

## Rising Unemployment: Can it be a Good Thing?

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### Key takeaways

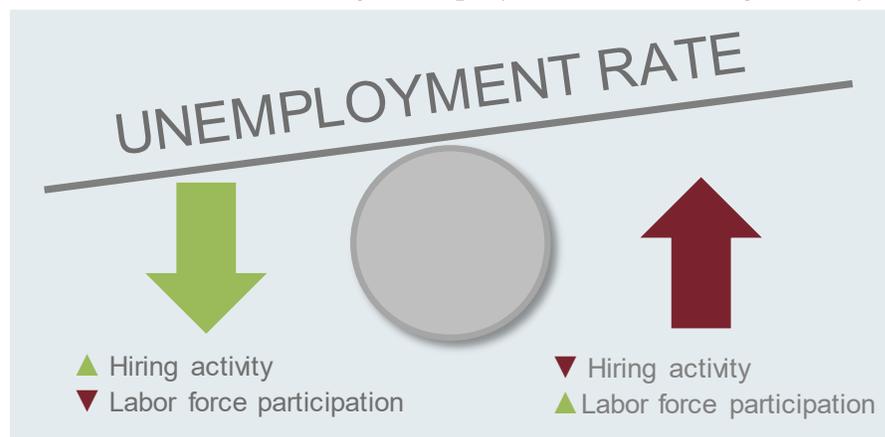
- » We recently revised our 2019 U.S. unemployment rate expectations higher.
- » A rise in job seeking activity has contributed to this revision, which we think is a good thing for the U.S. economy over the long term.

### What it may mean for investors

- » In the near term, market participants are likely to stay focused on hiring activity. Data pointing to an average monthly hiring rate below 165,000 net job gains could lead to heightened market volatility as recession worries reemerge.

Recently, we revised our U.S. unemployment rate forecast for 2019 from 3.4% to 3.7%. Why higher? While we expect robust hiring activity to continue this year, the change reflects the fact that more people are looking for work. Indeed, we believe that a rising unemployment rate is happening for the right reasons. More specifically, a younger demographic is now reentering the labor force, which may be beneficial for the economy over the long term. In the near term, we expect softer payroll data to contribute to heightened volatility as investors keep a look out for a U.S. recession.

### Chart 1. Factors affecting unemployment rate: hiring activity and job seeking



Sources: Wells Fargo Investment Institute, Bureau of Labor Statistics, March 7, 2019.

## Unemployment rate balancing act

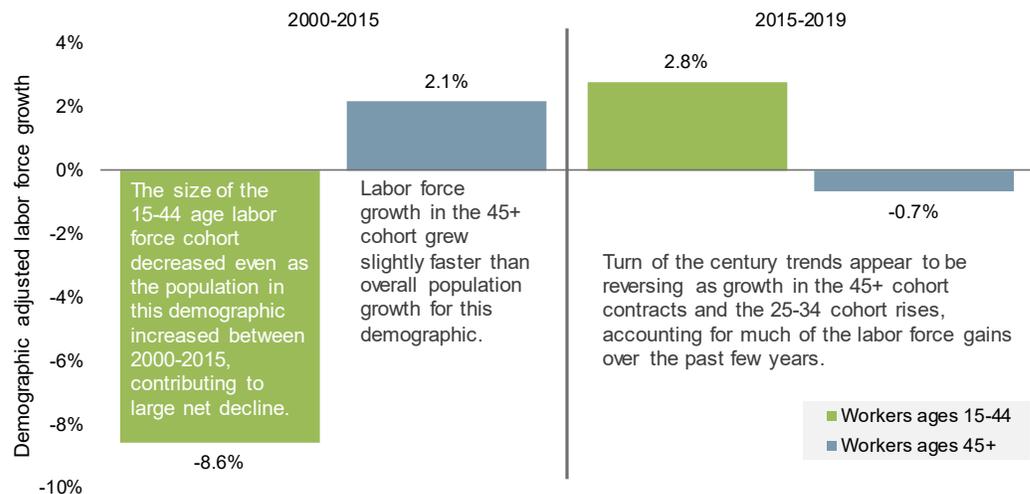
Two key factors that tend to affect the unemployment rate are hiring activity and job seeking. When more people count themselves as looking for work, the unemployment rate tends to move up (assuming a constant hiring rate). Indeed, a key reason for our forecast revision reflects our expectation of a higher labor force participation rate (LFPR) as individuals feel more confident about their prospects in the labor market.

The LFPR's recent rise follows an extended decline. Beginning in the year 2000, the LFPR fell from a record high of 67% to 62.4% in 2015—a 38-year low. During this period, fewer workers in the under 45 demographic stopped looking for work, while an increasing number of 45 and older workers remained employed. Since 2015, however, a couple of interesting developments have unfolded, which is why we think today's higher unemployment expectations might be a good thing.

## Investment implications

First, a growing number of under 45 workers have recently reentered the labor market. Between 2015 and 2019, this cohort increased by roughly 3.7 million workers—1.4 million more than those 45 and over. This is important because it marks a potential change in the demographic trend that took place between 2000 and 2015 when a large number of younger individuals quit looking for work. This is heartening because it suggests that the fundamentals of U.S. economic growth are finally steadying, which brings us to our second point: household formations.

## Chart 2. Decline in labor force growth among the younger population appears to be reversing



Source: Wells Fargo Investment Institute, Bureau of Labor Statistics, Census Bureau International, Statistics Database, March 6, 2019.

Note: Demographic Adjusted Labor Force Growth: accounting for age related population changes. For example, from 2000-2015 the population of 45+ workers increased 35.8%, with labor force growth of 37.9%, leading to demographic adjusted growth of 2.1%.

A majority of the job gains over the past three and a half years has occurred in the key 25-34 demographic. Individuals in this cohort typically pass important milestones like finishing college, starting their professional careers, getting married, and/or starting a family. As they do, these sorts of activities can contribute to household formations, or rather, the consumption associated with this life stage and the spending on upgrades along the way. We believe this is supportive of economic growth over the long term.

In the near term, we expect growth in hiring activity to moderate as uncertainties surrounding the economy continue to build. We would begin to grow concerned about labor market conditions if the rolling 12-month average in private payrolls (hiring activity) falls below 165,000 net gains. Data pointing to a trend below this level could contribute to heightened market volatility, as market participants move to price in a more economic weakness. For now, we believe that revised expectations this year for a slightly higher unemployment rate due to a rise in job seeking represent a good thing for the economy.

## Economic Calendar

Date	Country	Report	Estimate	Previous
3/12/2019	US	NFIB Small Business Optimism	--	101.2
3/12/2019	US	CPI Ex Food and Energy YoY	--	2.20%
3/12/2019	UK	Industrial Production YoY	--	-0.90%
3/12/2019	INDIA	Industrial Production YoY	--	2.40%
3/12/2019	US	CPI YoY	--	1.60%
3/12/2019	US	Real Avg Hourly Earning YoY	--	1.70%
3/12/2019	JAPAN	PPI YoY	--	0.60%
3/13/2019	US	PPI Ex Food and Energy YoY	--	2.60%
3/13/2019	US	PPI Ex Food, Energy, Trade YoY	--	2.50%
3/13/2019	EUROZONE	Industrial Production WDA YoY	--	-4.20%
3/13/2019	CHINA	Industrial Production YTD YoY	--	6.20%
3/13/2019	US	MBA Mortgage Applications	--	--
3/13/2019	US	PPI Final Demand YoY	--	2.00%
3/14/2019	US	Initial Jobless Claims	--	--
3/14/2019	US	Import Price Index MoM	--	-0.50%
3/14/2019	US	Import Price Index YoY	--	-1.70%
3/14/2019	US	Bloomberg Consumer Comfort	--	--
3/14/2019	GERMANY	CPI YoY	--	1.60%
3/14/2019	US	Retail Sales Advance MoM	--	--
3/14/2019	US	Export Price Index YoY	--	-0.20%
3/14/2019	US	Business Inventories	--	--
3/15/2019	US	Empire Manufacturing	--	8.8
3/15/2019	US	Industrial Production MoM	--	-0.60%
3/15/2019	INDONESIA	Exports YoY	--	-4.70%
3/15/2019	EUROZONE	CPI YoY	--	1.40%
3/15/2019	US	Manufacturing (SIC) Production	--	-0.90%
3/15/2019	US	U. of Mich. Sentiment	--	--
3/15/2019	US	JOLTS Job Openings	--	7335
3/17/2019	UK	Rightmove House Prices YoY	--	0.20%
3/18/2019	US	NAHB Housing Market Index	--	62
3/18/2019	JAPAN	Industrial Production YoY	--	0.00%

Source: Bloomberg as of March 8, 2019.

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