

Are There Enough Workers to Feed the U.S. Expansion?

For the first time this century, a job awaits every jobless person. But many of the jobless are either unqualified or unwilling to relocate. That’s bad news for the record number of new businesses last year, as they will need more workers (or robots) to grow. Yet, a third of small businesses can’t fill available positions, matching a 17-year high. This means the expansion (now the second longest on record) is at serious risk of slowing, not from lack of demand but, instead, from too few workers. With the economy’s long-run speed limit likely under 2%, **labour shortages pose a downside risk to our forecast of 2.8% growth this year.**¹



How many workers are needed to accommodate a 2.8% increase in real GDP this year? Assuming productivity holds steady at its four-quarter rate of 1.3% (which is nearly double the seven-year average) and the workweek stays at 34½ hours (as in recent years), employment would need to grow by **2.2 million** (1.5%) in 2018. This would match last year’s increase in nonfarm payrolls, and could come from five sources: 1) population growth, 2) conversion of part-time jobs to full-time positions, 3) multiple-job holders, 4) jobs filled by the unemployed, and 5) jobs filled by those outside the labour force.

What are the prospects for each source of labour supply this year:

1) Population: The civilian non-institutional population aged 16 years and over is expected to increase by 2.2 million in 2018, somewhat less than the five-year average.² However, the vast majority (1.7 million) will be 65 and over, a cohort in which only one in five people works. While more people will turn 16 than 65 this year, many will stay in school, even if post-secondary enrolment rates have stopped rising. Based on the expected change in the size and age composition of the population, and current rates of employment for various age cohorts, demographic trends could add **0.7 million workers this year** (Table 1).³

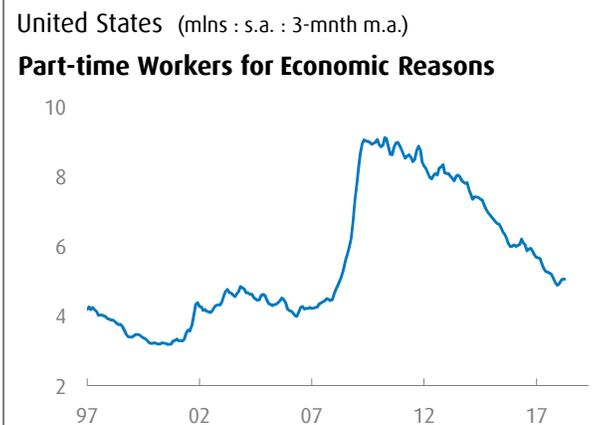
2) Involuntary part-time workers: The number of workers holding part-time jobs for economic reasons is at a cycle low of 5 million (Chart 1). If this figure shrinks by 0.7 million, it will reach pre-recession levels relative to total employment. Considering that some in this group will leave the labour force, and that converting part-time work to full-time positions adds only partially to the labour supply, a rough estimate would add **0.3 million jobs from this source.**

Table 1
Labour Supply Due to Population Changes

United States — 2018			
Age Group	Change in Population ¹ (000s)	Employment Ratio ²	Change in Employment (000s)
16-19	-40	0.289	-12
20-24	-158	0.660	-104
25-54	359	0.793	285
55-64	419	0.632	265
65-69	299	0.325	97
70-74	581	0.185	107
75+	780	0.086	67
Total	2,240		705

¹ Census Bureau estimate ² April 2018
Sources: BMO Economics, Census Bureau, Bureau of Labor Statistics

Chart 1
Fewer Working Part-time by Necessity



Sources: BMO Economics, Haver Analytics, BLS

¹ If demand cannot be met by domestic supply, it will be met by foreign supply (i.e., imports), which subtracts from GDP.

² The Census Bureau’s estimate of the change in the size of the population aged 16 and over is partly based on the estimated number of persons turning 16, the death rate, and net immigration.

³ With the U.S. birthrate at an all-time nadir, an increase in immigration would also help, but the odds are low under the current Administration and Congress.

3) Multiple-job holders: While more workers are juggling at least two jobs, their share of employment (5%) has held steady in recent years (*Chart 2*). The share would return to pre-recession levels if the number of multiple jobholders climbs by 0.5 million. However, with many people already working full-time hours, the extra jobs will likely be part-time or casual. As a rough guess, multiple-job holders could fill **0.2 million positions this year**.

4) Unemployed to employed: There are 6.4 million unemployed; roughly 1.8 million find work each month (while 1.6 million workers become jobless). But, the rate of transition from unemployed to employed has slowed, likely reflecting the rising share of long-term joblessness. One in five unemployed persons has not worked in the past six months, compared with one in six before the recession. The probability of finding work for those unemployed more than a year has declined in the past year. In fact, someone off work longer than a year is almost three times more likely to stop looking for a job than to find one, a record high (*Chart 3*). This could reflect a worsening skills mismatch. Still, there were 675,000 fewer unemployed in April than a year ago—just over half found work, while the rest left the labour force. If the transition from unemployed to employed continues at this rate, **0.4 million more workers could be added in 2018**.

5) Outside the labour force to employed: There are 96 million people aged 16 and over who are not in the labour force. Almost 91 million do not want to work, mostly because of retirement or schooling. Although 5 million would like a job, 3 million have not actively searched for one in the past year for a variety of reasons: discouragement, family responsibilities, education, illness and disability. A possible source of workers is the pool of 400,000 discouraged persons.⁴ Their return to the labour force, after peaking at 1.3 million post-recession, has already lifted the participation rate for persons of prime working age (25-to-54 years) by more than one percentage point to seven-year highs of 82%. This has countered the legions of retiring baby boomers and a flat youth participation rate to anchor the overall participation rate close to its current level of 62.8% in the past two years (*Chart 4*). While there's no guarantee that the participation rate will increase given demographic trends, a 0.1 percentage point advance would add **0.4 million workers this year**.

The potential labour supply in 2018 from these five sources tallies 2.0 million workers. While this would mark a step back

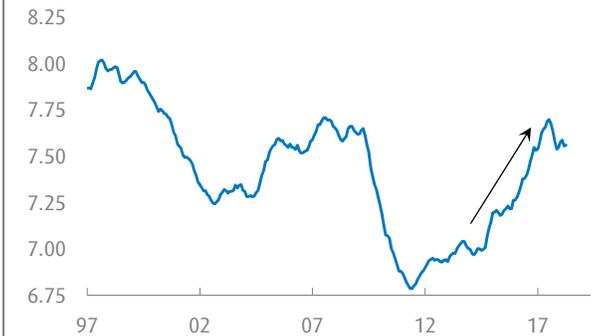
⁴ Recent efforts by some states and businesses to encourage hiring of former convicts might also support employment. In addition, more persons with illnesses and disabilities could re-enter the labour force after a decades-long downward trend. The actual number has steadied recently, but remains undermined by the opioid crisis. According to one study, increased opioid use accounted for over 20% of the decline in the participation rate from 1999 to 2015.

https://www.brookings.edu/wp-content/uploads/2017/09/1_krueger.pdf

Chart 2
Working 9 to 9

United States (mlns : s.a. : 12-mnth m.a.)

Multiple Jobholders

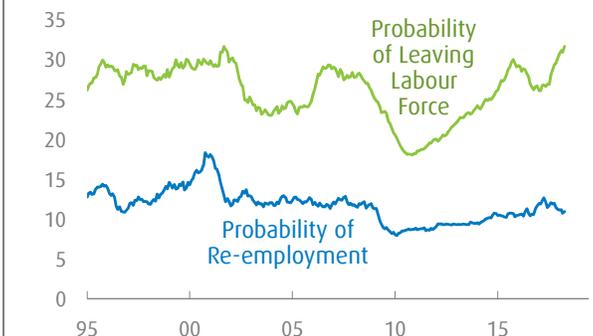


Sources: BMO Economics, Haver Analytics, BLS

Chart 3
Bleak Prospects for Long-term Jobless

United States (% : s.a. : 12-mnth m.a.)

For Persons Unemployed More than a Year:

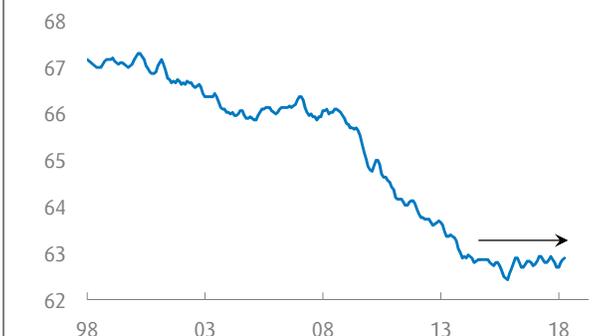


Sources: BMO Economics, Haver Analytics, BLS

Chart 4
Breaking Even

United States (% : s.a. : 3-mnth m.a.)

Labour Force Participation Rate



Sources: BMO Economics, Haver Analytics, BLS

from 2.2 million new jobs in 2017, payrolls are already up 0.8 million in the first four months of the year. Nonetheless, the **estimated increase in the labour supply this year is still 0.2 million short of the estimated number of workers needed to accommodate a 2.8% increase in real GDP** (barring a high-side surprise in productivity). This could skew **growth closer to 2.6%. While that's still well above potential**, remember it also assumes a slight increase in the participation rate. **If, instead, the participation rate fell by 0.1 ppts, growth would be closer to 2.4%, a more material miss.**

Bottom Line: The pool of potential workers is slowly drying up and is unlikely to fully quench the expansion's thirst this year. Companies have several choices, however. They can retrain workers for new positions, raise wages to entice people to the workforce, or boost productivity. The latter is the surest way to extend the expansion at a robust pace, especially since the demographics will only become more challenging in the decade ahead.

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