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"Unemployment vs. Underemployment"

By Tommy Williams, CFP®

Stocks recovered some ground last week and then stumbled over unemployment. Major U.S. stock indices faltered Friday after the *Bureau of Labor Statistics (BLS)* reported on a popular 'lagging' economic indicator – unemployment. (Remember, lagging indicators describe what has happened in the past.) The *BLS* reported:

"The unemployment rate remained at 3.7 percent in October, and the number of unemployed persons was little changed at 6.1 million. Over the year, the unemployment rate and the number of unemployed persons declined by 0.4 percentage point and 449,000, respectively."

Reuters reported the number of Americans receiving unemployment benefits was at the lowest level in 45 years. That's good news, but it's old news. Again, unemployment is a lagging indicator and the report reflected what happened in October.

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The stock market, on the other hand, is a 'leading' economic indicator. It moves in response to investors' expectations for the future – and recent gyrations suggest investors aren't certain what to think. *Barron's* Daren Fonda wrote, *"The market's 6.9 percent slide in October and the stock averages' wild swings are testing everyone's mettle."*

Economists are uncertain about what's to come, too. Kevin L. Kliesen, in an *Economic Synopses* on the *St. Louis Federal Reserve* website, wrote, *"Historically, a trough in the unemployment rate also tends to be a reliable predictor of a business recession…an economic analyst is nonetheless never sure that a trough has occurred. Indeed, the unemployment rate can move up and down over the expansion."* There is one thing many analysts think is likely. They expect the Federal Reserve to increase the Fed funds rate so the U.S. economy does not overheat. Paul Kiernan at *The Wall Street Journal* reported, *"Robust hiring and wage gains last month leave the Federal Reserve all but certain to raise interest rates in December and on course to continue gradually lifting them next year."*

Though we are driven by news reports and political rhetoric to focus on improved unemployment numbers, perhaps a much larger phenomenon is underemployment. And though the trend is growing, it is not a new subject. According to the Federal Reserve Bank of New York underemployment rates for all college graduates age 22-65 has held steady at 33% for the past three decades. For the age group 22-27 the rate is closer to 44%. Those numbers are alarmingly high and speak to a huge mismatch in our economy – the jobs available vs. the skill and education of the work force to be successful in those jobs. It will be challenging to sustain a healthy economy over the long term with this imbalance. Thankfully, the Community College and Vo-Tech systems are aggressively addressing this amazingly large issue. In the meantime, the emotions of investors will cause the markets to knee jerk in response to data which may in fact be misleading.