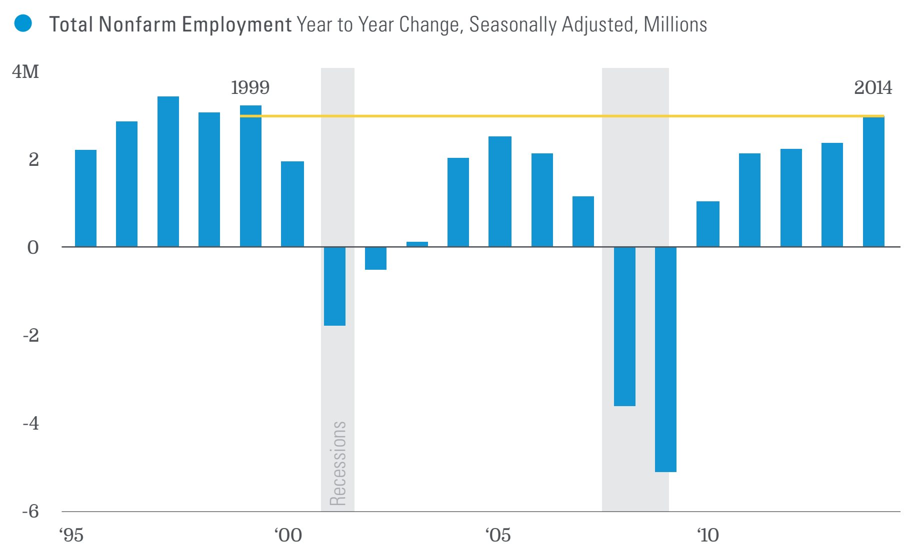
Last Friday, January 9, 2015, the United States Bureau of Labor Statistics (BLS) released its monthly Employment Situation report, providing financial markets and the public at large with the state of the labor market as 2014 ended. The U.S. economy created another 252,000 net new jobs in December 2014 and 3 million over the course of 2014. More net new jobs were added in 2014 than in any year since 1999 [Figure 1]. The unemployment rate fell to 5.6% in December 2014, the lowest reading since mid-2008.

Although the labor market has improved markedly over the past year or so, it still has a long way to go to get back to "normal," and the Federal Reserve (Fed) is unlikely to begin raising rates until a broad range of labor market indicators are back to normal or on track to get back to normal. In our *Outlook 2015: In Transit*, we noted that Fed Chair Janet Yellen and the other members of the Federal Open Market Committee (FOMC) are tracking a "broad range" of labor market indicators. (See pages 10–11 of the *Outlook* for details.) Eleven of these indicators were updated with last Friday's release, with six of them improving versus November 2014, four deteriorating, and one remaining the same.

1 2014 WAS THE BEST YEAR FOR JOB CREATION SINCE 1999



Source: LPL Financial Research, Bureau of Labor Statistics, Haver Analytics 01/11/15

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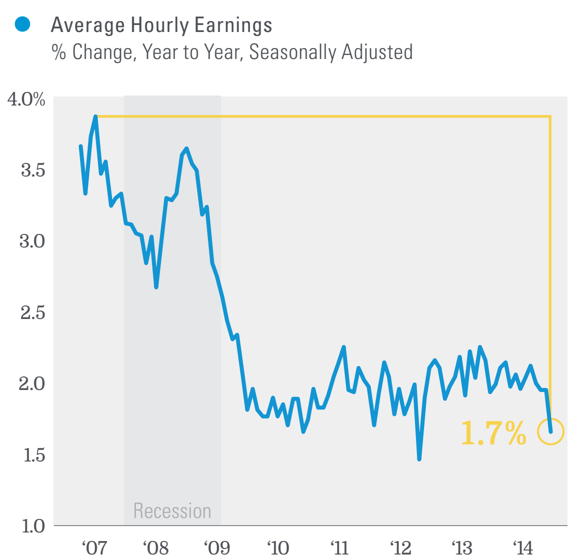
In an otherwise solid report, one of the big disappointments was the deceleration in wage growth as measured by the year-over-year change in average hourly earnings. Hourly earnings decelerated from 1.9% year over year in November 2014 to 1.7% in December, and remain far below the 3.5–4.0% range mentioned by several Fed officials as "normal" [Figure 2]. We continue to expect the broad economy will create between 225,000 and 250,000 net new jobs per month in 2015, which should further tighten the labor market and push wage inflation higher in the second half of 2015. We also continue to expect the Fed may potentially begin raising rates in late 2015.

THE DROP IN OIL PRICES AFFECTS CERTAIN STATES MORE THAN THE OVERALL U.S. ECONOMY

While the broad labor market continues to heal, the recent precipitous drop in oil prices has raised concerns about the health of the overall U.S. economy, wages, and in particular, the labor market. (See our *Weekly Economic Commentary*, "Before and After: Monitoring the Effects of Falling Oil Prices," December 22, 2014, for more details.)

2 AT JUST 1.7%, YEAR-OVER-YEAR WAGE GROWTH REMAINS WELL BELOW "NORMAL"



Source: LPL Financial Research, Bureau of Labor Statistics, Haver Analytics 01/11/15

Our view is that although mining jobs (where oil-production jobs are counted) have increased more than four times as fast as overall private sector jobs since 2009—and pay 30% more per hour—the size of the mining economy relative to the size of the entire U.S. economy is just not big enough to make a meaningful difference economy-wide. However, in certain states, where the mining economy and mining employment is large enough, the expected drop in mining-related employment and economic output may have an impact.

Overall, mining output in the United States accounts for nearly 3% of gross domestic product (GDP), and has nearly doubled as a share of GDP since the early 2000s, but remains below the recent peak of nearly 4% set in the early 1980s, as the oil from the North Slope of Alaska began to fully come on stream. Economy-wide employment in the mining industry has increased by over 42% since 2009, far outstripping gains in overall private sector employment (10%) over that time period.

Despite that rapid growth, mining employment accounts for only around 900,000 jobs, or less than 1% of private sector employment. In addition, the average job in the mining sector pays nearly $27 per hour, almost 30% more than the average hourly pay economy-wide (of around $21 per hour). The 900,000 mining jobs likely underrepresent the size of the mining-related workforce, as jobs were created to serve the mining community that are not directly related to mining (i.e., retail, hotels, transportation, machinery, etc.). Academic and business-funded studies of the mining sector suggest that every mining job creates between two and three additional jobs. But even at 2.25 million jobs, mining and mining-related employment would only account for 2% of total employment nationwide.

In some states, however, mining has a much larger impact on the economy and the labor market. Ten states account for nearly 80% of U.S. oil and natural gas production, led by Texas (31% of total output), Louisiana (8%), and Oklahoma (7%). North Dakota, the epicenter of the boom in the production of oil and gas from shale over the past half-decade or so, produces 4% of U.S. natural gas and crude oil. Mining represents 10%+ of economic output in seven states, including Wyoming (42% of GDP), Alaska (36%), Oklahoma (18%), and North Dakota (18%). As a percentage of employees, Wyoming (12% of employment in mining), North Dakota (8%), Alaska (7%), and Oklahoma (5%) have the highest number of people working in the mining sector [Figure 3].

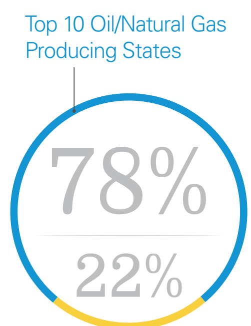
Despite the big drop in oil prices, we continue to expect the U.S. economy may expand by 3%* or more in 2015 and create between 225,000 and 250,000 jobs per month, pushing up the rate of wage inflation later in the year. Although we do expect the drop in oil prices may have a meaningful impact on certain states' economies and labor markets, the small size of the U.S. mining industry, relative to the size of the large and diverse U.S. economy, suggests any nationwide impact will be small. On balance, we continue to expect the drop in oil prices will be a net plus for the U.S. economy as a whole, benefiting both consumers and businesses alike. ■

*As noted in the *Outlook 2015: In Transit*, LPL Financial Research expects GDP to expand at a rate of 3% or higher, which matches the average growth rate of the past 50 years. This is based on contributions from consumer spending, business capital spending, and housing, which are poised to advance at historically average or better growth rates in 2015. Net exports and the government sector should trail behind.

3 MINING HAS A LARGER IMPACT ON TOP 10 STATES FOR OIL AND NATURAL GAS PRODUCTION

	Oil & Natural Gas Production (% of Total U.S. Production)	Mining Employment (% of Total Private Sector Jobs)	Mining Output (% of GDP)
Texas	31%	3%	15%
Louisiana	8%	3%	10%
Oklahoma	7%	5%	18%
Wyoming	6%	12%	42%
Pennsylvania	6%	1%	3%
Colorado	5%	2%	8%
New Mexico	4%	4%	13%
North Dakota	4%	8%	17%
Alaska	4%	7%	36%
California	3%	0%	1%
United States	100%	1–2%	3%

Oil & Natural Gas Production in the United States



Source: LPL Financial Research, U.S. Department of Energy, Haver Analytics 01/09/15