Labor Market Surveys And Ice Cream

by Steve Brown

Everyone loves reading survey results. They can measure political opinion, business trends or even people's favorite flavor of ice cream. Yet frequently we think: that's what people really believe? Then we recall how often we participate in such surveys ourselves! Telephone survey methodology relies upon the premise that people will answer a telephone call on their landline and answer questions from a stranger. But there are many hurdles to surveying the general public in this manner. Caller ID gives people the ability to ignore unwanted calls. Plus, there is a significant decline in the number of landlines with listed phone numbers. Then, with the inception of The National Do Not Call Registry in 2004, public consciousness was raised to the fact that it is not a requirement to answer unsolicited calls. An astonishing 77% of the American public registered within 5Ys of the registry's introduction. Survey phone calls from political organizations, non-profits and other worthwhile causes are viewed with the same distaste as an ice cream preference survey might be. The result? In 1997, the response rate to telephone surveys according to Pew Research was 36% but by 2009, it had fallen to 9%. We are left to wonder who actually takes these surveys and whether they are really representative of the public at large.

This brings us to the Labor Department's monthly report on unemployment. The drop in the unemployment rate has been faster than expected and is considered by many - including the Fed - to overstate the strength of the labor market. Certainly the monthly jobs survey is different from a one-off poll rolling in around dinner time. Instead, people are surveyed for 4 consecutive months, take 8 months off and then are surveyed for 4 more months. This requires quite a commitment to get a complete result and there is significant attrition of participants over time (which, over time, tends to skew the results toward the positive). For example, in the first half of 2014, 7.5% of respondents in the first month of their survey reported being unemployed, but only 6.1% did so in their final month of the survey. Nonetheless, the Labor Department has relied upon the telephone to reach participants despite the attrition skew. Granted, Labor's response rate is far higher than surveys in general (89% participate), but this too has fallen from a level of 96% over 20Ys. Given all these factors, the unemployment rate offers one measure of the health of the labor market, but bankers may want to question its accuracy.

Recently at a symposium of global central bankers in Jackson Hole, Wyoming, Fed Chair, Janet Yellen, outlined a 19-measure Labor Market Conditions Index created to help the Fed more accurately gauge the condition of the labor market. Among the factors in the index are the labor force participation rate, workers classified as part-time for economic reasons (those who would prefer to be working full-time), hires and quits. The Fed is also assessing labor compensation as it too gives an indication of labor market slack. Yellen indicated that the pattern of subdued real wage gains suggests that nominal compensation could rise without creating meaningful upward pressure on inflation. Since wage movement typically reacts immediately to tightness in the labor market, the lack of upward movement in wages points to weaker conditions than the current headline rate indicates. At the close of Yellen's speech, she indicated that having a better understanding of cyclical and structural labor market issues is likely to be at the center of FOMC efforts for some time.

As every banker knows, the Fed's job has been difficult (to say the least) over the course of the financial crisis and the tepid recovery. This is doubly so when you consider traditional tools and measures have not been reliable. For our part, that is why we look forward to learning more about the labor market through the Fed's efforts in coming periods. In the meantime, we still won't pick up the phone or do any pollster surveys, unless they really want to know our favorite flavor of ice cream.

BANK NEWS

Major Player

Apple has reportedly reached a deal with Visa, MasterCard and American Express to join its mobile wallet initiative launching with the iPhone 6. The move allows people with the phones to pay for services without a plastic credit card by selecting an electronic version of the cards.

Fewer COOs

Research by executive search firm Crist Kolder Associates finds the percentage of Fortune 500 and S&P 500 companies with a COO has declined 27% in the past 13Ys (from about 48% in 2000 to 35% in 2013).

Online Payments

A survey by online security firm Kaspersky Lab finds 62% of people in multiple countries say they fear online fraud and 66% of those in North America said both consumers and banks are responsible for payment security.

More Debt

The CBO reports federal debt levels will reach 74% of GDP by the end of Q3, about 200% above where we were pre-crisis.

Competition

Online lending platform LendingClub has filed for a $500mm IPO. LendingClub matches up borrowers to lenders through the internet and has helped facilitate more than $5B of personal loans since it launched in 2007.

Slow Hiring

An index by University of Chicago economist Steven Davis finds it is currently taking U.S. companies 25 working days on average (a 13Y high) to fill a vacant position, while companies with 5k+ employees are taking 58 working days to fill a vacancy.

Customer Stress

A survey by TD Bank finds 55% of millennials say they can manage their money but 25% say they are under extreme financial stress (many college graduates cannot find jobs they want or are underemployed).