

Labor Market Conditions

Published by Applied | Economic | Strategies, LLC

February 5, 2010

LMC No. 2010-2

LABOR MARKET CONDITIONS AND ECONOMIC OUTLOOK

January, 2010

SEASONALLY ADJUSTED DROP IN UNEMPLOYMENT RATE CLOUDS JOBS PICTURE

“January is a notoriously tricky month because seasonal adjustment and BLS revisions can be misleading. If one looks at the actual household survey data, employment fell by 1.1 million, unemployment rose by 1.4 million in January, and the unemployment rate is 10.6 percent.”

- After stabilizing in November, employers shed another 20,000 payroll jobs in January following a revised decline of 123,000 in December.
- The seasonally adjusted unemployment rate (including the updated Census population controls) fell from 10.0 to 9.7 percent, and broadest measure of unemployment dropped from 17.3 to 16.5 percent as the number of employees working part-time for economic reasons declined by 849,000.
- However, the average duration of unemployment rose to an historic high of 30.2 weeks. Over 41 percent of the unemployed have been out of work for half a year or more.
- Manufacturing jobs rose by 13,000, the first monthly gain in two years. Temporary help services added another 52,000 jobs as employers continue to be hesitant about hiring permanent employees and health care gained a modest 17,100 jobs. The retail industry also appears to have added jobs, but the actual number was also clouded by seasonal adjustment issues. Over the past three months retail has added an average of 11,000 jobs per month.
- Job losses occurred in construction (-75,000), transportation and warehousing (-19,000), financial services (-16,000), the leisure and hospitality industry (-14,000), and wholesale trade (-8,600). Most other industries reported small declines or were unchanged.
- State and local government jobs fell by 41,000 in January reflecting their worsening fiscal difficulties. However, the federal government, excluding the U.S. Postal Service, gained 19,000 jobs as the Census Bureau hired 9,000 temporary Census workers.
- In January, the average workweek ticked up to 33.9 hours and appears to have stabilized at that relatively low level.

LAYOFFS HAVE SLOWED SOMEWHAT BUT EMPLOYERS HESITANT TO HIRE:

- Although initial claims for unemployment insurance (4-week moving average) has dropped from 618,000 in June to 469,000 last week, the improvement has stalled at a relatively high level. Moreover, the number of Americans collecting unemployment insurance has grown to 11.5 million and there are now over 6 unemployed workers for each job opening.
- Recent surveys of employers show they are hesitant to embark on significant hiring, and they may not need to as productivity is helping companies and the U.S. economy recover. The downside for the unemployed is that strong productivity growth means fewer job openings this year, especially if consumer spending remains weak.
- In December, the job opening rate ticked back down to its historic low.
- In an effort to jump-start hiring, the Senate will take up jobs bill next week that could include a \$10 billion payroll tax holiday lasting through 2010 for any employer who hires someone unemployed for at least 60 days. However, some economists believe that hiring won't pick up until the work is needed and it more likely hinges on consumer spending which remains tepid.
- Moreover, state and local governments are likely to continue to shed jobs as they wrestle with their budget shortfalls this year. Since October, they have laid off 69,000 workers.

EXPECT HIRING TO SLOWLY PICK UP THIS SPRING:

- The Census Bureau hired 9,000 temporary workers in January and will likely hire 550,000 people between February and May of 2010 to conduct the decennial census.
- Online help-wanted advertisements jumped 10.5 percent in January, the third consecutive monthly increase, to their highest level since November 2008.
- In January, economic activity in the manufacturing sector rose by its fastest rate since 2004, and the labor market in this sector has finally stabilized, albeit at a very low level.
- At some point the construction industry will stop shedding jobs.
- A recent survey by Towers Watson found that 92 percent of employers plan to hire workers in 2010, however, 36 percent are also planning targeted workforce reductions.
- Productivity growth, which has significantly restrained job growth, is unlikely to remain at its lofty levels.

“Policy uncertainty contributes to employers’ reluctance to hire. Continued talk about health care reform, cap and trade, and expiring tax cuts next year, only magnifies business anxiety and clouds the picture of what economic conditions will be next year. The least costly way to jump-start employment growth would to stop all of that talk.”