Labor Market Conditions

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LABOR MARKET CONDITIONS AND ECONOMIC OUTLOOK

October, 2009

UNEMPLOYMENT RATE JUMPS TO 10.2 PERCENT IN OCTOBER AS JOB LOSSES CONTINUE

- Employers shed another 190,000 payroll jobs in October and the unemployment rate rose to its highest level in more than 26 years, 0.3 points higher than forecast.
- The unemployment rate would have been even higher, 10.3 percent, if another 259,000 Americans hadn't dropped out of the labor force, and is 10.7 percent if one counts all of the discouraged workers.
- The broadest measure of unemployment the BLS publishes now stands at 17.0 percent, up 0.5 percentage points from September.
- The average duration of unemployment also rose to an historic high of 26.9 weeks.
- The employment rate fell to 58.5 percent; its lowest level since the 1982 recession, *and far and away the sharpest 12 month decline since the end of World War II.*
- Over the past three months the economy has lost an average of 188,000 jobs per month.
- Job losses were particularly sharp once again in construction (-62,000), manufacturing (-61,000), and retail trade (-39,800). Most other industries reported declines with significant declines in leisure and hospitality (-37,000), and transportation and warehousing (-18,000).
- Since the recession began in December 2007, the service producing sector of the economy has lost a record 3.6 million jobs.
- Government employment was unchanged after losing 53,000 jobs in September.
- The number of Americans working part-time for economic reasons rose by 105,000 in October, setting a new historic high.
- *The only good news in the October report was:* 1) jobs increased by 36,000 in temporary help services; 2) job growth resumed in the education and health services; and 3) the average weekly hours for manufacturing ticked up. Further, the job losses in August and September were revised to show less severe declines than first thought.

CONGRESS EXTENDS UNEMPLOYMENT INSURANCE AS THE LABOR MARKET WILL LIKELY REMAIN WEAK THROUGH THE END OF THE YEAR

- On November 5th, Congress approved legislation extending unemployment insurance (UI) benefits by up to 14 additional weeks in all 50 states and by up to 20 weeks in states with a three-month average unemployment rate of at least 8.5 percent. Currently, 27 states qualify for the additional 20 weeks.
  - Although the legislation will help nearly 2 million Americans whose UI is set to run out by the end of the year, economic research shows that it will lengthen the duration of unemployment and delay necessary labor market adjustments until next year.
  - Moreover, the depletion of state UI trust funds is triggering statutory payroll tax increases to replenish the funds, a tax increase that will slow job creation once the recovery begins.
- Recent initial claims for unemployment insurance have been trending down pointing to a slowdown in job losses in the future, however, the job opening and hiring rates remain at very low levels.
- Historically, hiring tends to lag after the start of a recovery, however, in recent years the lag times have been getting longer with job growth resuming five months after the end of the 1982 recession, job growth rising a year after the 1991 recession, and taking two and half years following the 2001 recession. It appears that employers are becoming much more cautious about hiring after recessions technically end.
- Consumer confidence fell again in October, due in large part to the weak labor market and consumers' downbeat assessment of current economic conditions. It was the second consecutive monthly decline and its lowest level since February 1983.
- The National Association of Business Economics reported that industry demand increased during the July to September period for the first time in five quarters, with the transportation, utilities, information, and communications sector was the only broad industry group posting a decline.
  - Profit margins widened at a modest pace for the first time in seven quarters, however, goods-producing industries continued to experience compression in profit margins.
  - Job losses appear to be slowly abating with the percentage of firms cutting payrolls falling to 31 percent from 36 percent. The percentage of firms adding jobs rose from an all-time low of 6 percent in July to 12 percent in October, and respondents expecting their firms to add employees over the coming six months exceeded the number expecting job cuts for the first time since the recession began.