



# BlackRock's Rieder: The US Faces a Structural Dilemma

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The U.S. economy faces a structural dilemma with high unemployment that cannot be addressed with conventional policy measures, according to Rick Rieder. Rieder, the CIO of Fixed Income for BlackRock, spoke on Wednesday at the Schwab IMPACT conference. The "bond bubble" will not burst, he said, and the high-yield market now offers attractive yields.

## The structural dilemma

"What is happening in policy and in structural dynamics is generational," Rieder said. Those structural issues are high unemployment which, he said, shows no signs of improvement. The break-even level for unemployment is approximately 150,000 weekly new unemployment claims, but claims have been consistently in excess of 400,000.

Companies are increasing their part-time hiring due to rising health care and other costs, Rieder said. Unemployment is particularly bad among 16-19 year olds. In addition, those aged 55 and older are staying in the workforce longer, because they are healthier and cannot afford to retire.

Companies are becoming more efficient, he said, as they are increasing their spending on information technology as a substitute for human capital. Data show that revenues per employee have been increasing for U.S. corporations.

The result, Rieder said, is that there is no significant turnover in employment. The specific structural problem is a lack of job opportunities for those with "lesser skills."

Those problems cannot be fixed with monetary policy, Rieder said. The Fed's announcement of QE II has moved money into both the equity and fixed income markets, he said, pushing those markets higher but not creating the economic growth necessary to reduce unemployment. Most of the growth recently, according to Rieder, has been from stimulus measures and inventory building, both of which will "fade away."