

December 20, 2019

Dear Client,

Big picture evidence of “good times” is everywhere. GDP growth at 2.1% is roughly in line with historical averages. Inflation growth at 1.8% is tepid and manageable. The current unemployment rate in the United States is 3.5%, **the lowest rate in fifty years**. While it is clear from the current national political conversation that not all Americans are participating in the prosperity, we believe this socioeconomic gap can be narrowed through policies that upgrade worker’s skills to fill vacant, higher quality jobs and pressure wages higher.

Over the last 20 years, technological advances have reduced the need for certain types of jobs, especially in manufacturing which has been hit by a double whammy from automation and outsourcing. With this much disruption in the job markets, why are we seeing such fantastic unemployment numbers?

Many pundits incorrectly characterize the unemployment rate as artificially low because a person only counts as unemployed if they do not have a job and have actively looked for work in the last four weeks. Thus, if someone becomes disheartened and stops looking, they no longer count as employed or unemployed, rather they are no longer considered part of the labor force. If every unemployed person suddenly stopped looking for work the unemployment rate would be 0%. To blame low unemployment on frustrated job seekers giving up is incorrect as we can see from trends in the labor force participation rate.

The labor force participation rate has dropped from 67% a decade ago to 63% today and has not recovered. Much of this decline can be explained by older workers retiring *en masse* and those aged 16-24 staying in school longer. **The labor force participation rate for prime age workers – 25 to 54 years old – is 83%, exactly where it was a decade ago. The pursuit of higher education and retiring boomers explain the decline, NOT prime age workers leaving the labor force.**

From 2000-2010 the economy lost 5.5 million manufacturing jobs to a combination of automation and outsourcing. **You might be surprised to find that since bottoming in 2010, we have steadily GAINED 1.4 million new manufacturing jobs!** Gone are the traditional mind numbing, back breaking factory jobs of the 20th century that granted anyone with two arms and a willingness to work a modicum of economic success. Manufacturing jobs now are mostly skilled, highly technical and well paid; over 40% of current manufacturing workers have a technical or undergraduate degree and considerable on the job training. According to the National Association of Manufacturers, there is a record 522,000 manufacturing jobs left unfilled for a lack of suitably skilled candidates.

At the peak of the financial crisis there were 6.4 people competing for every open job. There are now 5.8 million unemployed people and seven million open jobs, a ratio of .8. With more open jobs than job seekers, the dynamic has shifted and jobs are now competing for people. The most open jobs – 1.3 million – are in the higher paying professional and business services sector. These jobs should be filled as existing job seekers update their skills and highly educated younger people enter the market.

The sectors with the next highest amount of job openings are in healthcare/social assistance (1.2 million) and accommodation/food services (835,000). The Bureau of Labor Statistics projects the fastest growing

subsectors over the next decade will be in personal/home health care aides and food preparation/service. These are honorable professions, but can be undesirable because of the physical and emotional demands, low to minimum wages, and irregular hours. The average annual pay for these jobs is currently in the low \$20ks but if enough workers are able to upgrade to higher paid, higher skilled jobs, the supply of workers should tighten and pressure these wages higher.

The influence outsourcing has on jobs has waned but we suspect that of technology has just begun. What happens to the 3% of workers who drive for a living if and WHEN autonomous vehicles are perfected? Absorbing displaced employees into new careers will be the challenge for the next decade. We monitor the industries and individual companies in your portfolio for the opportunities and risks this creative destruction presents.

We are also keeping a close watch on how future job market displacements could impact the political environment. Solutions being floated include: stemming immigration, punitive wealth taxes, imposing tariffs, taxing robots, and increasing corporate taxes to globally uncompetitive levels. These issues deserve to be discussed, but they are tangential to the core issue: how to create a labor force with the relevant skills in a constantly evolving economy. If taken too far, misdirected policy could have a negative impact on the economy.

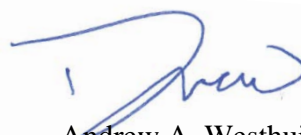
We believe the right approach to bridge the skills gap is through skill retraining programs, tax incented apprenticeships, an emphasis on technical educations, and access to equal quality K-12 education regardless of zip code. **We have one of the hottest labor markets ever and handled properly, there is still significant room for improvement which should drive wages higher and narrow the socioeconomic gap.**

As we close out the decade we can't help but reflect on where global markets were ten years ago and what a difference time and patience can make in long term investing. We wish you a fantastic holiday season and a PROSPEROUS NEW DECADE!

Winter Well,



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