Global Macro Views – Retail Employment and the US Labor Market

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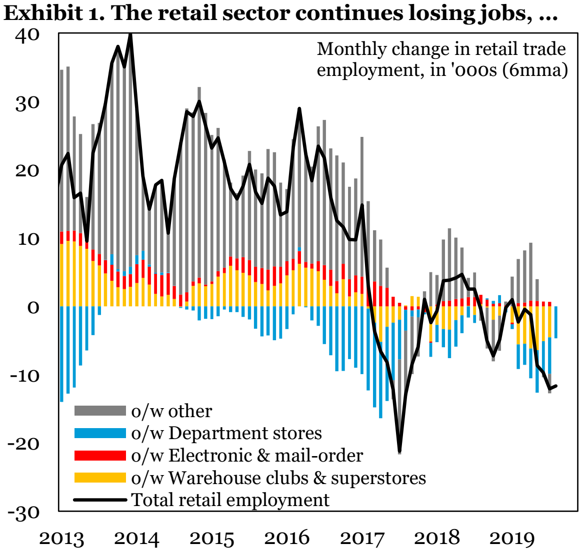
- Job losses in the retail sector have been a persistent feature of the US labor market.
- This downsizing has so far only offset falling market share of *"brick-and-mortar"* retail, …
- and therefore not helped close the persistent efficiency gap that exists versus e-commerce.
- As unfortunate as job losses in retail are, they are a small part of the overall labor market, …
- where momentum remains very solid, with underlying monthly payroll growth near 150k.
- This pace of payroll growth is almost double break-even jobs growth of around 80k, …
- with unemployment potentially as low as 3.0 percent by the end of next year.

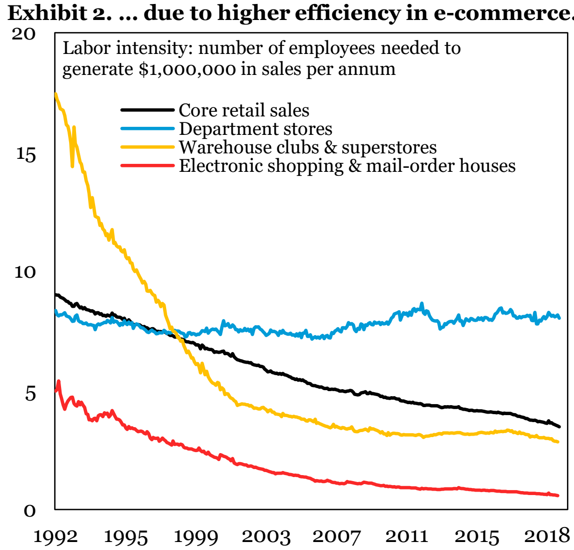
Job losses in the retail sector have been a persistent feature of the US labor market for some time. The underlying driver is a persistent efficiency gap in *"brick-and-mortar"* retail versus e-commerce, with a far greater number of employees needed in department stores to generate similar levels of sales volumes as in e-commerce. This efficiency gap has persisted because ongoing job losses in *"brick-and-mortar"* retail are only just keeping pace with falling market share, which unfortunately means that downsizing is likely to continue for some time. While this is unfortunate, the retail sector is only a small part of the overall US jobs market, where momentum remains healthy. We estimate underlying monthly payroll growth at 150k, which is almost twice the 80k breakeven rate (jobs growth needed for U-3 to remain steady at its current 3.7 percent for an unchanged participation rate). Further declines in the unemployment rate are therefore likely, with U-3 possibly going as low as 3.0 percent by end-2020, far below the Fed's 3.7 percent forecast.

Exhibit 1. The retail sector continues losing jobs, …



Source: Haver, IIF

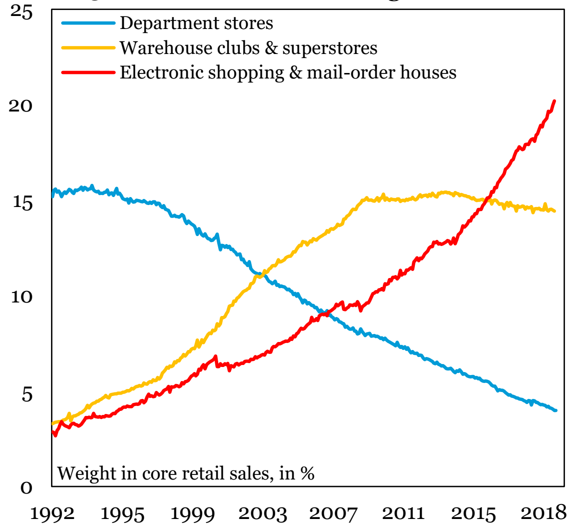
Exhibit 2. … due to higher efficiency in e-commerce.



Source: Haver, IIF

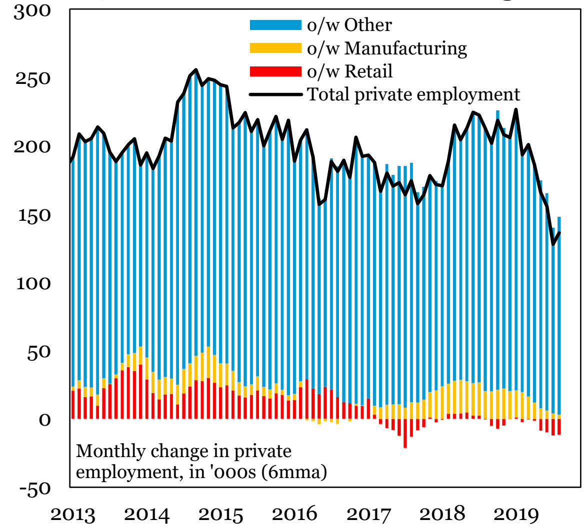
Job losses in US retail have been a persistent feature of the US labor market for many years (Exhibit 1). The underlying issue is a wide efficiency gap between *"brick-and-mortar"* retail and e-commerce. We calculate the number of employees needed to generate $1 million in sales per year in different parts of the retail sector. Department stores need 8 employees, while electronic shopping & mail-order houses, the category that captures e-commerce in the establishment survey, need as few as 0.6 (Exhibit 2). This efficiency wedge has been remarkably persistent, despite ongoing job losses in *"brick-and-mortar"* retail, the reason being that traditional retail is consistently losing market share to e-commerce (Exhibit 3), so that ongoing downsizing is keeping pace with, but not getting ahead of, headwinds to the sector. While this points to further job losses in traditional retail, overall labor market momentum is healthy. We estimate underlying payroll growth, adjusting for weather-related factors and seasonal adjustment issues, near 150k per month (Exhibit 4), almost twice our 80k estimate for the breakeven pace of jobs growth.

Exhibit 3. Traditional retail is losing market share.



Source: Haver, IIF

Exhibit 4. Overall labor market momentum is good.



Source: Haver, IIF

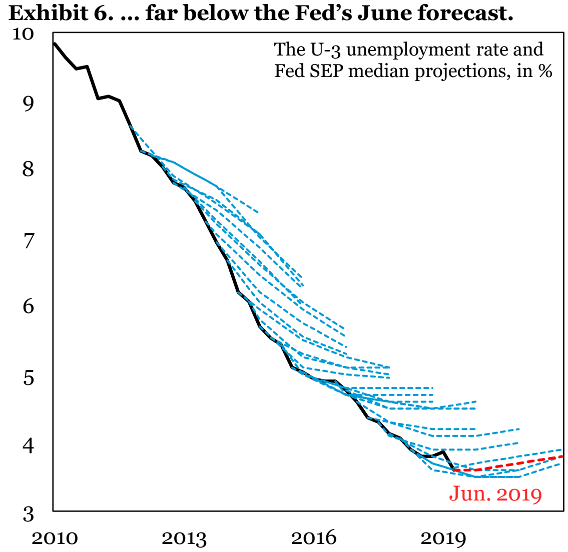
We simulate the unemployment rate through end-2020 for different scenarios of monthly jobs growth and participation. The horizontal axis in Exhibit 5 shows monthly jobs growth in increments of 20k, while the vertical axis shows the participation rate in increments of 10 bps. The current breakeven pace of jobs growth is 80k (yellow), i.e. the pace of job creation needed to keep U-3 unchanged at 3.7% for the current level of the participation rate (63.2 percent). By end-2020 this likely puts U-3 in a range from 3.0-3.9 percent (green), with the lower end of this range more likely, given healthy underlying jobs growth. This puts the U-3 unemployment rate far below the Fed's forecast of 3.7 percent (Exhibit 6), in line with the history of recent Fed U-3 forecasts, which have tended to be too cautious in anticipating declines.

Exhibit 5. U-3 could be as low as 3.0% in 2020, ...

Participation rate, in %	Monthly pace of job growth, in '000s: 60	80	100	120	140	160	180	200
62.5	2.9	2.7	2.5	2.3	2.1	1.9	1.7	1.5
62.6	3.0	2.8	2.6	2.4	2.2	2.0	1.8	1.7
62.7	3.2	3.0	2.8	2.6	2.4	2.2	2.0	1.8
62.8	3.3	3.1	2.9	2.7	2.5	2.4	2.2	2.0
62.9	3.5	3.3	3.1	2.9	2.7	2.5	2.3	2.1
63.0	3.6	3.4	3.2	3.1	2.9	2.7	2.5	2.3
63.1	3.8	3.6	**3.4**	**3.2**	**3.0**	2.8	2.6	2.4
63.2	3.9	**3.7**	**3.6**	**3.4**	**3.2**	3.0	2.8	2.6
63.3	4.1	3.9	**3.7**	**3.5**	**3.3**	3.1	2.9	2.7
63.4	4.2	4.1	**3.9**	**3.7**	**3.5**	3.3	3.1	2.9

Source: Haver, IIF

Exhibit 6. ... far below the Fed's June forecast.



Source: Haver, IIF