Labor Market Conditions
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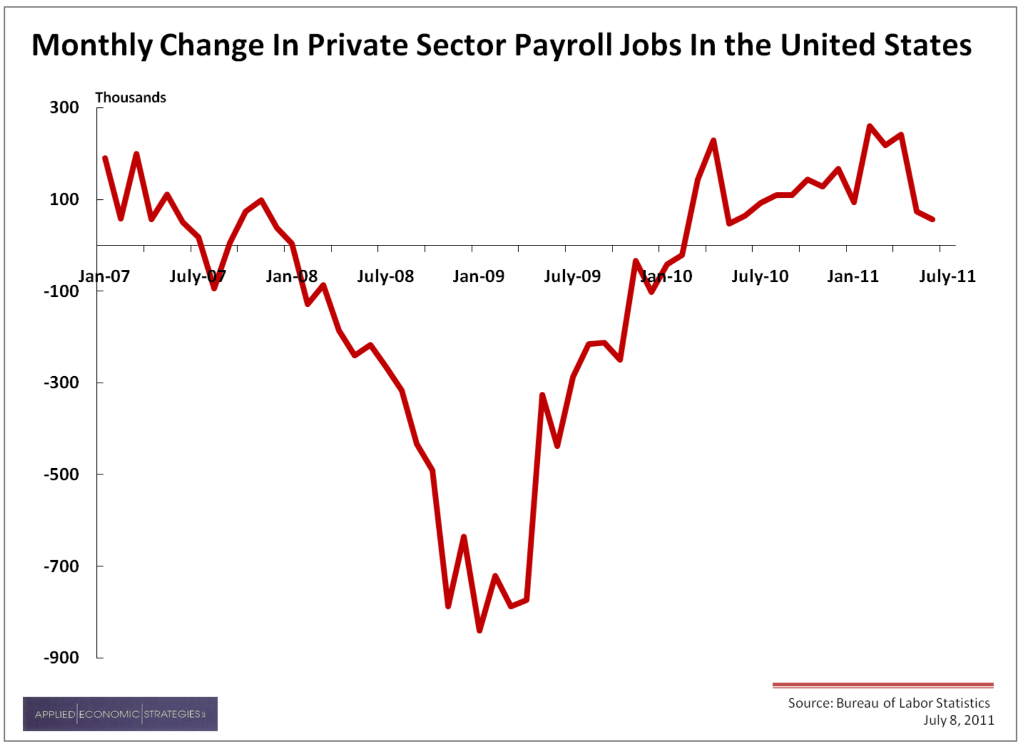
# LABOR MARKET CONDITIONS AND ECONOMIC OUTLOOK

## June, 2011

> "At this point in the recovery, the impact of last year's health care reform law with its fees, taxes, and mandates, coupled with uncertainty over the future level of payroll and corporate taxes, and the recent increase in producer prices, cannot be under-estimated."

- The second anniversary of the recovery finds the economy barely able to create jobs with only 57,000 private sector employees added to payrolls in June, and May's weak increase in jobs was revised down to just 25,000.
- Moreover, a third of the poor job gains over the past two months were not even reported by employers, but were instead computer generated by the government to account for newly created businesses – gains that could be revised away in the future.
- The pace of hiring over the past two months has slowed to a crawl as producer prices have jumped 7.3 percent over the past 12 months, putting a real squeeze employer costs.
- Just 3 industries accounted for all of the June job growth, but even their gains were smaller than usual. Only the leisure and hospitality industry (+34,000), professional and technical services (+24,200), and health care (+13,500) had significant job increases in June.
- Educational services (-17,400), financial activities (-15,000), and construction (-9,000) had the largest decreases, while all other industries were relatively unchanged. Government at all levels shed 39,000 jobs, and are unlikely to contribute to job growth for the foreseeable future.
- All of the job gains for adults (25+) over the past 6 months have been with those who have a 4-year college degree. All other education groups have seen their employment levels decline.
- The unemployment rate rose to 9.2 percent and the average duration of unemployment rose to a record 39.9 weeks. The unemployment rate for teenagers is a depression level 24.5 percent as many adults and more skilled workers are bumping teens out of jobs.
- The average duration of unemployment rose to a record 39.9 weeks and the labor force decreased as 449,000 Americans stopped looking for work. If that number had been factored into the June unemployment figure, the unemployment rate would have jumped to 9.4 percent.
- Separately, the broadest measure of underemployment (those both in and out of the job market but want a job and those working part-time for economic reasons) soared 0.4 percentage points in June to 16.2 percent, its highest level since last year.

- Labor force growth remains virtually nonexistent, which is troubling because economic growth is dependent on labor force growth and productivity growth, which is also slowing,
- Manpower's U.S. employment outlook for the third-quarter shows that only 20 percent of employers plan to their payrolls while 8 percent expect to decrease their workforces; expectations that are consistent with relatively weak employment gains this fall.
- A survey of business economists by the Bureau of National Affairs forecasts monthly job gains of just 192,000 a month for the rest of 2011, far below the number necessary to significantly lower the unemployment rate, which is forecast to average 8.5 percent next year.
- According to the NFIB, job market indicators for small businesses continue to deteriorate. Over the next three months, just 13 percent plan to increase employment (down 3 points from April) while 8 percent plan to reduce their workforce, suggesting weak job creation in the near term.
- However, Manpower surveys also find that employers are continuing to have difficulty finding skilled workers for their businesses. A significant 52 percent report increased difficulty in finding the right talent, the highest U.S. percentage in the annual survey's six-year history, and up from 14 percent in 2010.

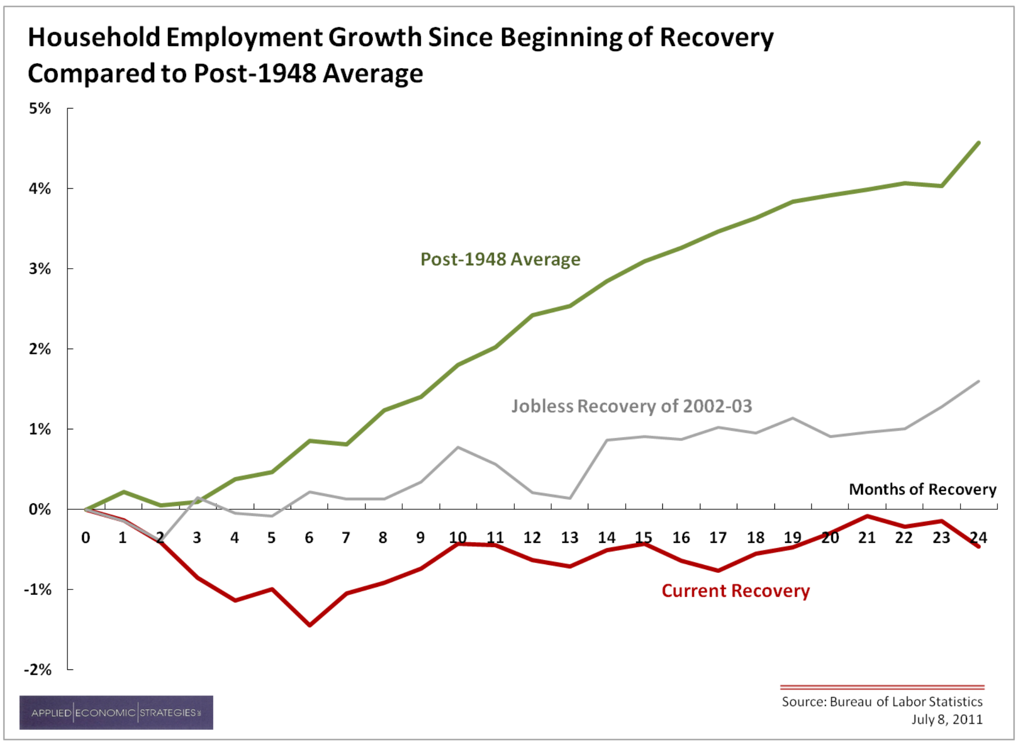


## How Does This Recovery Compare to Previous Ones?

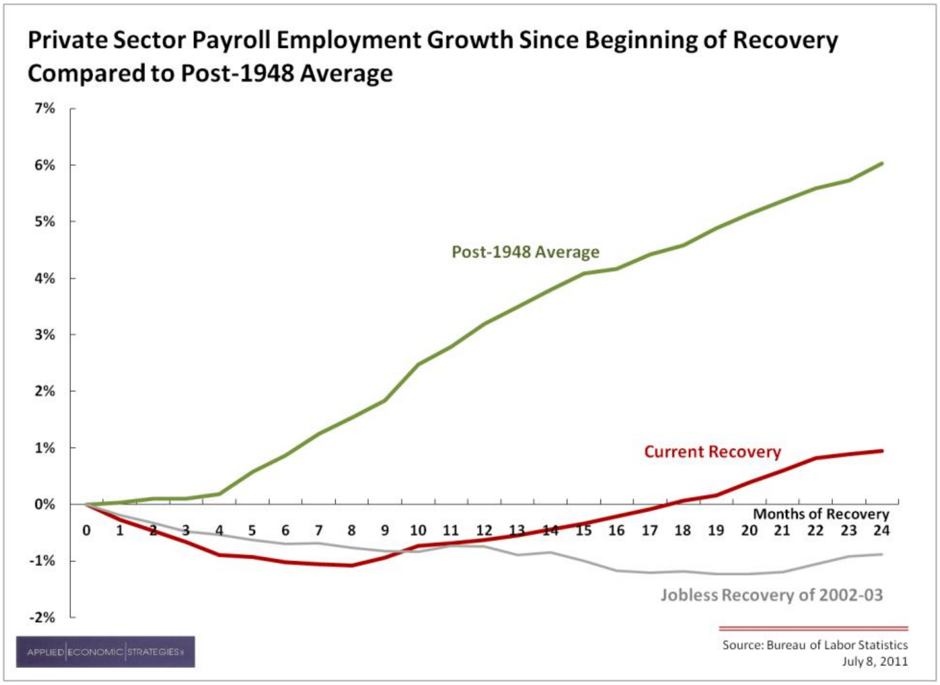
Two years into the latest recovery one recent poll found 75 percent of Americans still think the country is in a recession, and 53 percent think the worst is yet to come. A recent Conference Board survey found consumers remained pessimistic about the outlook for the job market over the next six months, with over 20 percent expecting fewer jobs.

One reason for this poor view of the economy comes from the relatively weak labor market recovery over the past two years compared to previous recoveries. For example:

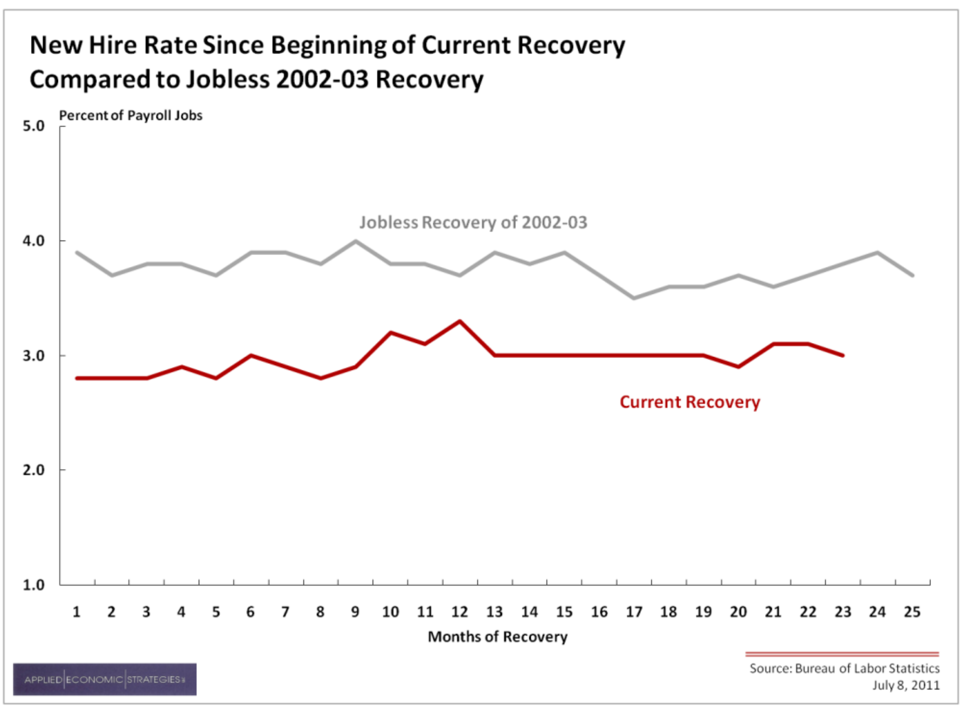
- Since the beginning of the recovery, household employment, which includes the self-employed and agricultural workers, has not grown at all compared to an average increase of 4.6 percent in previous recoveries.



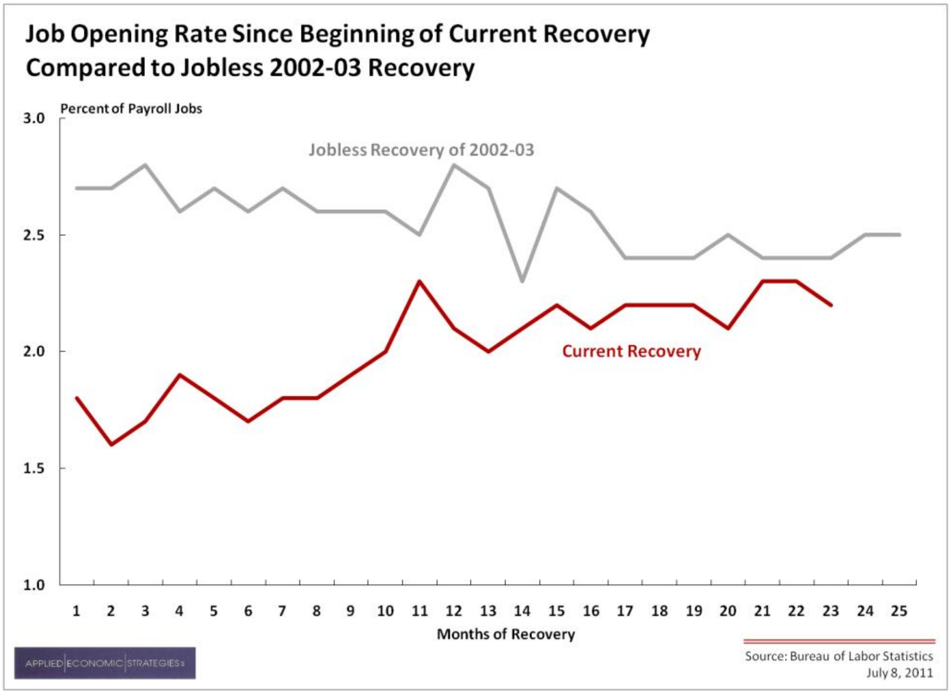

- The increase in private sector payroll jobs, while modestly better than the jobless recovery of 2002-03, is significantly lower than the post-1948 recovery average (see chart on next page).



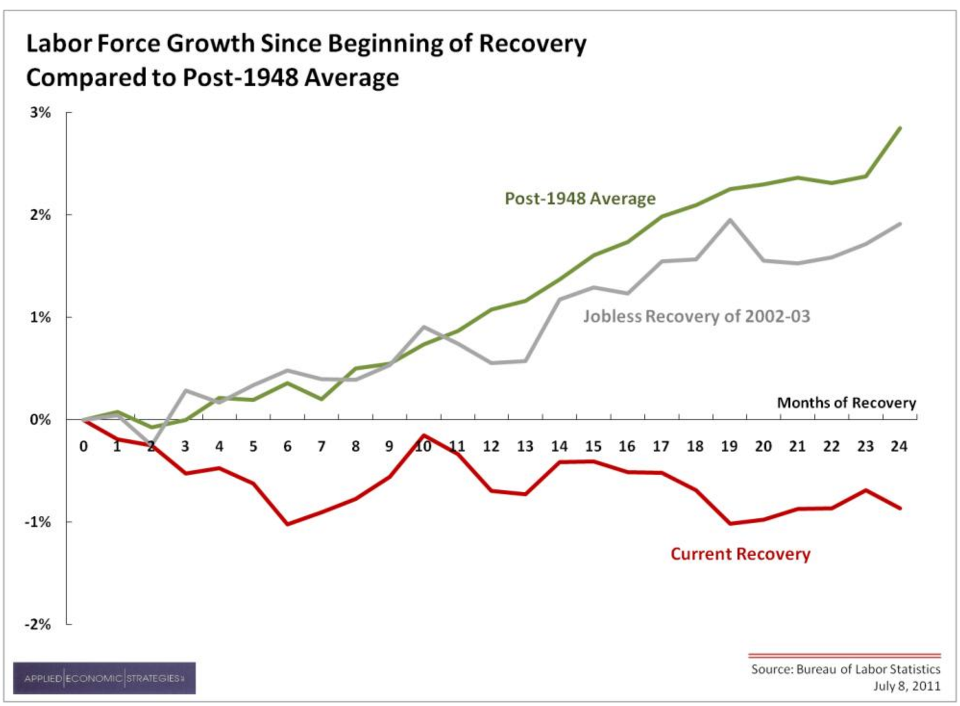

- The new hire rate is also significantly below the hiring rate during the jobless recovery of 2002-03 and is not forecast to improve much over the next 18 months. On average, there have been 1.0 million fewer new hires each month during the current recovery compared to the jobless recovery of 2002-03.



- The job opening rate, although improving, remains below the job opening rate during the jobless recovery of 2002-03. On average, there have been 750,000 fewer job opening each month during the current recovery compared to the jobless recovery of 2002-03.




- Most troubling is the unprecedented decline in the labor force during the current recovery because economic growth depends on labor force growth and productivity growth, which is also slowing. Many Americans have simply stopped looking for work.



Two years since the end of the recession, nearly 14 million Americans are unemployed and the unemployment rate has remained above 9 percent, if one counts those who have stopped looking for work but want a job, for a record 34 straight months. The current labor market recovery, while similar to the 1992-93 and 2002-03 jobless recoveries, is significantly weaker than the average post-1948 recovery.

Across a wide range of measures – bank lending, economic output, income growth, home prices, and household expectations for financial well-being – the current recovery has been the weakest, or one of the weakest, since World War II. However, there are a very bright spots. Layoffs are relatively low; exports, particularly of manufactured and agricultural goods, are improving; and corporate profits and stock prices are up.

Still, the sharp increase in producer prices is putting a squeeze on employer costs, productivity growth is falling, and higher energy prices are straining consumer budgets. Moreover, state and local taxes are rising significantly, and last year's health care reform law has over $437 billion in new taxes over the next 10 years already baked into the economy.

At the current rate of job growth it will be 2015 before the private sector replaces all of the jobs lost during the recession (see chart below). However, Laura Tyson, former chair of President Clinton's Council of Economic Advisers, recently said that the United States might not see employment return to pre-recession levels until 2023.

Until companies know what their health insurance and other input costs are going to be, what level future payroll and corporate taxes will be in any long-term fiscal reform plan, and have a clearer idea of what future demand will be they are unlikely to hire a significant number of additional employees.