

Labor Market Conditions

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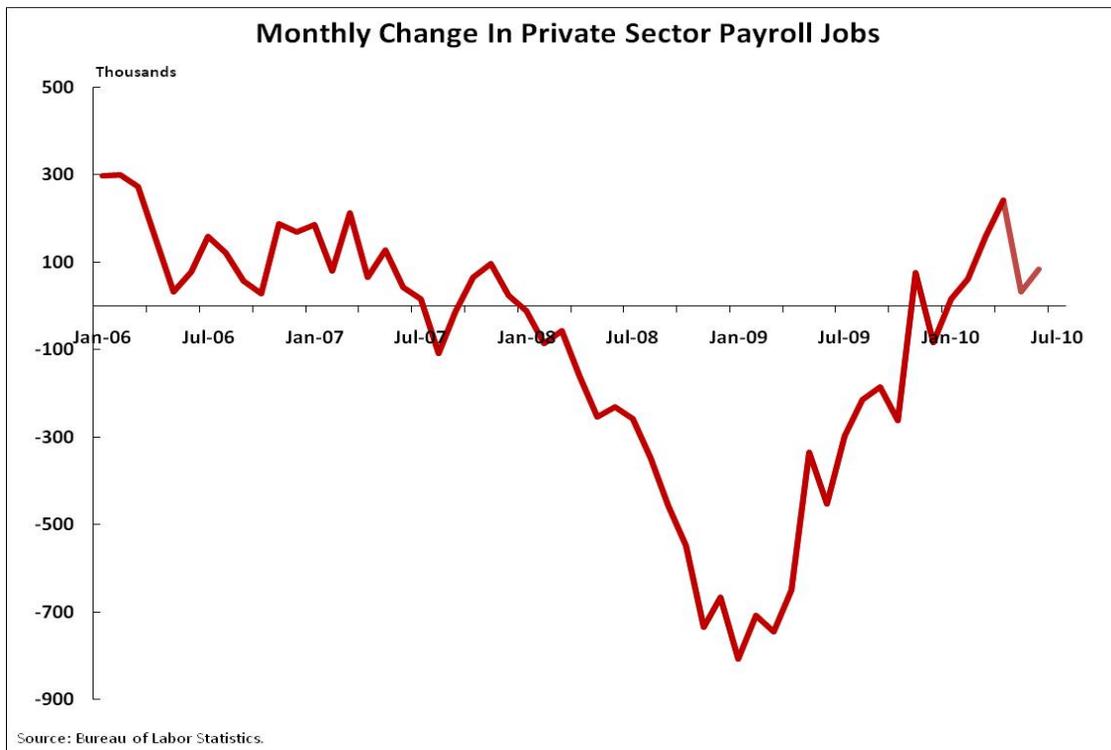
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LABOR MARKET CONDITIONS AND ECONOMIC OUTLOOK

June, 2010

“After adding jobs in the spring, private sector employers have slowed hiring while they reassess the strength of the economy and what impact health care reform will have on their future labor costs.”

- In June, private sector employers added 83,000 payroll jobs following an upwardly revised increase of 241,000 in April. Although June marked the seventh month of job gains since the recession began in December of 2007 and suggests the recession is over, private sector employment gains have slowed over the past two months.
- Since December 2009, private sector employers have added an average of 98,800 jobs per month. Less than the average monthly gain of 138,500 after the 1982 recession, but more than the average monthly *loss* of 126,800 jobs after the 2001 recession.
- In June, as expected the federal government shed 198,000 jobs as temporary Census workers were let go. More Census workers will be let go in July. State and local governments shed another 10,000 jobs after losing 18,000 in May, as their budget troubles continue to force furloughs and layoffs.
- Although the unemployment rate declined to 9.5 percent in June from 9.9 percent in April, the decrease is entirely due to Americans dropping out of the labor force as both household employment and the number of unemployed have fallen. Without the labor force decline of 652,000 in June the unemployment rate would have been 9.9 percent.
- The average duration of unemployment increased to another record high of 35.2 weeks in June, compared to a peak of 21.2 weeks in the 1982 recession. There are currently 4.8 unemployed workers for every job opening.
- Professional and Business Services added 46,000 jobs in June on the strength of gains in Temporary Help Services (+20,500), Management and Technical Consulting Services (+10,500) and Business Support Services (+6,700).
- Strong hiring in Leisure and Hospitality (+37,000), Education and Health Services (+22,000), and Transportation and Warehousing (+14,600), were offset by job losses in Construction (-22,000), Financial Services including Real Estate (-15,000), Information (-8,000), and Retail Trade (-6,600).
- Manufacturing continued to add jobs (+9,000), but at a slower pace than in the spring and Mining Support Activities rose (+7,400) in response to the Gulf oil spill cleanup. All other industries were largely unchanged.
- Despite the recent job gains, unemployment rates remain high in a number of industries: Construction (20.1%), Leisure and Hospitality (12.3%), Business and Professional Services (10.3%), and Manufacturing (9.9%).



THE LABOR MARKET RECOVERY WILL BE SLOW:

- One consensus forecast is for real GDP to grow 3.2 percent this year and 3.1 percent in 2011, which is not strong enough to significantly increase employment.
- The unemployment rate is forecast to average 9.6 percent this year, then slowly fall next year to 9.0 percent as job growth improves, reaching an average of 224,000 jobs gained per month by the first half of next year, compared to 124,000 a month for the second half of 2010, and just 98,800 a month in the first half of 2010.
- There are a number of potential drags on economic growth including: the looming end of the 2001 and 2003 Bush tax cuts, tight credit for consumers and small businesses, restrained state and local government spending, and the tapering off of federal stimulus spending.
- Uncertainty surrounding the upcoming elections, the turmoil in Europe, and the future level of economic growth in China are also having some impact.
- Employers will continue to utilize temporary employees and push for further productivity gains until these headwinds and uncertain subsidies.
- The index of leading economic indicators points to continued, though slower, U.S. growth for the rest of this year.
- Although the number of continuing claims for unemployment benefits continues to slowly decline, since March the decline in *initial* claims has stalled out.

HIRING SURVEYS SHOW EMPLOYERS ARE CAUTIOUS:

- According to CareerBuilder and USA TODAY's latest nationwide survey of employers, just 41 percent of HR managers plan to hire in July through December.
 - Employers are recruiting for the following functional areas first: Customer Service, Sales, Information Technology, Administrative, Business Development, and Accounting/Finance positions;
 - 24 percent report they are also recruiting for emerging jobs such as social media, green energy, cyber security, global relations and healthcare reform;
 - 56 percent fear that their top talent will leave their organizations as the U.S. produces more jobs.
- The most recent survey by Manpower Inc. shows that in the third quarter 18 percent of employers plan to add to their payrolls, up from 16 percent in the second quarter, while those expecting to reduce staff held steady at 8 percent. Another 70 percent foresee no change in jobs.

BUT SKILL SHORTAGES REMAIN:

- According to CareerBuilder and USA TODAY's latest nationwide survey, 22 percent of employers report that, despite an abundant labor pool, they still have positions for which they can't find qualified candidates.
 - 48 percent of HR managers reported there is a shortage of skills within their organizations with Information Technology, Customer Service, and Communications being the areas with the greatest deficit.
 - Among industries, healthcare employers were the most likely to report a skills deficit with 63 percent of HR professionals in large healthcare organizations stating they have a shortage of qualified workers.
- According to the New York Times, manufacturers who want to expand find that hiring is not always easy. Domestic manufacturers are looking to hire people who can operate sophisticated computerized machinery, follow complex blueprints and demonstrate higher math proficiency than was previously required of the typical assembly line worker.
- At one Ohio manufacturer a significant portion of recent applicants failed a basic skills test showing they can read and understand math at a ninth-grade level, and the company has been disappointed by the quality of graduates from local training programs. It is now struggling to fill 100 positions.