

Running the Economy Hot for the Less-schooled Lot

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“I strongly believe policies that bring prime-age workers into productive employment, particularly those who may have been left behind because of low skills or educational attainment, could bring great benefits both to those workers and to our economy.”

—Fed Chair Jerome Powell, speech on February 28, 2019

Apart from a cooler economy and lower inflation, one reason central bankers are treading lightly on the tightening path is that running the economy flat out could improve the job prospects of less educated persons and expand the economy’s capacity to grow. With advanced automation threatening to displace more low-skilled work while restraining inflation, this approach seems timely. In this note, we assess **whether persons at the lower end of the education ladder are finally thriving in this long-running expansion.**

By our estimates, the U.S. labour market has been running at full employment for two years.¹ In response, **persons lacking an advanced education have rarely faced better job markets.** After falling in the recession, the employment rate for those aged 25 and older with less than a high school diploma is at record highs near 44% (*Chart 1*). That’s despite no net increase in jobs (*Chart 2*), as this group has shrunk due to rising college enrolment in past decades.^{2,3} The jobs rate for those graduating from high school has also turned higher (56%) amid sturdy gains in recent years. By contrast, the rate for post-secondary graduates has fallen steadily to 72% from above 76% before the recession, though it remains high with job growth averaging more than 3% in the past eight years.

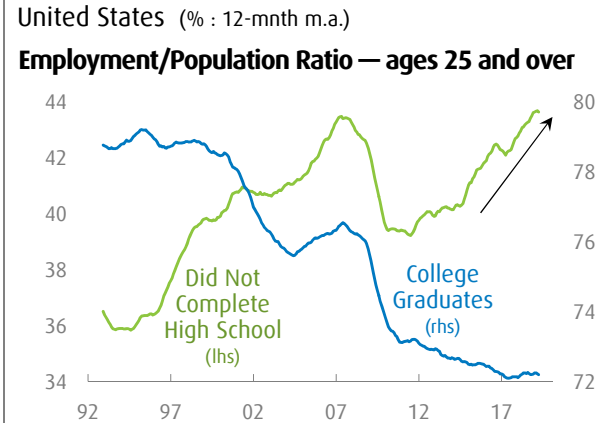
As in past cycles, **a shortage of workers is drawing the least schooled back to the workforce.** The participation rate of persons lacking a high school diploma turned up in 2014, while that of college grads merely stopped falling (*Chart 3*). A steady decline in discouraged workers (those wanting a job but not actively seeking one) has led to more participation among prime-age workers (between 25 and 54 years of age), providing a wellspring for companies trying to fill record openings.

¹ Our summary measure of 16 labour market indicators surpassed historical benchmarks of long-run sustainable employment in March 2017.

² After trending higher since at least the mid-1950s, college enrollment (as a share of total school enrollment as well as the population age 16 and older) peaked in 2010, but has subsequently declined.

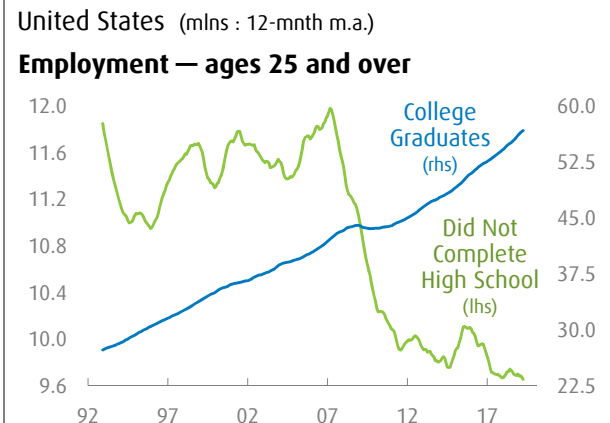
³ The share of Americans aged 25 to 34 years with a post-secondary credential rose to 48% in 2017 from 40% in 2007 and 36% in 1997. It is above the OECD mean (44%), but well behind Canada (61%) and leader South Korea (70%). <https://data.oecd.org/eduatt/population-with-tertiary-education.htm>

Chart 1
No Degree, No Problem



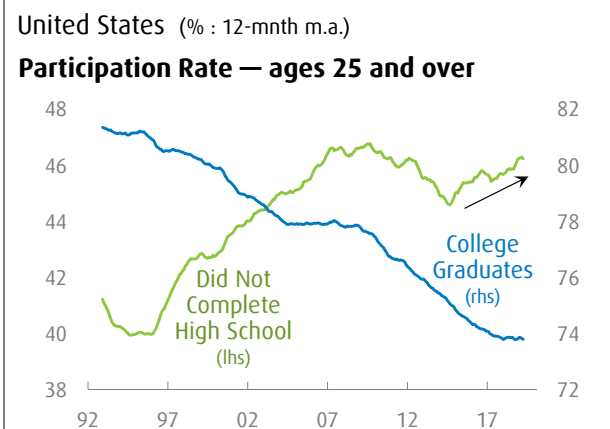
Sources: BMO Economics, Haver Analytics

Chart 2
Smarter Workforce



Sources: BMO Economics, Haver Analytics

Chart 3
Class Participation



Sources: BMO Economics, Haver Analytics

The **least schooled are enjoying the best job prospects in a quarter century**. After surging to almost 2 million in the recession, the number of unemployed who have not completed high school fell to almost half a million, the fewest since at least 1992. This sliced their jobless rate to 5.4% in April from nearly 16% in 2010 (*Chart 4*). Though still well above the 2.1% rate for college grads, the **gap in jobless rates between the two groups has never been smaller**.

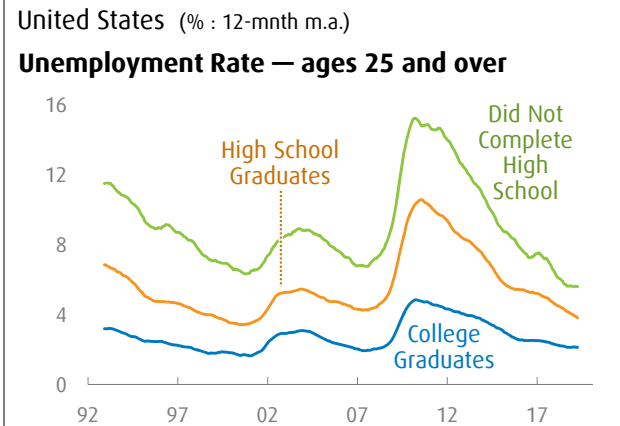
Worker shortages are lifting wages of the least schooled. Median wage growth of persons with at most a high school diploma has approached that of college grads for the first time since before the recession (*Chart 5*). This is partly due to higher minimum wages in many states and cities. However, it also reflects faster wage gains in sectors that tend to hire persons with less formal education, such as manufacturing, transportation, construction and mining. As well, people age 25 and over with at most a high school diploma (who held 32% of jobs in 2016-17) dominate skilled trades such as engineering technicians, maintenance workers, auto mechanics, nursing aids and home healthcare workers. While wages continue to rise faster for high-skill jobs (3.7% y/y in April) than low-skill work (3.2%), pay for mid-skill positions, which includes many people with less formal education, is rising nearly as fast (3.5%).⁴

Of course, just because growth in wages for workers with different educations is narrowing doesn't mean the vast wedge in earnings is. The median income of households headed by someone with less than a Grade-9 education was still less than \$27,000 (in 2017, the last year of available data) compared with \$100,000 for households headed by someone with a bachelor's degree or higher. However, **as the labour market began to tighten in 2016 and 2017, incomes rose somewhat faster for persons without a high school diploma** and it will be noteworthy if this trend continued last year. Still, this group stands a one-in-four chance of poverty versus one-in-fifteen for college-degree holders.

Bottom Line: While the Fed is not mandated to reduce income disparity, it does strive for full employment. And, the data suggest the hot job market has paid off for less-educated persons, many of whom are seeing pay increases despite the threat of advanced automation. Companies desperate to fill positions are reducing educational requirements. Of course, running the economy too-hot could backfire if it fans inflation and triggers a downturn. As well, it could discourage some people from pursuing higher education, leaving them vulnerable to the next downturn. That's why policies that support skills training are smart regardless of how well the economy is doing.

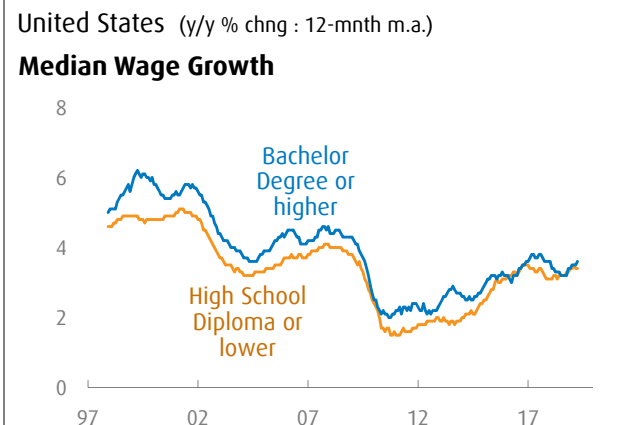
⁴ High-skill jobs include managers, professionals and technicians; mid-skill jobs include office and administration, operators, production and sales; low-skill jobs include food preparation and serving, cleaning, personal care services and protective services.

Chart 4
(All) Workers Wanted



Sources: BMO Economics, Haver Analytics

Chart 5
Earning More



Sources: BMO Economics, Haver Analytics

Canada

The situation is less clear in the Canadian labour market. It has been running near full employment since early 2018 when the jobless rate slipped below 6%, though milder wage gains and fewer job openings (per unemployed) than in the U.S. suggest the market is at lower risk of overheating. In contrast to the U.S., rates of employment and participation for persons with no more than a high school diploma have fallen in recent years, while the jobless rate for persons with a high school diploma has only tracked the aggregate lower since 2014 rather than outperformed.

<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1410002001>

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