

Eco

Economics, Tax



The key determinants of labor market movements are real gross domestic product (GDP), consumer price index (CPI) and core CPI (which excludes food and energy), consumer confidence, unemployment rates, jobless claims, and labor force participation. These determinants help businesses, government, and people of the country to prepare for the future. One of the most important determinants of labor market is the unemployment rate. Unemployment rate is the percentage of the total labor force that is unemployed but actively seeking employment and willing to work.

Unemployment rate in February was 6.7%, which was 0.1% increase from January, and 1.0% down from February 2013. The change between February and January of 2014 was due to more workers who entered the labor force before their ability to secure employment, even though number of people who lost jobs grew as well. Within the unemployment rate, the rate for the Bachelor's degree or higher is an important rate. It was 3.4%, which was 0.2% increase from January, which was 3.2%, but decreased 0.5% from a year ago, which was 3.7%. Nonfarm payrolls was 175,000, which was a big increase from January's 129,000 despite the severe weather. The increase in February exceeded the expectations. Construction industry added 15,000 jobs, manufacturers added 6,000 jobs, education[healthcare increased by 33,000 jobs, accounting industry grew by 40,000 jobs, and lastly, restaurants added 21,000 jobs. Another important factor that contributed to the growth of payroll was the Affordable Care Act, which increased employment in insurance industry.

February increase of 175, 000 is in parallel with what Moody's Analytical expects as well. Another statistics to focus on is average workweek. In February, the average workweek for all employees was 34. 2 hours, which was . 1 hour decrease from January's 34. 3 hours. This was mainly caused by the severe weather. Typically, the influence of severe weather reduce the average weekly hours because some employees may take off work during the pay period and not chive pay for that time, but some workers who works in services that clean or repair, might work extra hours.

If I were asked to forecast the unemployment rate and nonfat payroll change for March, I would use February information of the nonfat payroll, and Jobless claims of March and February. First of all, 3 month moving average of nonfat payroll is 129, 000, which is significantly lower than the previous month's 3-month moving average. 3 month moving average of nonfat payroll and nonfat payroll change of February and January (which is basically same as 2-month moving average) contradicts completely. This was mainly due to the severe weather.

As the weather gets better, these two indicators will move in one direction in parallel. Also, according to Dismal Scientist, Job gains are expected to increase during the year, which will exceed 200, 000 per month starting in the 2nd quarter (April-June), and ultimately reach the precession peak. The overall trend of jobless claims is declining as well. Initial claims for week ending March 22 fell 10, 000 to 331, 000, the four-week moving average declined by 9, 500 to 317, 750 as well. For the week ending March 15, the continuing claims fell by 53, 000 to 2. Millions, which reversed more than the

prior weeks increase of 28, 000. By evaluating all these factors, I would say that unemployment rate would decrease back to 6. 6% and non- farm payroll would increase to 190, 000 for March 2014. In order to assess labor market prospects for year 2014 and 201 5, we first need to understand current labor market situation. We can look at some recent labor market data. According to the February establishment survey, the payroll employment improved in February 2014 to 175, 000 even though regions such as Northeast were hit hard by severe winter weather.

Despite the increase in payroll employment in February 2014, the unemployment is increased slightly to 6. 7% from 6. 6% in January 2014, as mentioned above. The labor force participation rate decreased slightly but the percentage remained same at 63%. Another important data for current labor market situation is the Jobless claims. According to the Labor Department, there was a decline of seasonally adjusted 10, 000 in Jobless claims at 311, 000, which was the lowest level since November 2013. One analysis from these current labor market data is that the near future of labor market is not negative.

Even though the economy was hit by harsh winter weather, the unemployment rate almost stayed the same we saw a decline in Jobless claims. Reports suggest that New Residential Constructions will likely to be increased in near future. It suggests that there will be increase in demand for labor market. However, there is one factor that might have huge impact on labor market, which is the increase in minimum wage. Recently the state of Connecticut became the first state to raise its minimum wage to \$10. 10 an

hour by 2017. Many economists argue that change in minimum wage can affect labor market.

Especially, in today's slow economy, big increase in minimum wage will likely increase the structural unemployment, which is undoubtedly one of the most serious problems for labor market's prospect and unemployment rate.

Therefore, if there will be states that initiating increased minimum wage law in near future, then we would see higher unemployment rate and it will have adverse effect on labor market. If the minimum wage remains unchanged, then the unemployment rate will likely to go down in next two years, but the decrease will be very little since we already have seen 1. Decrease from a year ago, and current unemployment rate of 6.7% is not considered very high, which suggests there is not much room to decrease in next two years. Therefore, labor market data will likely to be consistent and improve mildly as long as we do not have any shocks such as \$10.00 minimum wage law. There are few policies that will be effective if I was hired by the administration to improve job creation and lower the unemployment rate. First policy is an income tax deduction incentive for corporations and small business owners if they are willing to hire additional workers.

It will not be targeted for everyone, but with this policy, there will be many owners who will compare the benefits between the tax deduction and increased payroll cost. I believe if the costs of the increased payroll are not considerably higher than the tax deduction benefit, then many owners will be willing to hire additional workers since there are many subtle but crucial benefits of having more workers for businesses. For example, when business

owners have additional workers, they can delegate less important tasks to newly hired workers and spend additional time on more important tasks that often can only be done by owners.

Even though there will be a decrease in government tax revenue, it will be a relatively inexpensive way to improve labor market situation and job creations, because there will be a decrease in unemployment insurance expense and an increase in personal income tax revenue from those newly hired workers. Often owners would like to hire workers if the benefits are comparable to their costs of wages. The policy will immediately create jobs and decrease the unemployment. Another policy that can lower unemployment is requiring more firms to switch from partially experience rated to 100 percent experience rated for unemployment-insurance payments.

In a partially experience rated system, a firm is required to pay only part of the fired employees which usually leads companies to lay off or fire employees more easily. This specific practice will be reduced by implementing 100 percent experience rated system, because the system will increase the companies' costs of firing employees, which will make companies to compare the costs of firing and keeping the unwanted employees. It will definitely reduce the unemployment claims and unemployment rate. These two policies will help to increase job creation and lower unemployment in both short run and long run.