Employment-to-population ratio a drag on the economy

By SAMANTHA HENRY, The Daily Transcript

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Unemployment may have decreased slightly, but the employment-to-population ratio is one reason why the country is stuck below 2 percent gross domestic product, according to John Silvia, chief economist for Wells Fargo Securities LLC, who recently spoke at the Corky McMillin Center for Real Estate at San Diego State University.

“I think a lot of the unemployment today truly is structural,” Silvia said. “We’ve just got a lot of people in the wrong spot with the wrong skills, and I think that’s a challenge overall.”

The employment-to-population ratio shows the percent of the population that’s actually working, he said.

“We’re in a different position today than we were in the last two economic recoveries,” Silvia said. “And it doesn’t look like we’re moving anywhere. The fewer people working, the people who are working have to be far more productive to generate any given level of economic growth. So it somewhat explains why we’re stuck at 2 percent GDP.”

Also, the amount of people in the population depending on fewer people producing goods and services and paying taxes will increase, which is a problem for California, Silvia said.

“That’s a problem in our society, and that’s what makes this period of time so different than what we saw in the ’50s, ’60s, ’70s, ’80s. This dependency ratio really had a very different effect on the local economy,” Silvia said.

San Diego is faring better than other California metropolitan areas in terms of employment growth. There have been gains across the board except for in manufacturing and information.

“You’re still down, but your recovery is much stronger than other places in California,” Silvia said.

Unemployment fell from 8.3 percent to 8.1 percent in August, but 500,000 people between the ages of 16 and 24 dropped out of the labor force, Silvia said.

“How in the world are you going to achieve 3 percent GDP? How are you going to pay all of those taxes in California when you have less people working? Yeah, the unemployment rate looks good, but you’ve got fewer people working,” he said. “The labor force is dropping out.”

The 2 percent growth in GDP has been steady for the last three years, he said.

“After three years, this is what you get,” Silvia said. “And what I tell the senior manager at Wells Fargo is we have to learn to make money at 2 percent GDP. We can’t sit around waiting for some magic bullet to show up and get 4 to 5 percent GDP — that’s not happening.”

Consumers are spending money but not at a pace to generate the same sales tax revenue as in the last decade, Silvia said. American households have deleveraged, and the debt service ratio from the Federal Reserve is almost back to levels from the early 1990s.

The bottom 20 percent of earners experienced the highest after-tax income growth, the top 20 percent experienced the next highest, and the middle group had the least progress, according to Silvia. The Bloomberg Consumer Confidence Index shows that for those earning $100,000 and up, confidence has improved since the end of the recession, according to Silvia. Those in the $25,000-$40,000 range have not improved and are moving sideways, said Silvia, showing a “slight difference in attitudes among different types of American consumers.”

This economic recovery has had a different effect on large and small businesses. For large firms, Silvia said this has looked like a typical business cycle. A full recovery for small-business optimism is distant, according to Silvia.

“For those that are truly global in the United States, this has actually been a very successful period,” Silvia said. “If you’re global, you see one type of economic recovery, and if you’re a smaller business, a local business, you see a very, very different world.”
Housing presents more challenges for the economy. Housing starts are down, and the gap between the median price of new and existing homes is widening, Silvia said.

"On average, the difference in the United States is about $20,000 when you adjust for the quality of the home," Silvia said. "Now, it's about $60,000. So you can see where the challenge is in selling the new home today."

The desired square footage of a home and its distance from core areas also have changed in recent years.

“What we did in America since 1980 is we built bigger and bigger houses all the time, and we built them further and further away from the core city,” Silvia said. “What happened to the average family size in America? It's actually been going down since the 1960s. … Your grandparents had four or five kids, your parents had three or four, many of us had two or three, and our children talk about one or two. And that's where you get a lot of these problems in these suburban areas. You get huge homes, 5,000- to 6,000-square-foot homes, 40 to 50 miles away from the core city. Young people don’t want to drive 40 miles one way to work anymore.”

The inventory that sits out in those areas becomes part of the “shadow inventory,” which people don’t want to live in, Silvia said.

Home prices in San Diego experienced a boom and have come down, but the area is “still better than the United States at this time,” Silvia said. Housing permits are still weak overall, he added.

“It looks like housing is recovering on the national level, and there is improvement going on,” Silvia said.

Apartments are doing well, which is representative of a “classic economic cycle,” Silvia said.

“You don’t build any apartments for 10 to 15 years because everybody wants to build a home in the suburbs,” Silvia said. “And all of a sudden, the economy changes on you and young people can’t afford those big houses 30 miles outside the city, and so they go to apartments. And no one has built apartments in a long time, so demand goes up. [With a] fixed supply based on 10 to 15 years ago, rent goes up.”

The future is looking brighter for the nation, according to Silvia.

“Things are improving. We’re a long way from the happiness and joy from 2004 and 2005, but things are improving and that's important in terms of looking at where the momentum is, and the momentum is on the upside,” he said. “Things are getting better.”