Labor Market Overview: June 2014

The national and local labor markets have improved significantly since the depths of the recession, but compared to earlier recoveries, there is still some additional ground to recapture.

The May 2014 jobless rate for Washington and the nation were 6.1 percent and 6.3 percent respectively. Both rates are well below the peak rates of 10.0 percent and above. However, even though the rates have been declining for over four years, the state rate is still two full percentage points above its previous low, and the current national rate just matched the highest rate of the previous Post 9/11 recession. The slow pace of economic growth during this recovery has been a serious obstacle to improved rates of unemployment.

Among those most seriously impacted by a slow growing economy and lagging labor markets are those who have been unemployed the longest.

The number of those unemployed 27 weeks or longer—just over 6 months—has been inordinately high for an extended period. Long periods of unemployment are detrimental to a worker’s human capital, and sense of self-worth. A worker’s ability to find gainful employment is markedly diminished the longer they are without work.

A recent study by the Atlanta Federal Reserve Bank showed that a worker unemployed less than 5 weeks has a 34 percent chance of being employed in the next month while a worker unemployed for a year or more has just an 11 percent chance.
Folks who have been unemployed for extended periods are likely to become discouraged over their job prospects, and begin to feel that no jobs are available for them.

Those who are discouraged about their job prospects have, by definition, not looked for work in over six months. As a result, they are not counted among the unemployed. During the peak of the last business cycle, the number of discouraged workers fell below 300,000 nationwide. While the current level of 697,000 is well below the 1.3 million during the worst of the recession, it is more than double what would be typical after four-plus-years of job growth.

There are concerns that the unemployment rate doesn’t capture the true slack in the labor markets because of the large number of folks who have left the workforce and are no longer counted among the unemployed.

An aging population already points to declining workforce participation. But even among population groups that have the strongest ties to the labor force, participation has been in decline. Among 25-54 year olds, workforce participation has declined by over two full percentage points since the beginning of the recession. And even though employment has rebounded, it has not created enough jobs to entice those who previously left the workforce to re-enter and resume active participation.
Many of the workers who left the workforce during this recession were not necessarily without resources.

Social Security retirement benefits are available to folks who are at least 62 years of age. An older worker who found themselves unable to land gainful employment at age 62 would have Social Security benefits available to them. It may be the reduced benefit, and it may be much earlier than they had planned, but it may be their most economically viable option. In the three years preceding the recession, new Social Security recipients averaged about 168,000 per month. Since January 2010, new Social Security recipients have averaged about 224,000 per month—a difference of about 56,000 additional new recipients per month. Younger workers, and those not yet eligible for Social Security, may have returned to school or relied on family and friends for support.

Nonfarm payroll employment has been on the upswing for over four years. But only recently has employment surpassed its prerecession peak.

Looking at the overall trend in nonfarm employment since the beginning of 2010, it is difficult to see much of a problem. However, if 2008 is included, the picture changes dramatically. The precipitous drop in employment followed by the relatively slow climb out is a vivid illustration of the less-than-robust labor market faced by job seekers during the recovery. What makes this recovery and expansion period distinctive is the marked difference in the speed at which nonfarm employment declined and the speed at which it recovered.
In preceding recessions, jobs rebounded at a pace similar to the pace at which they were lost—the pattern was symmetrical.

In the six post-war labor market recessions that proceeded the great recession, the period of job decline was very similar to the subsequent period of recovery. For instance, in the 1969 “Turn out the lights” recession in Washington, the period of losses lasted about 21 months and the recovery was also about 21 months. The period of job losses in the recent great recession lasted about 24 months, but it took another 45 months for employment to recover to its prior peak. This asymmetry was likely due to the difference between a full-blown financial crisis compared to a more typical cyclical aggregate demand recession.

Another illustration of the asymmetric nature of this recovery and expansion is the industry profile of current and pre-recession nonfarm jobs.

To put it simply, the jobs that have expanded in the current recovery are not in the same sectors that lost the most employment during the recession. Construction, manufacturing, financial activities, and state government (non-education) are still well below their pre-recession levels. In the meantime, the largest gains have been in education and health services, professional and business services, leisure and hospitality, and retail trade. It is highly unlikely that construction jobs will return to their earlier peak as that level was supported by sub-prime loans and the housing bubble. However, one would expect that the other sectors would eventually rebound, but that has yet to occur.
Another significant change in the current job profile is the increased share of part-time jobs.

Folks who are working in part-time jobs even though they would rather have a full-time job are considered to be “Part-time for Economic Reasons.” Folks who prefer part-time work (students, secondary wage earners, etc.) are considered to be “Part-time for non-economic reasons.” Since the beginning of the great recession, and through the recovery, a much higher share of the workforce is working part time even though they want to work full-time. Before the recession, about 4.5 million part-time workers wanted full-time employment. Now there are close to 7.5 million such workers.

A slow growing economy also means slow gains in real earnings.

In this instance in can mean no gains in earnings. Discounting the jump in earnings at the beginning of 2009 (likely a result of the layoff of the least-senior and lowest-paid workers) real earnings have remained within a narrow range during this recovery period—the variability likely a result of changes in hours worked per week and overtime. Sluggish gains in aggregate demand, and the continued slack in the labor markets, with many still unemployed and waiting on the sidelines, has limited the ability of firms to command higher prices and existing workers to bargain for higher wages.

During the recession and recovery population continued to grow. Even though nonfarm employment has recently returned to its pre-recession peak that still leaves over six years of population gains that the labor markets must eventually accommodate—a difficult task considering the current pace of growth.