



## TD Economics

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### Lower Educated Workers Flock Into US Job Market

- The focus after the release of US payrolls is typically on total job creation and on which industries have gained or lost jobs. However, the more interesting aspect of this month's report was contained in the data on labor force trends. Emergency unemployment insurance (UI) benefits were not extended in January, and with that came concern that workers would drop out of the labor force. But, the opposite has occurred. The labor force has grown by 1.3 million in just three months. It may be the case that the expiration of emergency UI forced some households to re-engage into the workforce due to reduced income flows. Economists had long been arguing that workers would naturally be attracted back into the job market as conditions strengthened and we were, frankly, puzzled by the lack of responsiveness that had persisted. The knee-jerk reaction in job entrants is among the fastest three-month pace since 2000.
- And, digging into the details reveals a skewed picture. Workers with less education have flocked to the job market. Among those with a less than a BA degree, 160K returned to the workforce in the past two months. The figure rises to 360K for those with a high school degree. However, the largest migration back into the job market has been centered on those with less than a high school degree, where 451K job seekers jumped back in over the past three months
- Little wonder that the labor force is surging among those with lower education, so too has job demand. Within the household survey, one million workers without a college degree were snapped up in the past three months. For some time, headier job demand has taken hold in the leisure & hospitality, retail and construction industries. These are all industries that rely more heavily on workers with lower education levels. Looking at the quit ratio – which signals a workers' willingness or ability to leave jobs – an obvious uptrend is occurring among the trade & transportation and accommodation & food industries.
- By contrast, those with a Bachelor's degree or higher exited the job market over the past two months to the tune of 500K. However, this did come on the heels of a large surge at the start of the year. Surprisingly, those with a college degree have seen reduced job prospects, with a net gain of only 64K since the start of the year, concentrated in a single month. This should prove to be a temporary phenomenon. Just look at professional and technical jobs, where demand has long surpassed the prior peak and there is no evidence of this letting up. In addition, college degree workers have been the biggest beneficiaries of the recovery to-date. Relative to their counterparts, they saw the least amount of job losses and the level of jobs returned to prior peaks by 2011. All other workers have yet to make that claim, and for those with a high school degree or less, they are miles from that mark.
- The main message over the past three months is that the sirens are now calling for lower skilled workers. So, alas, we may have reached a point in the job cycle where demand is broadening out across skillsets and this, in turn, is pulling workers back into the job search. When it comes to monetary policy, understanding the tightness of the labor market is key. The rapid adjustment in the labor force offers insight on two fronts. First, the degree of structural unemployment may be less than originally thought. In turn, a cyclical rebound in the labor force will constrain wage

growth momentum, which raised a few eyebrows in February when a collapse in hours worked due to weather disruptions was far greater than that of gross worker pay.

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