

CRITICAL ISSUES United States: Labor Market

Mar 5, 2010

How Far is the U.S. Economy from Showing Job Gains?

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- **Overview:** Despite the significant slowdown in job losses since H2 2009, payrolls have continued to contract, with total jobs lost during this recession exceeding 8 million. While leading indicators of hiring like the average workweek and temporary hiring are picking up, initial and continuous jobless claims have leveled off above levels consistent with a stabilization in payroll employment. Indicators of hiring and strong productivity suggest that job gains during the recovery will be well below what is required to absorb the growing labor force and discouraged workers reentering the workforce, thus keeping the unemployment rate high. Large unemployment duration and permanent job losses in some sectors will also weigh on the labor market recovery.
- **RGE View:** Payrolls will show positive print starting in late Q1 2010 or early Q2 2010, led by the government's census-related hiring. This will contain the rise in the unemployment rate during H1 2010, but hiring in the private sector will grow sluggishly in 2010 and will be insufficient for the 100,000-125,000 jobs that need to be created every month to absorb the increasing labor force. Weak hiring will cause the unemployment rate to rise through H2 2010 and peak at around 10.8% in Q1 2011. (02/09/10) (Analysis: RGE, Christian Menegatti, Mikka Pineda, Arpitha Bykere and Prajakta Bhide 2010-02-09 00:00:00 United States: Q1 2010 Outlook)
- According to a Bureau of Labor Statistics (BLS) report, released on March 5, 2010, U.S. payrolls fell 36,000 in February 2010 after falling by a revised 26,000 in January 2010, and 109,000 in December 2009, and showing a gain of 64,000 in November 2009, the first gain since the recession began in December 2007. According to the BLS, "severe winter weather in parts of the country may have affected payroll employment and hours; however, it is not possible to quantify precisely the net impact of the winter storms on these measures." The economy has lost 8.4 million jobs since the recession began in December 2007, taking the total unemployed in the economy to 14.9 million. (Analysis: Bureau of Labor Statistics, Mar 05, 2010 U.S. Employment Situation Summary: February 2010)
- The government hired 15,000 workers in February for the 2010 census but this was more than offset by job losses of 18,000 in the private sector and 31,000 among local governments. This implies that notwithstanding census hiring, weakness in the private sector and fiscal stress among state and local governments might keep payrolls under pressure and the unemployment rate elevated going forward. Census hiring will peak during March-May and census workers will be removed thereafter, thus having a positive but temporary impact on payrolls and the unemployment rate.
- The BLS said that the unemployment rate in February 2010 was unchanged at 9.7%. Though the labor force increased by 342,000, the unemployment rate was unchanged because employment in the household survey (which is used to calculate the unemployment rate) increased by 308,000. The long-term unemployment rate (including marginally-attached job seekers and workers who are discouraged or part-time for economic reasons) increased from 16.5% in January to 16.8% in February. (Blogs: Calculated Risk, Feb 06, 2010 Jobs and the Unemployment Rate)
- In February, the government lost 18,000 jobs despite adding 15,000 workers for the 2010 census. Temporary employment, a leading indicator for hiring in the economy, increased by 48,000.

There were job gains in sectors such as manufacturing (1,000), services (42,000), business and professional services (51,000), health care and education (32,000), and leisure and hospitality (7,000). Other sectors showed job losses: construction (64,000), residential construction (10,600), non-residential construction (44,500), and finance (10,000). Retail also showed small job losses. (Blogs: WSJ Real Time Economics, Phil Izzo Mar 05, 2010 Economists React: Labor Market 'Dodged a Big Fat Snowball') (Opinions: Financial Times, Jan 08, 2010 Lex: U.S. employment)

- According to the BLS, the average workweek fell to 33.8 hours, workweek in manufacturing declined to 39.5 hours and factory overtime also fell -- a negative since firms during the recovery are expected to increase the work hours of existing workers before hiring new workers. The employment to population ratio rose to 58.5% while the labor participation rate increased to 64.8%, though both are near the lows of early 1980s. The average unemployment duration declined to 29.7 weeks. Over 40% of unemployed workers have been jobless for six months or more, and close to 59% of the unemployed have been jobless for three months. Over six million workers have lost their jobs permanently. Average hourly earnings grew at a sluggish pace of 1.9% y/y and 0.1% m/m -- which continue to take a toll on consumer spending. (Blogs: macroblog, John Robertson Jan 07, 2010 What's up with the young folks?) (News: Wall Street Journal, Ianthe Jeanne Dugan Dec 01, 2009 Working Two Jobs and Still Underemployed)
- According to Morgan Stanley economist David Greenlaw, 1.1 million workers said they were unable to work in February due to the bad weather, the highest in 28 years. He estimates this to have depressed payrolls by as much as 150,000 in February, which might lead to strong payrolls in March. (via WSJ; 03/05/10) (Blogs: WSJ Real Time Economics, Sudeep Reddy Mar 05, 2010 The Weather Effect on Jobs)
- BNP Paribas analyst Julia Coronado said in a March 5, 2010, report that "the household survey captures small businesses whereas the payroll survey only captures firms with more than 1000 workers, so the fact that hiring in the household survey has been greater than nonfarm payrolls in the first two months of the year may be an indication that small businesses are hiring."
- According to the ADP report of March 3, 2010, private employment in the U.S. fell by 20,000 in February 2010, after falling by a revised 60,000 in January 2010. The service sector showed its second consecutive month of increased employment with a gain of 17,000. Manufacturing employment rose 3,000, which was the first increase since January 2008. Job losses in the goods-producing sector stood at 37,000. Construction employment fell 41,000, which was the smallest decline since July 2008. Employment among small and large businesses fell by 18,000 and 10,000 respectively, while that in medium-sized businesses increased by 8,000, which was the first increase since January 2008. The ADP report is based on data from 360,000 businesses with around 22 million workers on their payrolls. (Analysis: ADP, Mar 03, 2010 ADP Employment Report: February 2010)
- Initial unemployment claims fell by 29,000 to reach 469,000 in the week ending February 27, 2010, after rising by 24,000 in the previous week. The four-week moving average of initial claims fell by 3,500 to reach 470,750. In the week ending on February 21, 2010, continuous claims fell by 134,000 to reach 4.5 million, while the insured unemployment rate remained unchanged at 3.5%. Some of the decline in continuous claims over recent months may be due to the expiration of standard benefits. Including extended benefits, continuous claims exceed 10 million. (Analysis: U.S. Department of Labor, Mar 04, 2010 U.S. Unemployment Insurance Weekly Claims Report March 4, 2010: Initial Claims Fall to 469,000)
- Initial claims serve as a useful indicator of payroll growth. Analysts estimate that initial claims below 400,000 are consistent with job gains and that jobless claims generally peak four to 10 weeks before the economy bottoms. The four-week moving average of initial claims reached a peak of 658,000 in early April 2009. While claims have declined significantly since, claims have remained stubbornly above 400,000 level. Weakness in unemployment claims calls into question a near-term recovery in payrolls. While payrolls may stop declining, companies will need to step

up hiring to absorb the slack in the labor market, which will be reflected in slowing continuous claims. Until that happens, the unemployment rate will remain high even if job losses slow. (Analysis: J.P. Morgan, Bruce Kasman and Abiel Reinhart 2009-11-11 00:00:00 Court of Claims: US Job Shedding is Nearly Over)

- The government will hire temporary workers for the 2010 census during January-September 2009. Analysts expect this will move U.S. payrolls to positive territory in early 2010. Census-related hiring is expected to peak in April/May 2010 with hiring slowing down thereafter. Goldman Sachs economist Alec Philipps in the December 8, 2009, report "US Daily: The 2010 Census Jobs Effect: Easy Come, Easy Go" says that the census related hiring will amount to 700,000-800,000 during January-May 2010, and peak in May 2010. This will boost the payrolls during these months and act as a drag on payrolls as hiring slows thereafter. This will reduce the unemployment rate by 0.2% during January-May 2010, and boost the households' annualized personal income by 0.05% with a waning impact on household incomes in the later months. J.P. Morgan economist Michael Feroli in the December 11, 2009 report 'US: The Leviathan is still lurking under the 2010 outlook' suggests that census-related hiring will peak in April 2010. The boost to annualized personal incomes will be temporary and a mere 0.04%, with the impact waning through the summer.
- Unemployment Rate Forecasts: ML/BoA: 9.5% in 2010 and 9.4% in 2011; Goldman Sachs (GS): 10% in 2010 and 10.4% in 2011 and peak at 10.5% in Q2 2011; JPMorgan: 9.5% in 2010 and 9.1% in 2011 and peak at 9.4% in Q4 2010; Morgan Stanley: 9.9% in 2010 and 9.5% in 2011 and peak at 9.6% in Q1 2011. (Bloomberg Survey; 03/03/10).
- At its January 2010 meeting, the FOMC forecasts for the unemployment rate for 2010 stood between 9.5% and 9.7%. The FOMC expects the unemployment rate to decline thereafter, to between 8.2% and 8.5% in 2011, and between 6.6% and 7.5% in 2012, and to between 5.0 and 5.2% in the longer run. Given the financial crisis and severe recession, the FOMC participants attached a high degree of uncertainty to their projections. (Analysis: Federal Reserve Board, Feb 17, 2010 Minutes of the Federal Open Market Committee January 26-27, 2010)
- The Economist in a February 5, 2010 article said that despite strong economic growth in Q4 2009, employment declined over 300,000. Since GDP growth in Q1 2010 is unlikely to be as strong as Q4 2009, "the pace of improvement in employment may be slowing." The delay by policymakers in boosting job creation will increase uncertainty about the economic recovery. (Analysis: Economist, Feb 05, 2010 Falling flat: More evidence that America is experiencing a jobless recovery)
- Laurel Graefe and Menbere Shiferaw, senior economic research analysts at the Atlanta Fed say that improving temporary employment since July 2009 (a leading indicator for hiring) and fewer layoffs are positives for the labor market. (Blogs: macroblog, Laurel Graefe and Menbere Shiferaw Dec 11, 2009 US: Better news on the jobs front: Layoffs down, temp hiring up)
- On January 8, 2010, FT's Lex said that given the low labor participation rate and high unemployment duration, "there are significant drags on a labour market recovery even should growth power ahead." (Opinions: Financial Times, Jan 08, 2010 Lex: U.S. employment)
- As per the Job Openings and Labor Turnover Survey (JOLTS) report on February 9, 2010, the job openings rate in December 2009 was largely unchanged at 1.9%. The job openings rate, which fell steadily from mid-2007 through February 2009, has held relatively steady since March 2009. The new hires rate remained largely unchanged, at 3.1%, while the separations rate stood at 3.2%. The quits rate, an indicator of workers ability/willingness to change jobs, continued declining in December for private employment. Over 2009, hires totaled 49.4 million, while separations totaled 53.6 million, yielding a net loss of 4.2 million jobs. The JOLTS survey shows that job losses in recent months have slowed mostly due to fewer layoffs, while hiring is still subdued. (Analysis: U.S. Bureau of Labor Statistics, Feb 09, 2010 U.S. Job Openings and Labor Turnover December 2009)

- According to Challenger, Gray & Christmas, planned job cut announcements in December 2009 was the lowest since the recession began, falling 73% y/y and 10% m/m. The employment index in ISM Manufacturing was growing at a fast pace as of February 2010, while the employment index in ISM Non-Manufacturing was contracting at a slower pace as of February 2010. The Monster Employment Index fell by one point in January 2010, "reflecting continued moderation in U.S. online recruitment activity", while the annual rate of decline moderated to 3%. Jesse Harriott, senior vice president and chief knowledge officer of Monster said, "last year's declining trends began to shift towards stabilization in a number of industries. With the economy returning to a stage of positive growth, we've seen subtle signs of firming in hiring trends, even for sectors like finance in recent months." (Analysis: Monster.com, January 2010 Monster Employment Index: January 2010) (News: MarketWatch, Jan 06, 2010 Quarterly Planned Job Cuts Fall to 9-Year Low)
- According to the BLS report on January 29, 2010, the Employment Cost Index (ECI) for civilian workers rose 0.5% q/q and 1.5% y/y in Q4 2009. Private sector compensation costs grew 1.2% y/y in Q4 2009, unchanged from the pace recorded in Q3 2009, which was the lowest recorded in the series history since 1979. Both private wages and benefits grew at a record low pace. Wages grew 1.4% y/y in Q4 2009, while benefits grew 1%. Among private industries, compensation for construction and professional and business services workers grew slower in Q4 2009, at 0.7% while compensation for health and education services workers posted stronger growth, at 2%. Productivity growth rose 6.2% q/q in Q4 2009 and 5.1% y/y as firms increased work hours by 1%, the first increase in Q2 2007, while output grew sharply, by 7.2%. Cutting workforces and labor costs helped firms sustain corporate earnings during 2009, but will backfire on companies via sluggish sales. (Analysis: U.S. Bureau of Labor Statistics, Jan 29, 2010 U.S. Employment Cost Index: December 2009)
- The Conference Board Help-Wanted Online Data Series report on March 1, 2010 showed that online advertised vacancies fell by 66,900 to 3,957,000 in February 2010. The series hit a low in April 2009. In January 2010, 3.69 unemployed workers were competing for every online advertised vacancy. According to Gad Levanon, senior economist at The Conference Board, "although labor demand dipped slightly, the large gains in the last few months have provided a positive sign of a turnaround in employer labor demand. Currently, labor demand, as measured by online job postings, is close to the levels in November 2008, but it is still unclear if employers are willing to significantly expand their workforce." The Conference Board consumer confidence index in February 2010 showed that the "jobs hard to get" index rose to 47.7% from 46.5% in January, while the "jobs plentiful" index fell to 3.6% from 4.4% in January. (Analysis: Conference Board, Mar 01, 2010 Online Job Demand Dips 66,900 in February, The Conference Board Reports)
- According to the BLS report on January 22, 2010, 43 states experienced month-on-month increases in the unemployment rate in December 2009, while all states experienced a higher unemployment rate from a year ago. Around 11 states have unemployment rates of over 10%. Michigan continued to record the highest unemployment rate among U.S. states, at 14.7% in December 2009, followed by Nevada, Rhode Island, and South Carolina. The unemployment rate in South Carolina, Delaware, Florida and North Carolina reached series highs. (Analysis: U.S. Bureau of Labor Statistics, 2010-01-22 00:00:00 U.S. Regional and State Employment and Unemployment December 2009)
- The National Federation of Independent Business (NFIB) Small Business Survey in February 2010 showed that the net percentage of employers planning to increase hiring over the next three months was negative one percent and more firms were planning to cut jobs than hire workers. Firms said that "poor sales" discouraged them to hire. In the current recession, around 45% of the job losses have been among small businesses, compared to about 9% in the previous recession. Estimates suggest that since 1992, about a third of the employment growth during periods of employment expansion was generated by small businesses. (Analysis: NFIB, William C. Dunkelberg and Holly Wade February 2010 NFIB Small Business Economic Trends)
- As per the Manpower Survey report on December 8, 2009, the net percentage of employers

planning to increase hiring in Q1 2010 was zero, though adjusting for seasonality, a net 6.0% of employers planned to increase hiring in Q1 2010. As per seasonally adjusted results, 73% of surveyed employers expected no change in hiring plans in Q1 2010, the highest percentage in the survey's history. (Analysis: Manpower, Dec 08, 2009 U.S. Manpower Employment Outlook Survey, Q1 2010: Employers Plan to Increase Staff Levels in First Quarter)

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