Signals from the U.S. Job Market and Implications for Economic Growth

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David Hagee: Hello and welcome to Conversations with Commerce Trust, our show about the markets, investment themes, and economic insights that matter to you. I'm your host, David Hagee, Chief Investment Officer with Commerce Trust.

Today we're discussing the U.S. economy and specifically jobs with Scott Colbert, our Chief Economist and Director of Fixed Income. Welcome back to the podcast, Scott.

Scott Colbert: Hi, David.

David: Great to have you here. So we've dissected the economy almost every way that we can in the past, but I do think it's important to take a look at jobs. You know, we have leaned into this idea that the second you start to see jobs contract inside the U.S. is when we tip into a recession, so spend a little bit of time here. I think this is a very approachable subject for us as well.

You know, so let's start at the top. What do you see jobs' role in economic growth being?

Scott: Well, clearly, you know, population is the key driver to GDP (gross domestic product) historically and of course with population growth generally comes working age population growth, which is different than the overall population as we've aged because we have more and more boomers retiring and we still have a lot of people coming into the workforce, but that's slowing.

So, you know, the population, the workforce population growth, is pretty important. And then employing those folks that are looking for jobs is equally important. The Fed (Federal Reserve), of course, is focusing on their dual mandate of reasonable inflation and full employment. The unemployment rate today is 4.2%.

You basically get that by what, in this country of 340 million, about half the population has a job. There are about 164 million jobs in this country. Now the people that are 16 plus and older are a pretty big cohort. Those are the ones that are eligible to work. But of course, my mother, who's 87, isn't coming back into the workforce. But that's 262 million.

And when you take it down to basically the working age population, and let's just assume those are the folks that are basically 18 to 64, let's call that. Now you're down to about 200 million people. 164 million of them are working. It's about 62.6% of the eligible total population to work in this country, that's been slowly falling. But basically, job growth is the key. We've seen large amounts of job growth post-COVID (COVID-19), but we've seen it cool year by year. And as most people know, job growth this year has averaged about 140,000 jobs per month.

So if you take 140,000, you multiply that by 12. What do you get? Something like one and a half million jobs created. One and a half million divided by the 164 million jobs is job growth of about 9/10 of a percent. And that's the key driver to economic activity.

David: Yeah, I think that's a great basis to work from here, is that consumption is about 70% of GDP and you know with that you have to have a working population that's thriving out there for that number to continue to consume at the rates that we've seen in the past.

You know, as we start to break down the jobs market a little bit more. You mentioned the rate of employment, so that's kind of the punch line, if you will. On the way to the punch line, some items we're watching are weekly unemployment claims, they've stayed pretty steady. What are our thoughts on what we've seen so far in weekly unemployment claims?

Scott: Well, of course, everybody, you know, the end of an economic cycle as you just mentioned, is when basically we're not growing jobs. How do you not grow jobs?

Well, generally you end up having to fire people, right? Every week in this country, we do let go, lay off, or fire about 220,000 people. 220 times four is 880,000 people a month. So if you want to get a handle on future job growth, you also have to pay attention to the layoff announcements and people losing their jobs.

This is fairly timely data. We do get it on a weekly basis. And so we haven't really seen that budge up much at all, but to wipe out all the job growth if job growth is only, let's say, 140,000. To wipe out all the job growth, all the unemployment that the newly unemployed have to simply increase by 35,000 per week, 35 times four is 140. So if newly unemployed would go from 220 (thousand) to 255 (thousand), doesn't sound like much of a change, does it?

Basically, there goes all the employment. So, this is why we spend a lot of time trying to get ahead of the employment statistics to look at the trends in likely job growth.

David: And I think that's an important fact to remember here when we're talking about jobs, there is just regular frictional unemployment, right? That's just the natural churn that you have inside the economy of, you know, maybe not a business firing, but you know, people looking for a new job or, you know, people having to quit for a lot of different reasons.

That natural churn is what we've seen so far inside the unemployment numbers. But I think, you know, part and parcel to that is that we've seen these job openings decrease materially.

You saw in 2022 about 12 million job openings or "JOLTS" (Job Openings and Labor Turnover Survey) as they're known inside economic circles. Now it's down to about 7.2 million. I mean, what are we seeing going on there with the amount of job openings available?

Scott: Well, you know, to the extent that you're looking for cracks in the employment rate, you'd want to say, well, how many jobs are there available? And as you just mentioned, they're down to about seven to eight million jobs after peaking at 12 (million).

That seven to eight million jobs, though, is about what it was prior to the pandemic. So we're kind of back to natural availability of job openings, but it's kind of you know important to watch. You know, the number of unemployed versus the number of job openings, and to the extent that the number of unemployed is increasing and the job openings come down. Obviously, it's tougher and tougher to get a job.

Secondly, we like to look at the quit rate. How many people are willing to walk out of their job? Maybe because they've got another, or maybe they just want to quit their job and look for another. But the quit rate has been declining, too. It's down by about 1% from its peak during the COVID. There are a lot of people quitting their jobs, maybe because they had to because of the COVID or because they could quickly go out and find another job, particularly in the lower-income areas as, you know, people were desperate for workers.

And so, but we've seen the quit rate decline. And then finally, you look for other cracks like, are we paying people more? Are we paying people less? And we've seen a general cooling and wage growth too, which all tells you that the job, you know, the job market is becoming a little more loose, and it's not as easy to find a job. People aren't quitting their jobs, and there's not as many jobs to go to. All part of the cycle, economic cycle, but part of the slowing cycle that we see here, you know, five and a half years or five and a quarter years post the COVID crisis.

David: Yeah, I think that's an important item to bring up is that we've seen wage growth slow. We saw wage growth in 2022 around five and a half percent. Of course, some of that was this economy that had been fueled by a stimulus. But there's a parallel between the amount of quits happening, the amount of people quitting their job, and the slowing in wage growth, right? That the opportunity set for people to quit their job and to move on to something else.

I think in 2022, you had a lot of people that dreamed of a different job, went out, realized that dream, and now maybe have returned to their prior industry. But nonetheless, as wage growth cools, the amount of people willing to leave their job has slowed materially.

So, as we look at this picture of in 2022, we are averaging about 380,000 jobs per month. Now we're averaging, like you say, around 140,000 jobs per month. What factors have changed inside 2025 that we're trying to account for with maybe new policies as well as tariffs?

Scott: Well, you know, one of the biggest changes is likely to be, of course, and is already occurring as we speak, in terms of net immigration. Over the previous four years, ’21,’22,’23, and ’24 (2021, 2022, 2023, and 2024), we basically had about 8 million non-registered, or you know, basically non-documented workers come into the country.

Of those non-documented workers, about 71% of them worked. You know, that's a cohort that, in general, found jobs and was here to work. To the extent that that is slowing, and it is slowing materially, they say that border encounters are down by 90% compared to what they were in the fourth quarter of 2024.

So the amount of net immigration is falling dramatically. Now, what does that do? Well, it probably means that it's a little tougher for employers, of course, going forward, to find employees in general, if you don't have as fast a working age population growth. But it's particularly focused on the areas that these immigrants tended to work. And what were those areas?

Well, huge in agriculture, huge in construction, and huge in food processing and household labor. So those are the areas where you know you're probably likely to see the biggest impact or lack of availability or accessibility of folks, you know, if you if you need those folks for labor.

So I think that you know the slowdown in net immigration is likely to hold the unemployment rate down. It's likely to keep average wage growth a little higher than it might have been, and it's unfortunately likely to put a little more pressure on inflation and, of course, slow down the Fed in terms of their willingness to lower short-term rates.

David: So as we're talking about the immigration question, you know, as you mentioned, border encounters, undocumented immigrants coming into this country, has slowed dramatically.

In addition to that, we have seen a lack of legal immigration coming through. You know, what areas of the economy is that affecting in terms of legal immigration in this country?

Scott: Well, in terms of legal immigration, those tend to be well-paying documented workers for, you know, visas issued because we need workers, particularly in the technological spaces. We're still sending out visas, we're still letting folks come in that way, but it used to be about a million people per year. It looks like the run rate is closer to 750,000.

Most employers are, you know, nudging the administration to continue with legal immigration. It's just most people are asking for a little more control of the undocumented workforce.

David: So as we're talking about federal policy, certainly the headlines for the first half of the year have been somewhat grabbed by DOGE, the Department of Government Efficiency. As they have gone in and famously asked every federal employee to "tell me the five things that you've done this week."

And that you've seen, you know, this idea of having government buyouts. How does that factor into our economic picture?

Scott: Well, one would think that they're laying off everybody the way it sounds, but so far, actual layoffs and people from the federal government showing up at the unemployment office, there's only been 23,000 folks show up out of a workforce of about 3 million. Now the way they're going about this, though, is generally deferred, you know, compensation, if you will. Or they're paying folks to stay in their jobs, and they lose their job at the end of the year. So I think we would expect to see a marked increase in unemployment or a spike, if you will, later in the year, if in fact you know all these layoffs occur.

It is a total of three million workers. I can't imagine them laying off a million folks out of the three million, but let's say they did. Let's say they cut the workforce by, you know, a third. Well, we just said we're likely to create a million and a half jobs this year.

You can see that a million folks getting laid off that you didn't expect to get laid off would make a huge dent. Basically, the rise in the unemployment rate or, you know, eat up a lot of those jobs, so to speak. You know it, it clearly isn't positive for the economy in the sense that, you know, anybody losing their job to the extent that it's a more efficient government, maybe in the long run, that's just fine. But in the short run, it will certainly slow economic growth, there's just no doubt about that, on a going forward basis, at least for a short period of time.

David: So as we look forward, and as we're looking into a period that you've had a very disrupted labor market in place, but you know, we talked about the impact of jobs on the U.S. economy. Do we think that we're going to go into a recession for the back half of 2025 or in 2025?

Scott: Well, if you asked the Federal Reserve what's more important, job growth or the unemployment rate, they would say the unemployment rate tells them a lot. To the extent that we're slowing the, you know, growth of the workforce population, that means that we probably don't need to create net net as many jobs as we have historically to basically satiate the demand for labor or keep the unemployment rate lower.

So I think you know that set up is a pretty positive for the economy to squeak by and get through what we're talking about right now, which is basically the administrative policy with regard to tariffs. That's also likely to be a bit inflationary, delay, of course, any short-term rate cuts. Probably you know it's a loss of productivity for a period of time. And of course it's a tax on basically consumers, you know, via higher costs for you know imported goods and services.

So, you know, we went into the year with strong economic momentum, nominal growth was 5% in 2024, and real growth was 2.8%. Now it's cooling, no doubt about it. But the nominal growth rate was still about 1% higher than average if you took the average growth rate over the last 25 years.

So we went into this policy thunderstorm with a lot of momentum, and we think you know, the momentum is likely to carry us through, particularly to the extent that we can get to the end of the tariff fury and understand what it is that we are going to have to deal with.

I think it's pretty clear [the] country is going to have 10% tariffs on every import, with selected things being 25%, and some selected things being exempt from the tariffs. But in general, I think you can count on about a 10% tariff across the board on just about everything we're going to be importing into this country.

Which, by the way, happens to be about 10%, it's 11% of GDP. So about 11% of GDP, let's call it ten, is going to be 10%, you know, more expensive. Which raises the overall CPI (Consumer Price Index) level by about 1% in and of itself.

David: So, you know, a key question here, as we're talking about recession or not recession, impacts on economic growth, is going to be if wages can keep up with rising prices that you would get from the pass-through of tariffs to consumers. Or are the rising prices going to overwhelm consumers' pocketbooks, and there you're going to have demand destruction? Which of course, would tip us a little bit closer towards recession.

As we think about those questions, what should we be on the lookout for?

Scott: Well, you know, the key thing is, you know, what will drive forward employment growth? And the thing that slows employment growth is profitability. And to the extent that companies aren't profitable, they look around and say what's my biggest cost? They reduce their costs, and 70% of the cost of all goods and services in this country is simply labor.

So what you really want to pay attention to is ongoing profitability for corporate America. And, of course, these tariffs are likely to dent some of that profitability.

But if we can maintain profitability, right now, the analysts suggest that while they had thought that, you know, S&P 500 (Index) type profits might increase, you know, low double digits to start the year. They're backing off quickly those thoughts, but they still see profits rising pretty easily by about 5% this year.

And to the extent that profits are growing, I think employment continues to grow. It isn't until profitability starts to reverse that you actually see enough layoffs teed up all the net job growth. So I think you know it's profitability that we're focusing on. Of course, investors want to focus on profits too. Of course, profit growth is slowing, but as long as it doesn't go backwards, we tend not to have a recession as well.

David: So I think that's an important point. You know, we've stayed in this no-recession camp. With that, we position our portfolios accordingly.

So given that backdrop, I think there'll be, it should be an interesting second half of the year for us to watch.

Scott: It's certainly interesting. We've seen, you know, a lot of volatility in the stock market. Of all these things, that's probably pushing us to maintain longer durations than historically we have, simply because we want to capture these higher yields. We don't think the economy will slow so much to put us into a recession.

David: Yeah, I think the opportunity to capture some durable yield inside portfolios, if cash rates do roll over, is a great opportunity.

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Thank you for joining us on Conversations with Commerce Trust. I'm David Hagee. We'll talk again soon.

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