

State of the Economy and Future Labor Market Prospects

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State of the economy and future labor market prospects

- I. The Great Recession in the labor market
- II. Labor market outlook
- III. Are the job losses permanent or temporary?
- IV. Conclusions, with implications for workforce systems and research

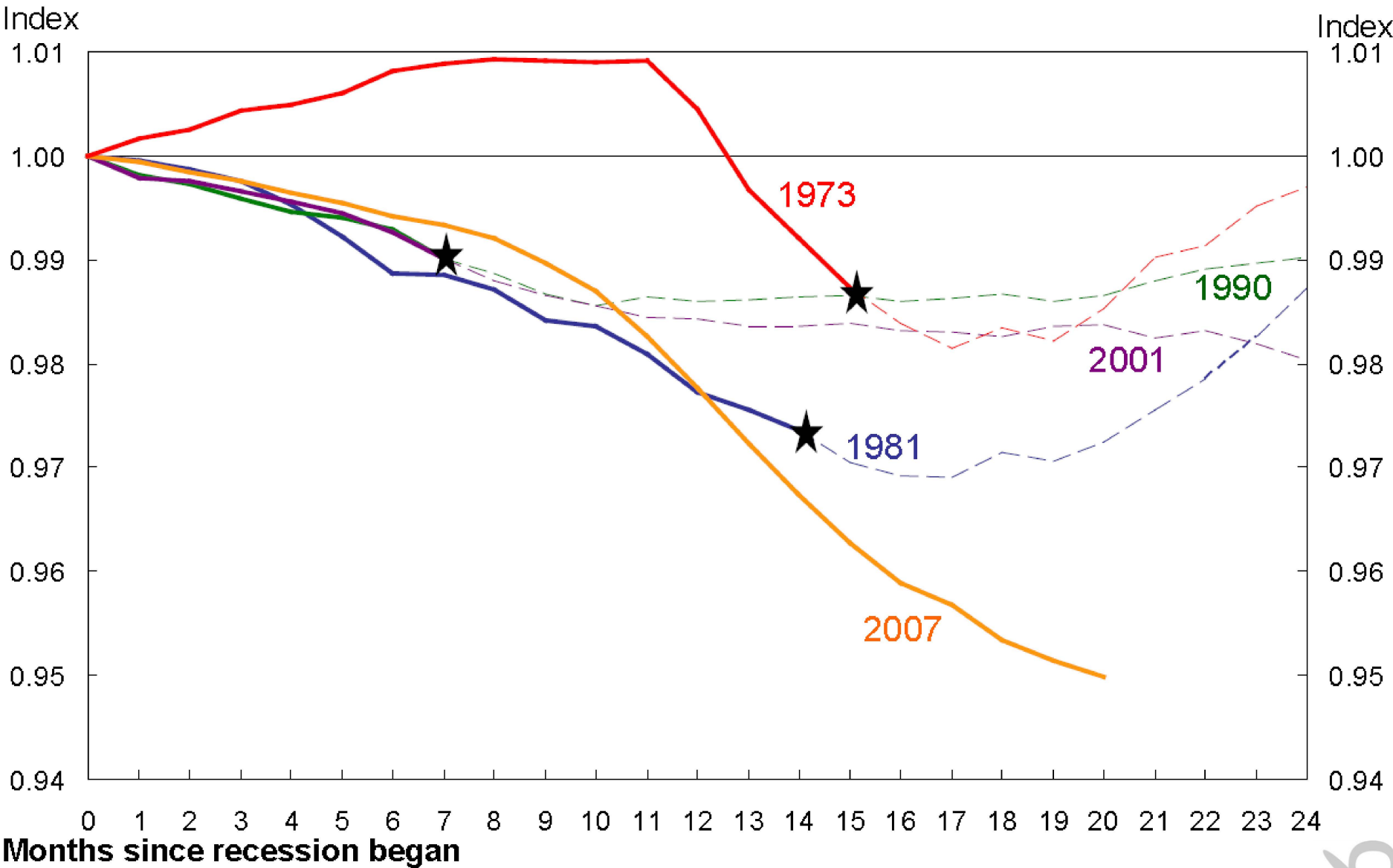


I. The Great Recession in the labor market

- 20 months into a deep, long recession
 - First full month was January 2008
 - Started slowly, gathered steam in September 2008
 - Housing → Financial/credit → Jobs
 - Compared to all post-WWII recessions
 - Longest (old max=16 months for 1973-1975 and 1981-1982)
 - Deepest in output (GDP) loss: -4% so far
- Who is affected and why?



Nonfarm payroll job losses and duration exceed post-war recessions



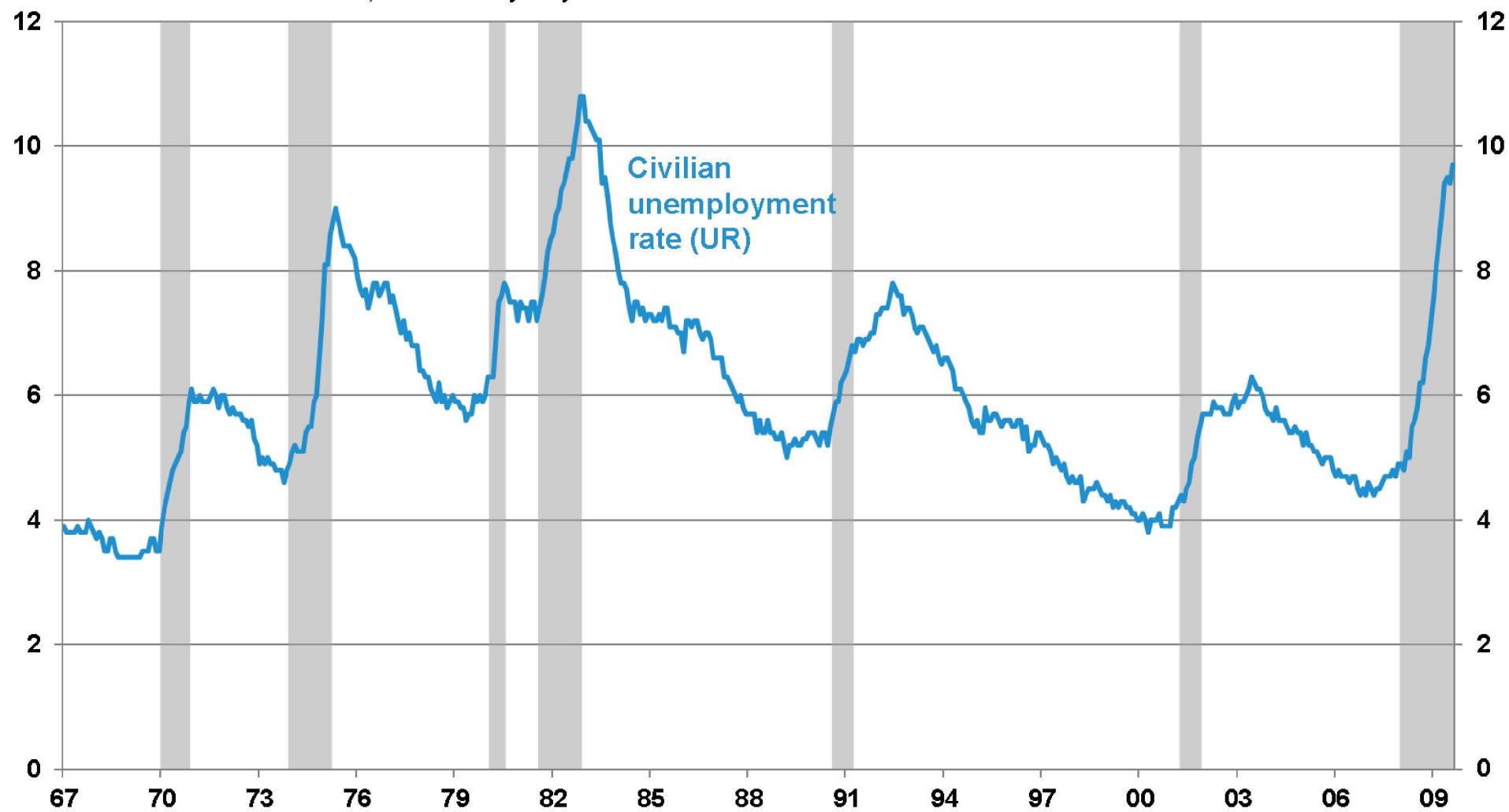
Source: Bureau of Labor Statistics

Note: Shading represents NBER recessions. Dashed lines depict expansionary periods.



Unemployment rate approaches post-WWII highs, with an older workforce

Percent of the labor force, seasonally adjusted

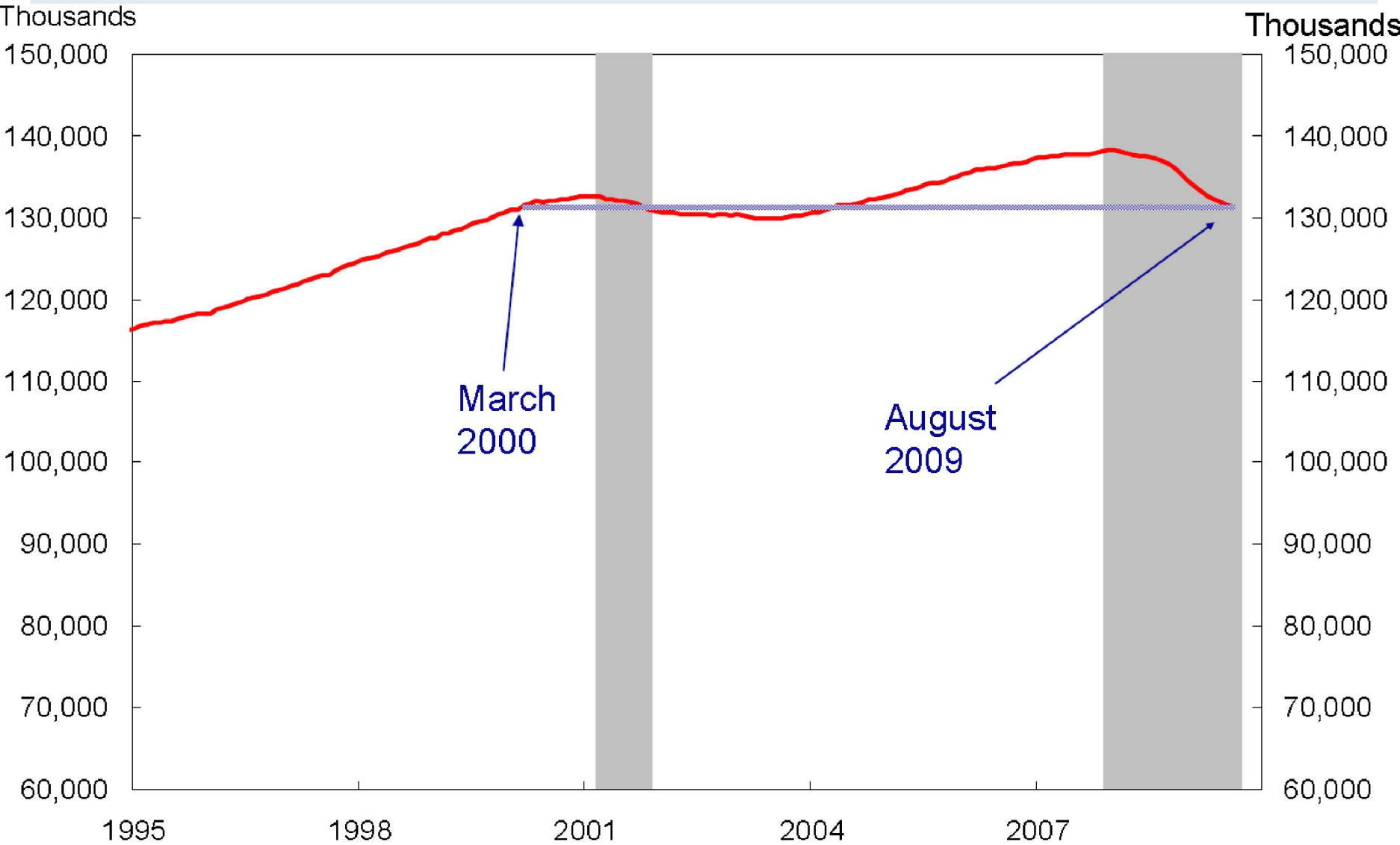


Source: Bureau of Labor Statistics

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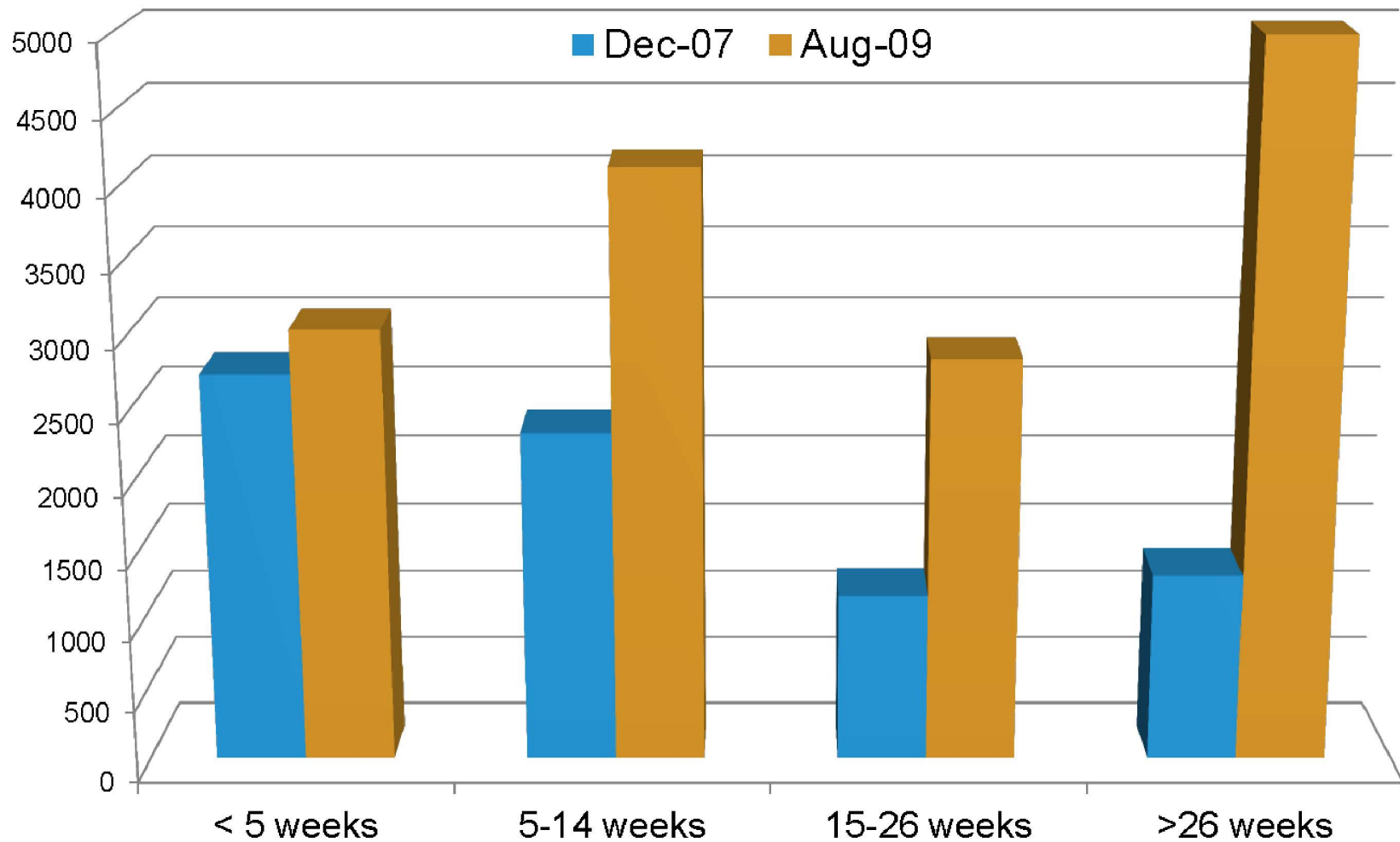
All nonfarm payroll jobs added since 2000 are gone



Source: Bureau of Labor Statistics
Note: Shading shows NBER recessions.

Dramatic increase in long-term unemployment

Thousands of unemployed persons, seasonally adjusted

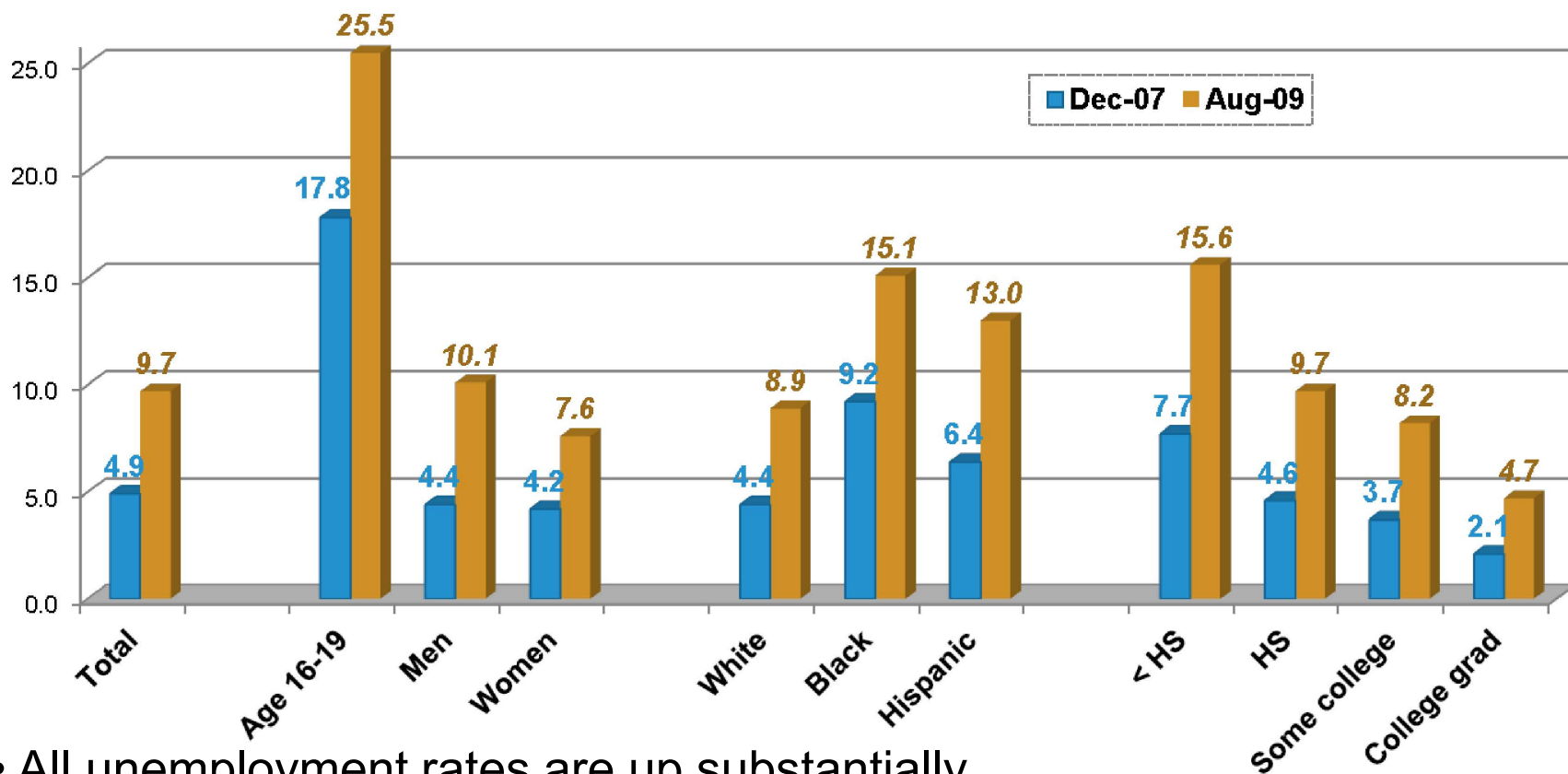


Source: Bureau of Labor Statistics



Rise in unemployment varies by demographic group

Percent of the labor force unemployed

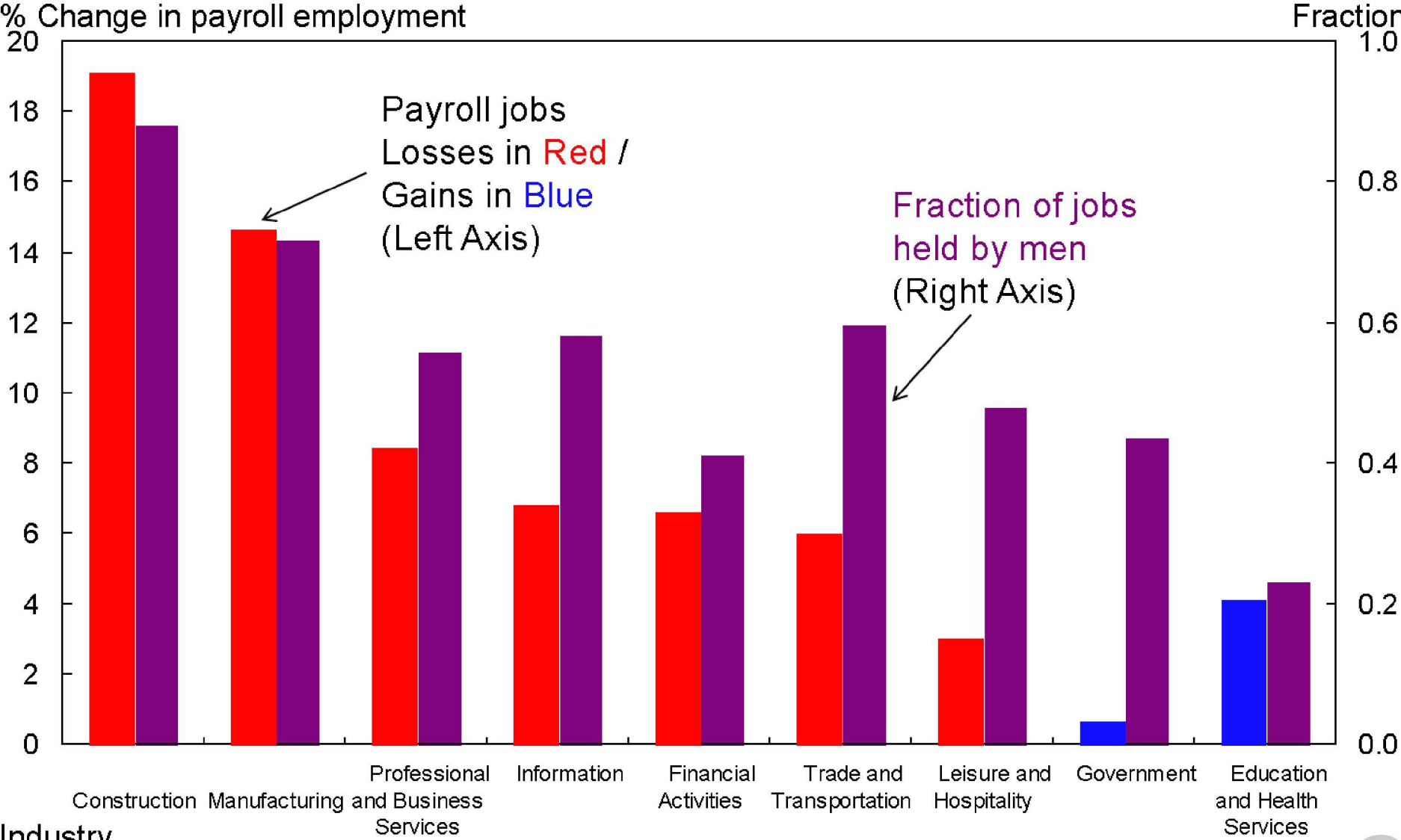


- All unemployment rates are up substantially.
- Men's joblessness has risen faster than women's—reflects industrial mix of job losses.
- Least educated faring worst.

Source: Bureau of Labor Statistics



Male-dominated industries losing the most jobs



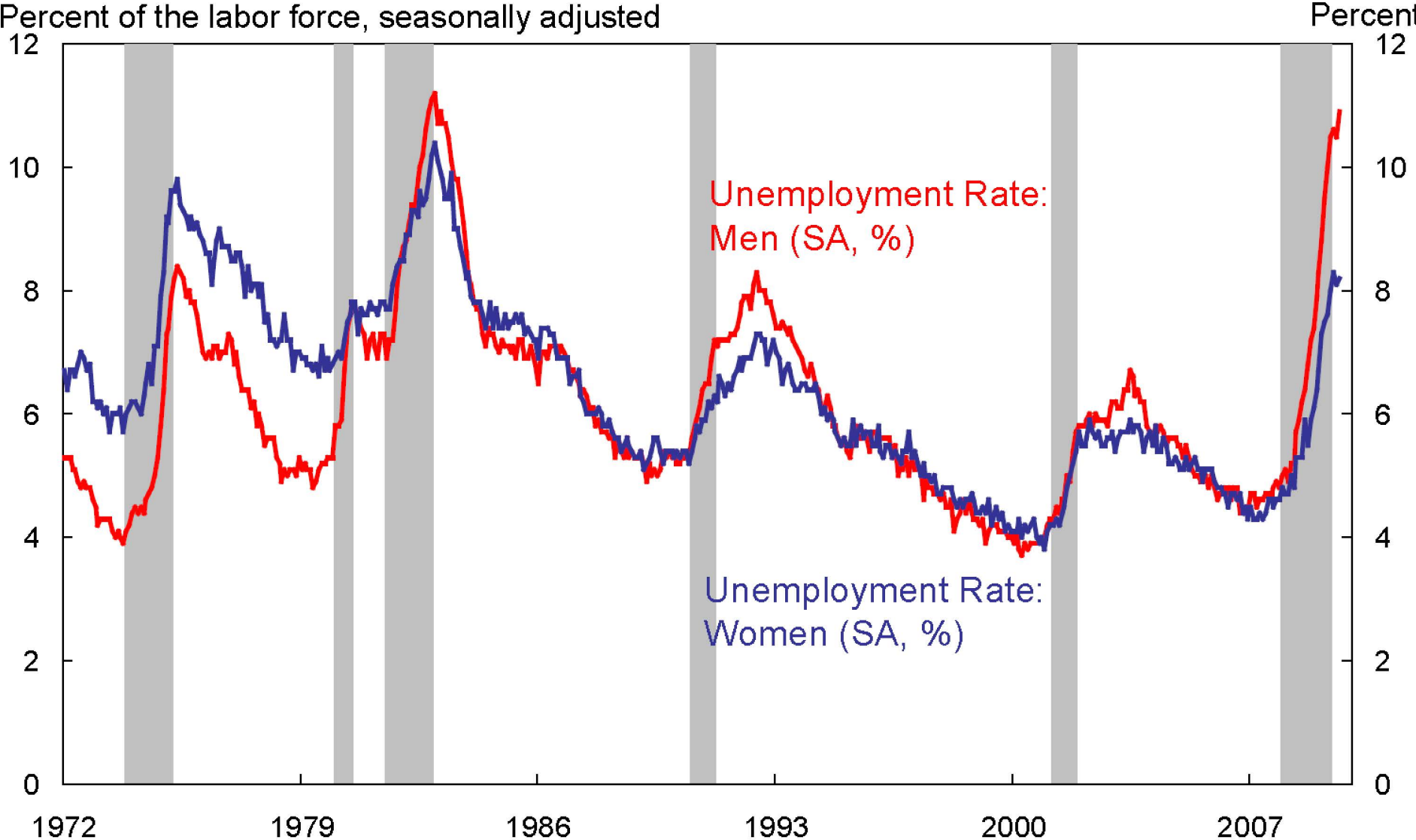
Note: Payroll employment change -- Dec. 2007 to Aug. 2009

Fraction of men in December 2007

Source: Bureau of Labor Statistics



Unemployment gender gap has reached new heights



Source: Bureau of Labor Statistics
Note: Shading shows NBER recessions.

II. Labor market outlook

- Forecast sources
 - Blue Chip Economic Indicators Consensus forecast (Sept. 10)
 - Survey of Professional Forecasters (FRB-Phil, Aug. 15)
- Labor market will deteriorate further
 - Current (August) unemployment rate: 9.7%
 - Peak unemployment: about 10% (first half of 2010)

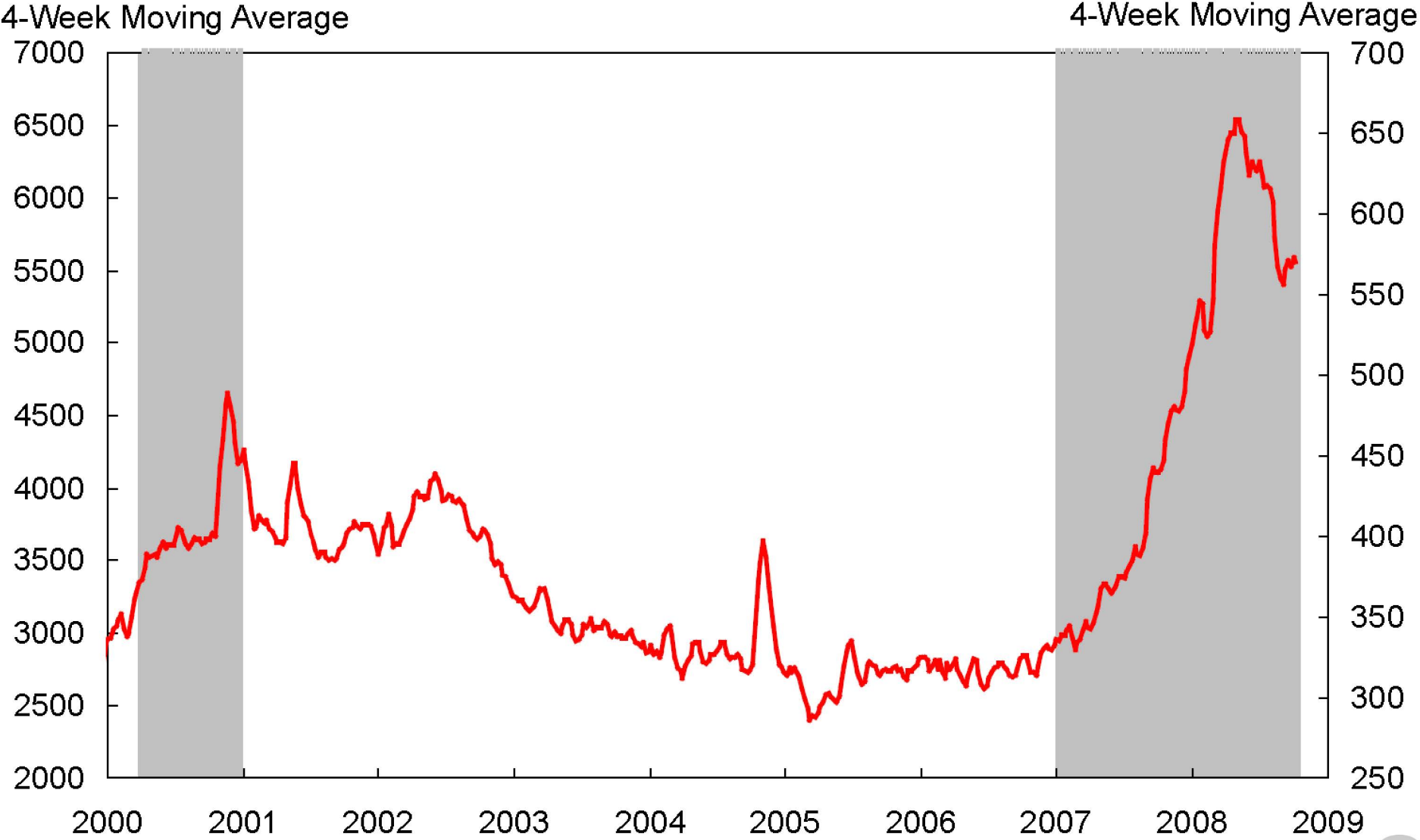


When will the recession be over?

- Output recovery likely starts in Q3 2009, led by investment
 - Official end date will be based on output (industrial production, GDP)
 - Initial UI claims already declining

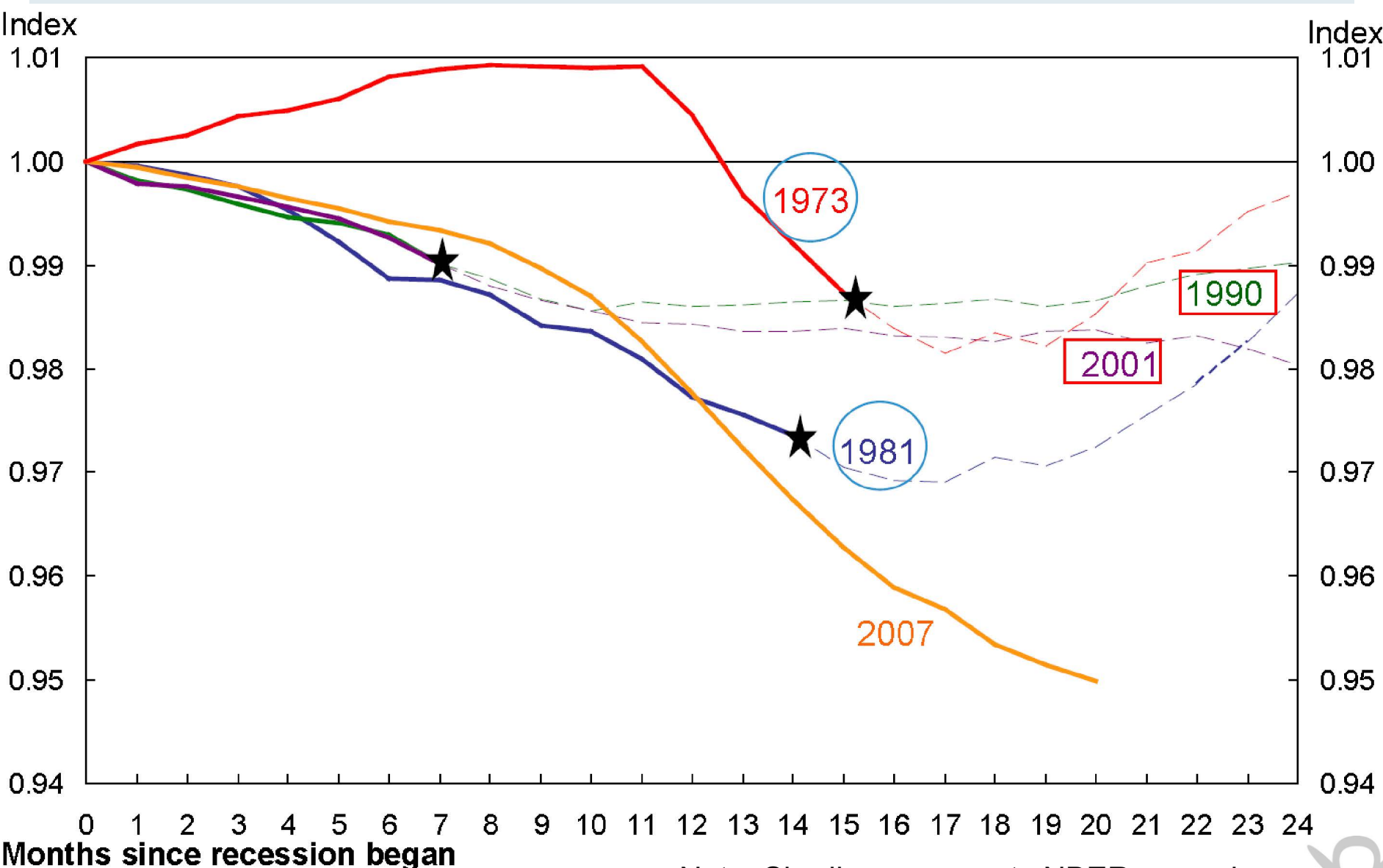


Unemployment Insurance initial claims have been falling



Source: Department of Labor
Note: Shading shows NBER recessions.

Nonfarm payroll jobs—quick versus slow (jobless) recoveries



Note: Shading represents NBER recessions. Dashed lines depict expansionary periods.

Source: Bureau of Labor Statistics



When will the recession be over?

- Output recovery likely starts in Q3 2009, led by investment
 - Official end date will be based on output (industrial production, GDP)
 - Initial UI claims already declining
- Unemployment over 8% into 2012
 - “Jobless recovery” for 1+ years after GDP growth resumes
 - Jobs shrink at a decreasing pace through 2009
 - Slow growth resumes in mid-2010
 - Why? High productivity growth, low hours worked, structural changes and a banking crisis



Key risks to the forecast

- Unemployment kills nascent housing market recovery
- Stimulus withdrawn too quickly (consumption or investment falters further)
- Financial market recovery falters (no money for investment)

III. Are the recession's job losses permanent?

- Recessions mix structural and cyclical adjustments
 - Cyclical: temporary/reversible layoffs from pause in activity
 - Structural: relocate jobs permanently; divorce job destruction from creation
- Why it matters: Compared to recalls, replacing structural job loss
 - Takes longer (establish new positions, hire new workers)
 - Riskier, more stress for workers and firms
- History: 1990 & 2001 recessions heavily structural (Groschen & Potter 2003)
 - Permanent job losses instead of temporary layoffs
 - More movement of jobs among industries
 - Why?
 - Stronger incentives for managers: mergers and takeovers, global competition, pay tied to stock performance
 - Fewer HR constraints: fewer unions, deregulation, more temps & outsourcing
 - Mild downturns have limited impact on strong firms



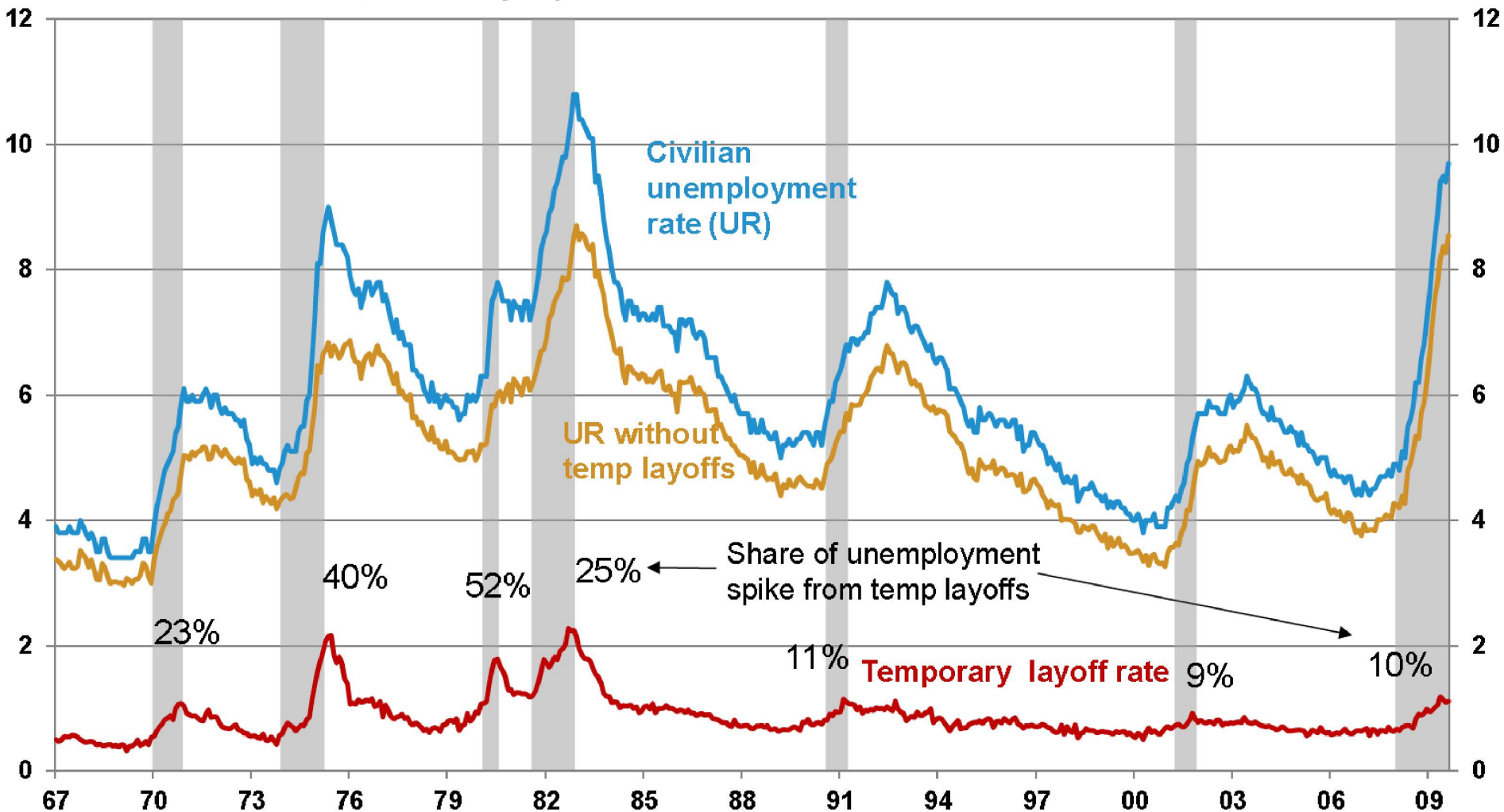
Which is it this time?

- More structural change?
 - Continuation of new incentives, technological change and HR practices (e.g., few cyclical temporary layoffs)
- More cyclical change?
 - Deeper recessions tend to be more cyclical—even strong firms affected
- Answer: More of both--but more balanced



No spike in temporary layoffs during last 2 recessions; and none so far

Percent of the labor force, seasonally adjusted

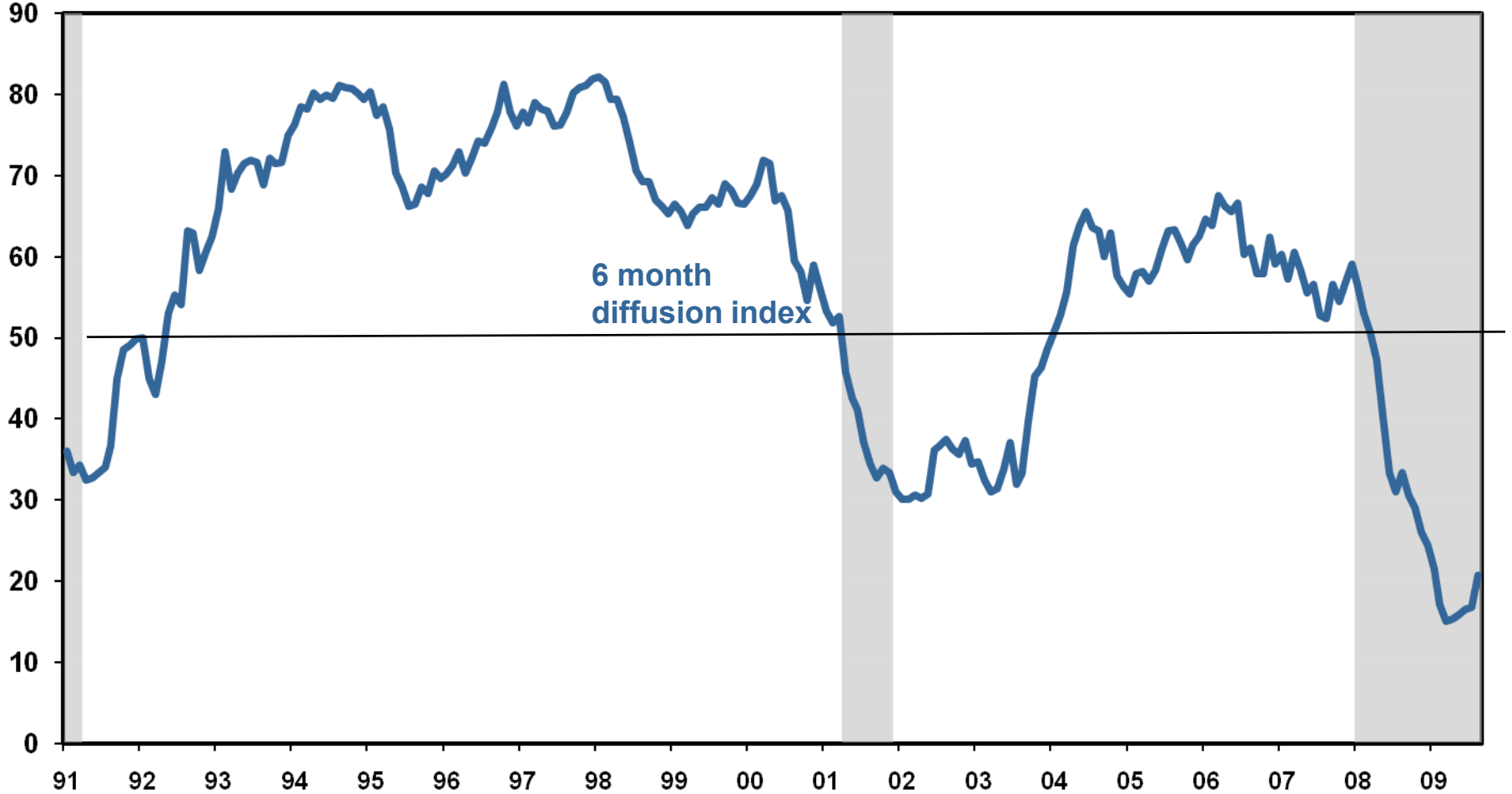


Source: Bureau of Labor Statistics, authors' calculations

Note: Shading shows NBER recessions.

But... job losses more widespread by industry, consistent with higher cyclicality

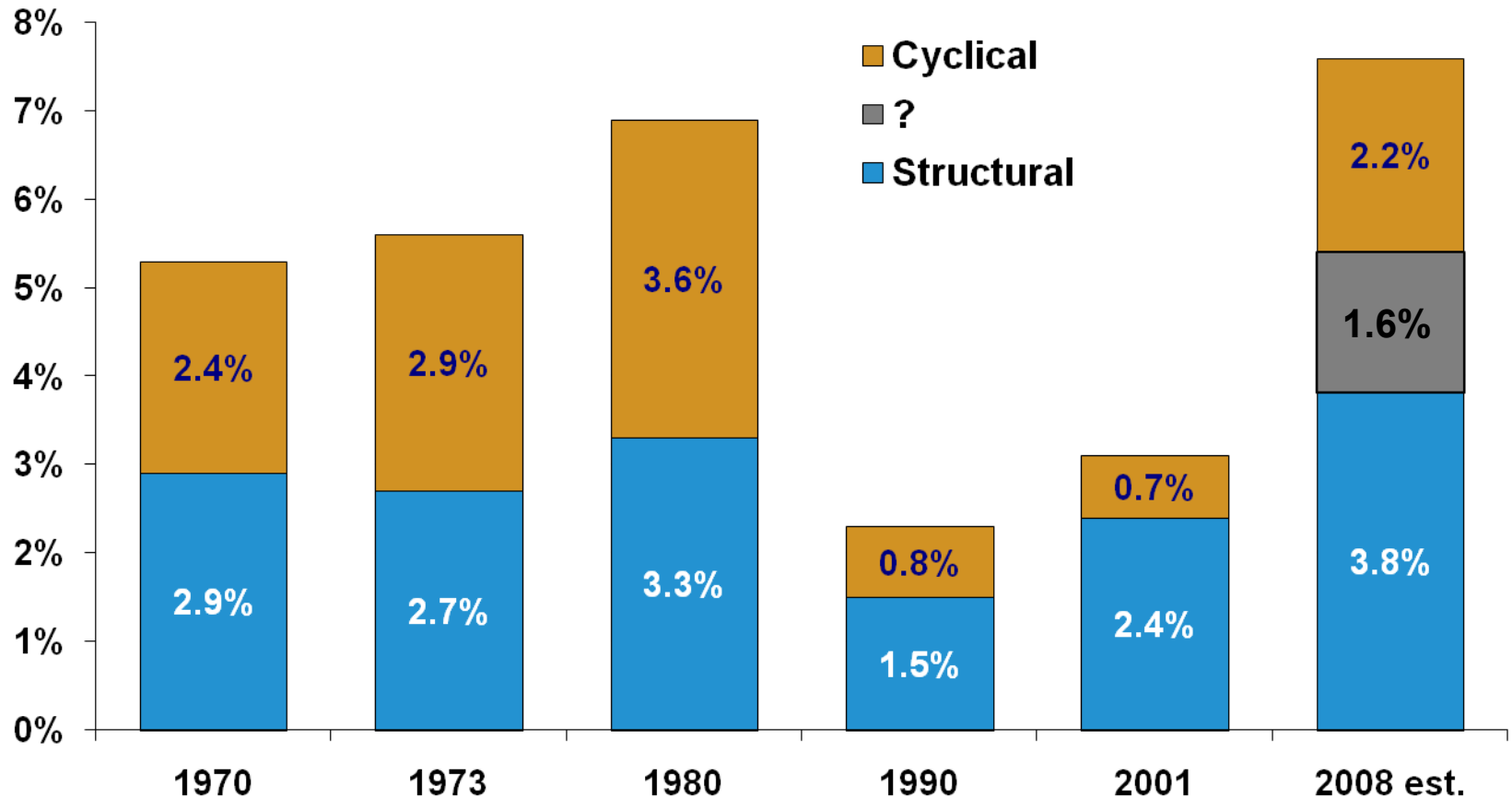
Percent of industries that are growing



Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

Job flows among industries during recent recessions



- Deeper recessions have larger cyclical flows
- Cyclical flows were small during 1990 and 2001 recessions
- **Great Recession likely to have larger, more balanced flows than 2001**

IV. Conclusions, implications

- Conclusions on the Great Recession
 - Long and deep; unemployment will be high into 2012
 - Unemployment will have long duration
 - Men affected disproportionately
 - Compared to 1990 and 2001, the Great Recession may have
 - More structural (permanent) change
 - Much more cyclical (reversible) job loss

Implications

- Workforce systems are on front line for speeding recovery and avoiding risk of further decline
 - Workers: better job matches, shorter unemployment
 - Society
 - Higher productivity and employment from fast, good matches
 - Lower risk of feedback from labor markets to housing markets
- Imperative to help unemployed workers make sound decisions about mortgages
 - Why?
 - Underwater mortgages have high risk of default and home loss
 - “Toughing it out” by drawing down resources is often a bad strategy
 - How to help?
 - Contact credit counselor or lender
 - Consult resources on <http://www.hopenow.com>
- Long expected duration of unemployment makes training more cost-effective



Last: Research and intelligence-gathering questions

- How are the unemployed using their time?
 - Men versus women, old versus young, homeowners versus renters
 - How does time use affect employment outcomes?
- Unemployed homeowners
 - How does job loss affect homeownership and defaults, and why?
 - Home loss or sale
 - Timing and probability of mortgage default
 - Impact of forbearance (buying time vs. cutting losses)
 - Do homeowners react to unemployment differently than renters?
 - Mobility
 - Job search methods, intensity, success
 - Bankruptcy
 - Training: amount and benefits
- Financial education
 - What are the common challenges and mistakes?
 - What training is effective (in what way?) and how should it be delivered?



The HopeNow Unemployment Taskforce

- Members

- Mortgage servicers
- Fannie Mae and Freddie Mac
- Federal Reserve
- ETA
- Counselors
- Treasury

- Outputs

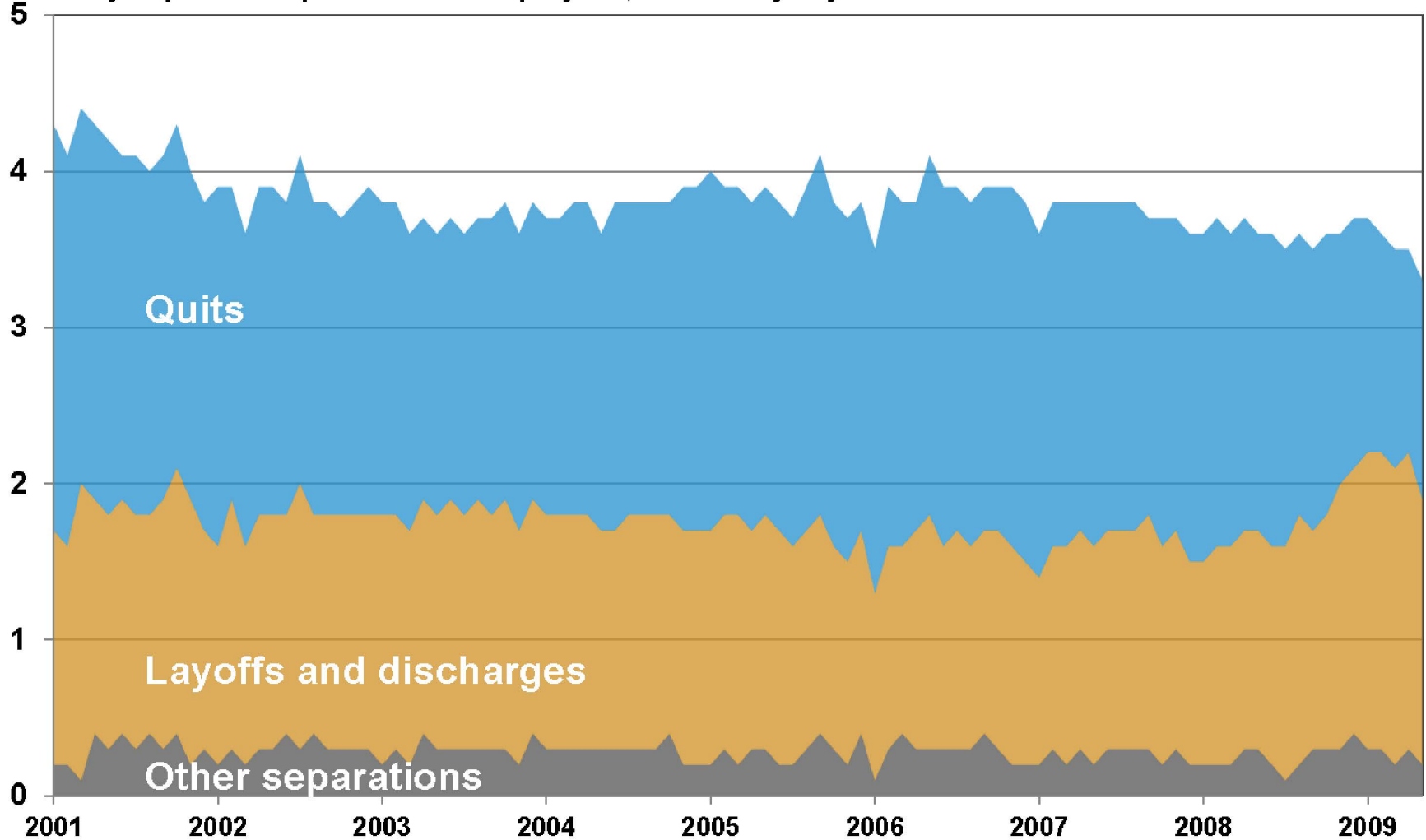
- DONE: Cross-listing of resources (websites, call center scripts, borrower and job-seeker events, etc.): workforce system, servicers, counselors
- ALMOST DONE: UI duration tool to document projected payment duration for mortgage modification income verification
- IN PROGRESS: Proposed forbearance or other temporary assistance for unemployed homeowners
- NEXT?: Special job training forbearance plan



REFERENCE SLIDES

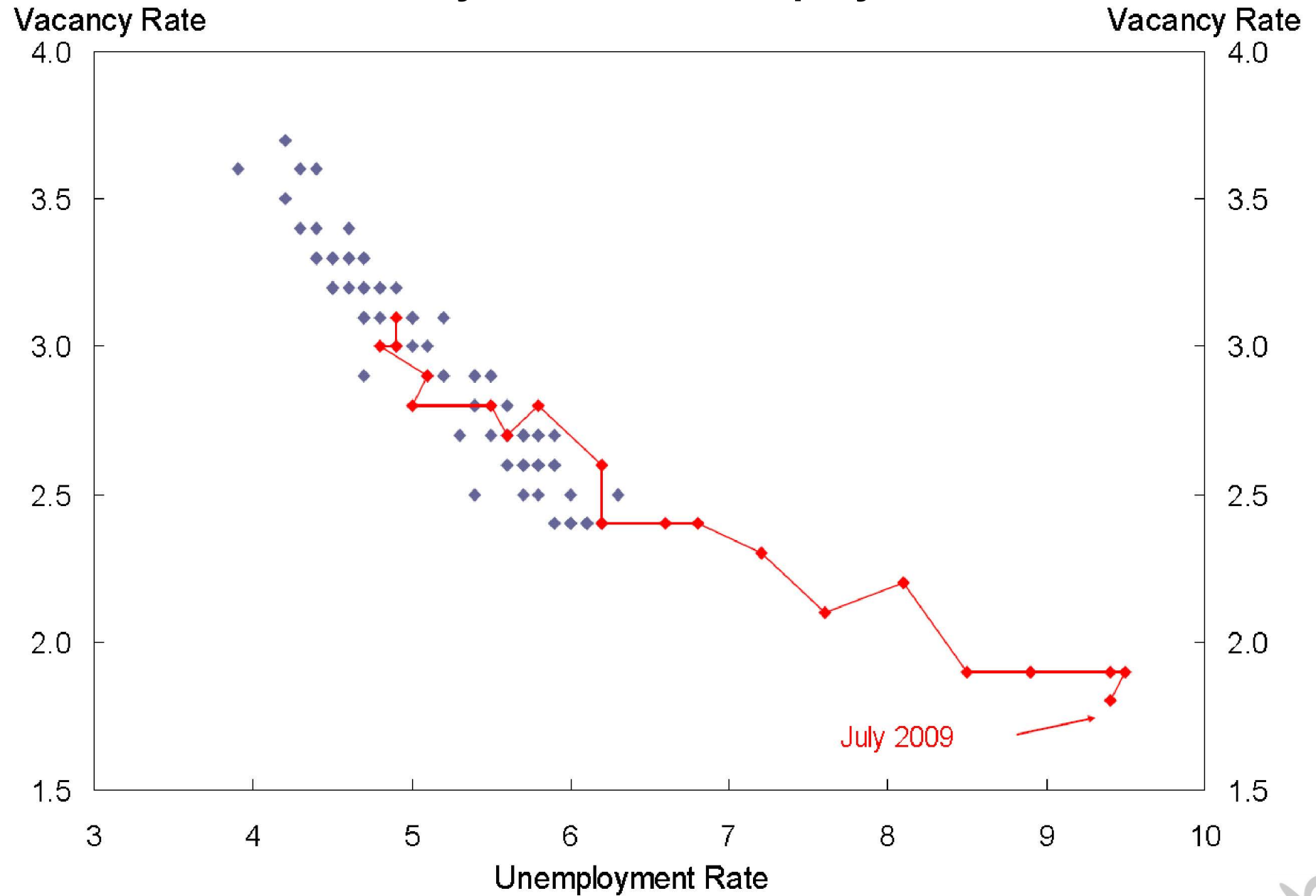
Layoffs and discharges now dominate quits

Monthly separations per hundred employees, seasonally adjusted



Source: Bureau of Labor Statistics JOLTS

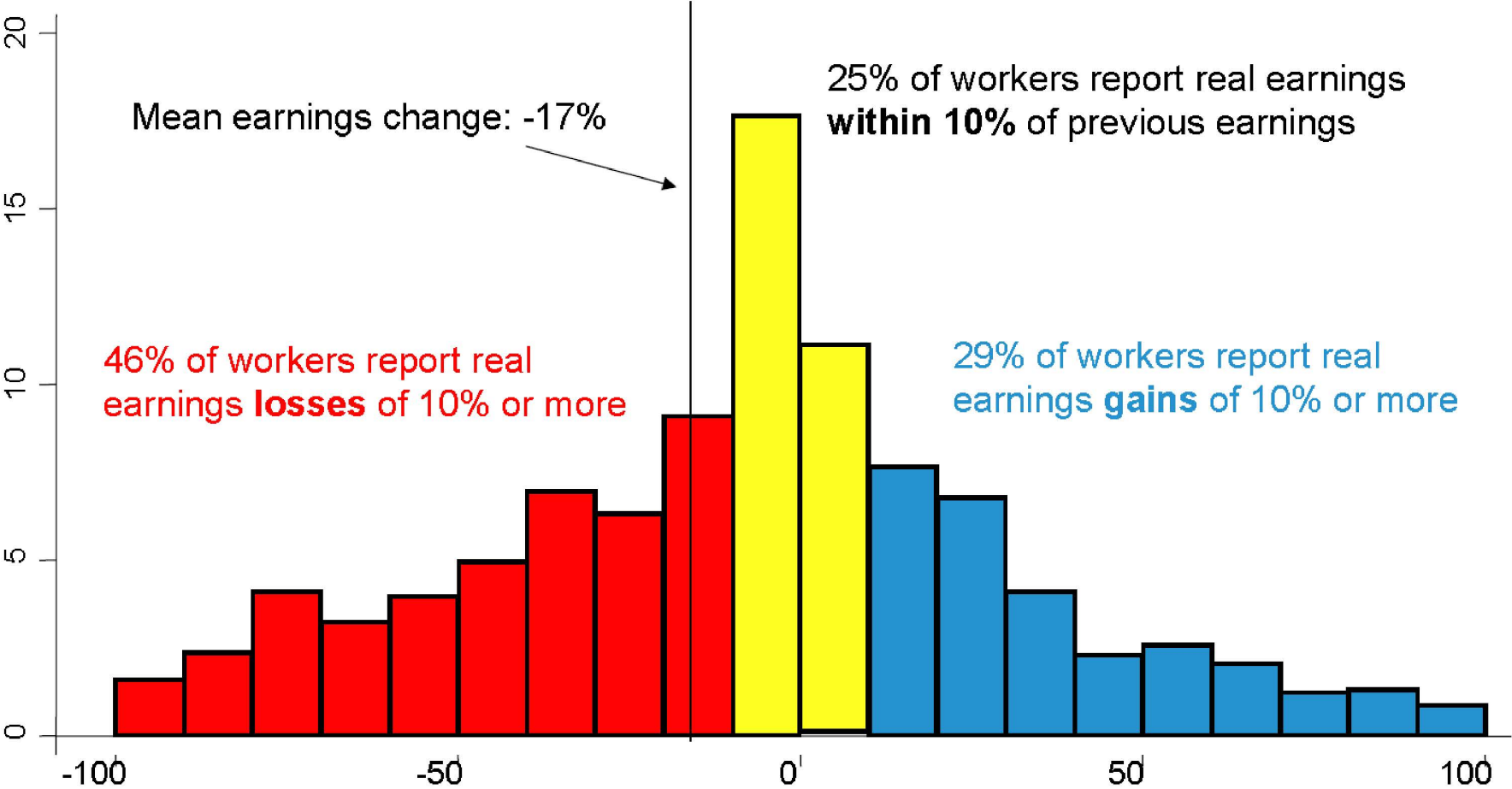
Vacancy Rate and Unemployment Rate



Source: Bureau of Labor Statistics

Displacement can have a big impact on earnings; many reallocations during 2001 recession raised earnings

Percent of re-employed **displaced** workers



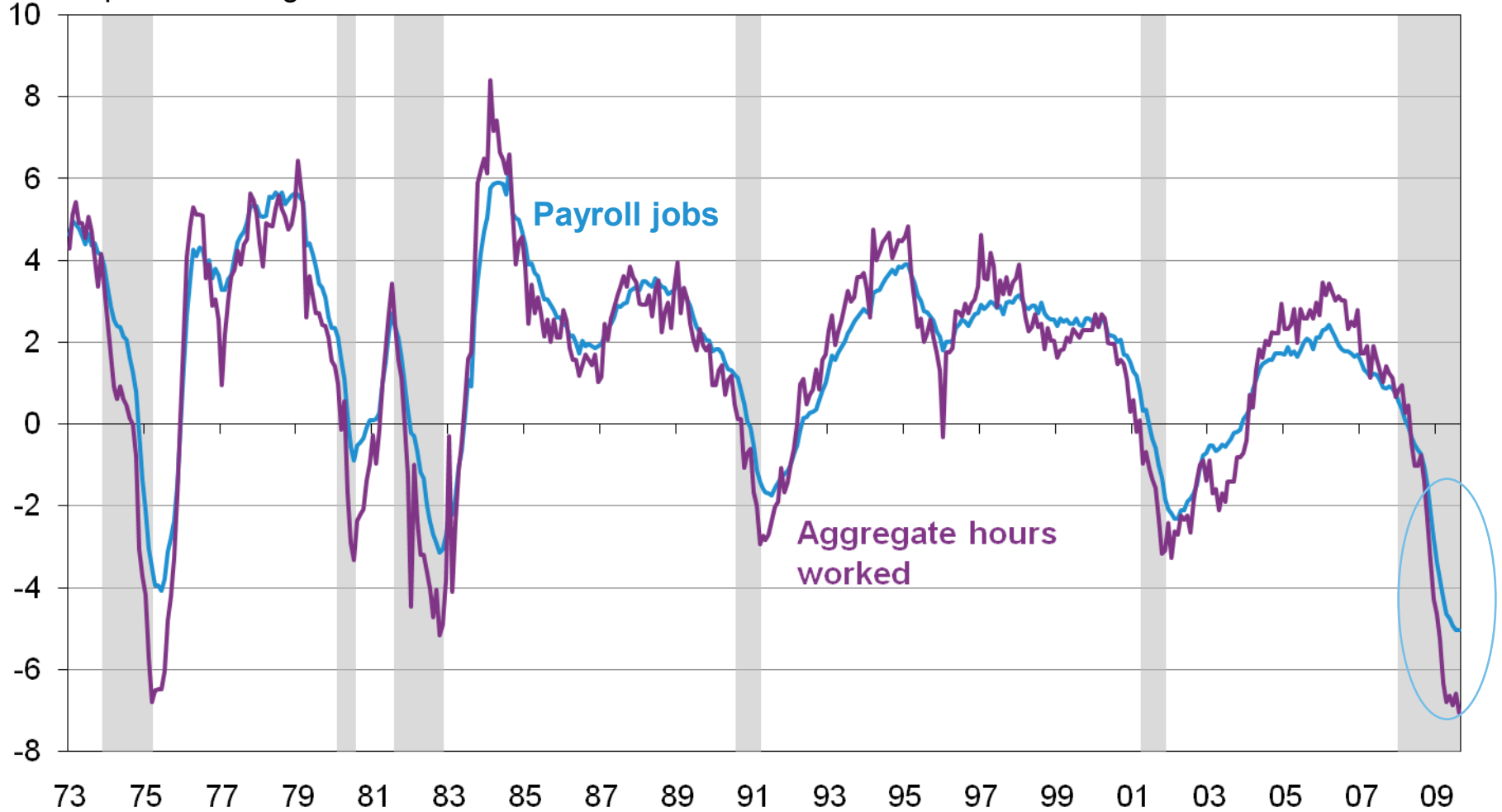
Approximate change in real weekly earnings as a percent of pre-displacement weekly earnings*

*Approximate change = change in log of workers' real earnings*100; extreme values are included in the statistics, but not shown in the histogram.

Source: BLS Displaced Worker Survey (covering 1999-2001), author's calculations.

Hours declines strongly exceed payroll losses

12 month percent change

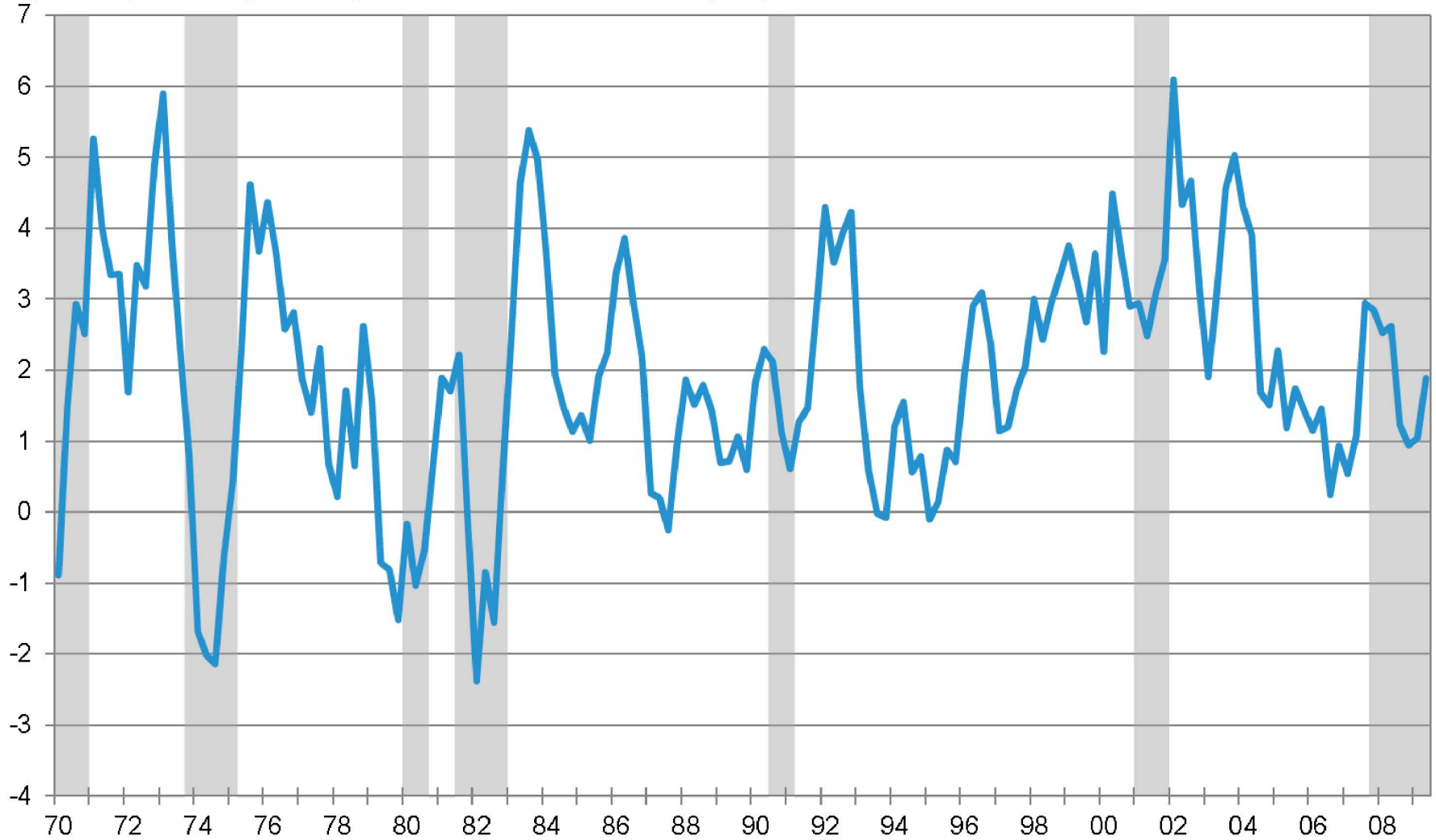


Source: Bureau of Labor Statistics

Note: Shading shows NBER recessions.

Strong productivity growth in 2008-09, no labor hoarding

4-quarter percentage change in nonfarm business output per hour

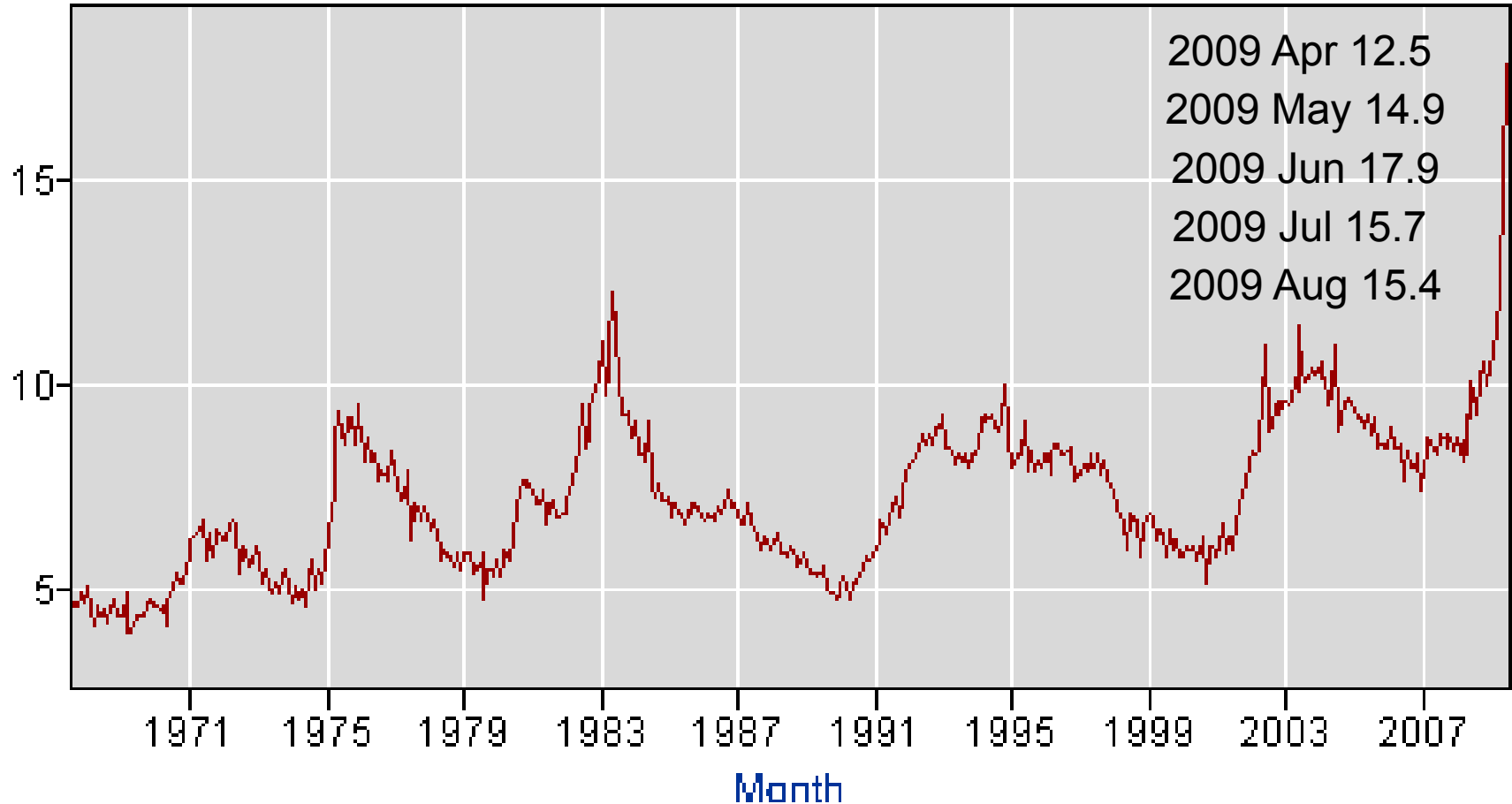


Note: Shading shows NBER recessions.

Source: Bureau of Labor Statistics

Duration of unemployment is higher than historical peaks

Median weeks unemployed, seasonally adjusted



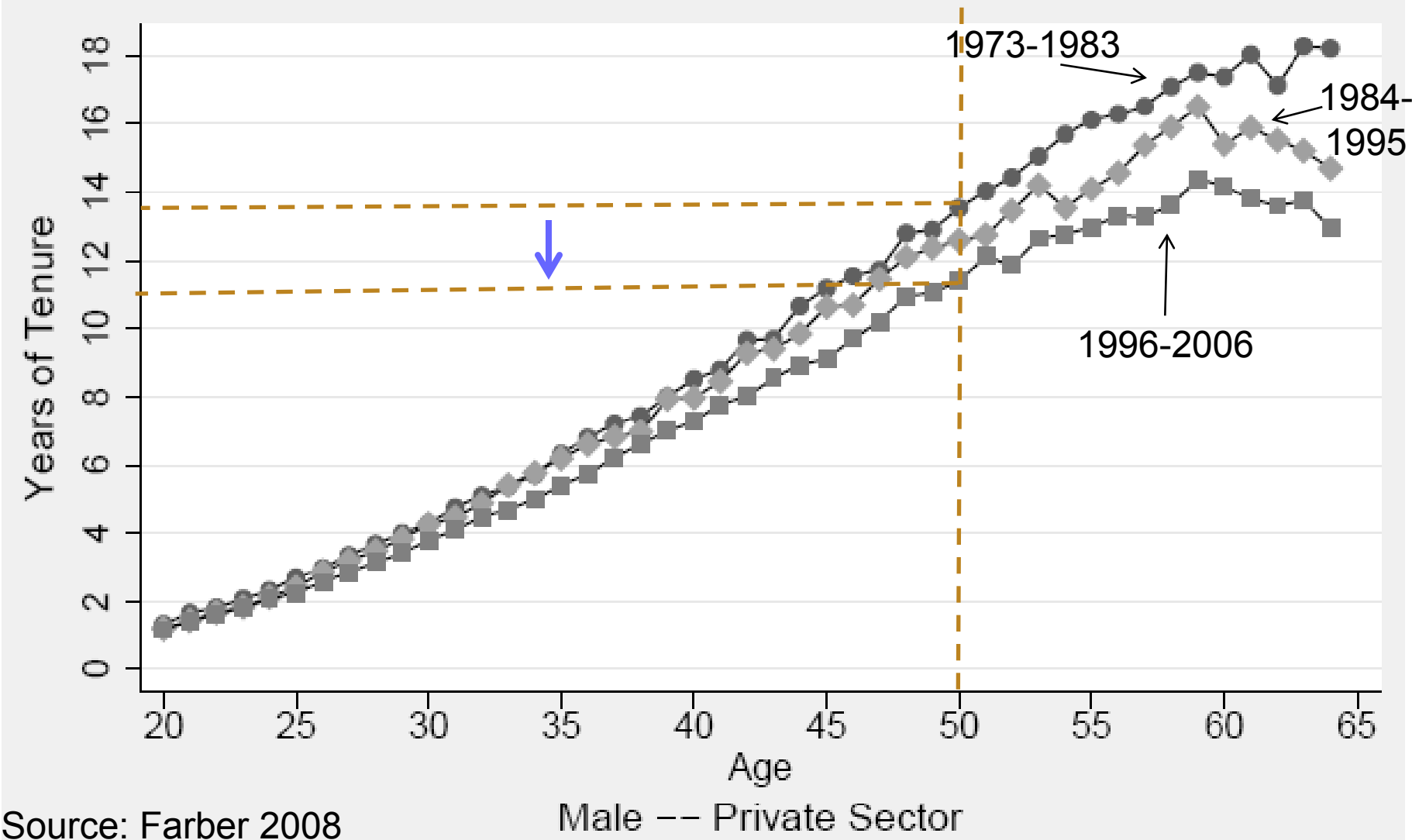
Source: Bureau of Labor Statistics

Which jobs are being created and destroyed?

- At present, best guides are long-term trends identified by research
- Replacement jobs
 - Attrition
 - Normal competitive shrinking/growing
- New jobs
 - Lower wage industries
 - Retail services, for example
 - Better wage occupations (across industries)
 - Creativity, innovativeness, complex thought, education
 - Personal contact, ability to communicate
- Shrinking jobs
 - Routine, easily automated
 - Tradable, easily defined and moved



Workers' turbulence: Job tenure declining, briefer jobs



Source: Farber 2008

Male -- Private Sector

Firms often restructure during recessions

- How?
 - Reorganize production
 - Cull staff
 - Shut inefficient facilities
- Why more restructuring during 1990 and 2001 recessions?
 - Stronger incentives for managers
 - Threat of mergers and takeovers
 - Global competition
 - Pay tied to stock performance
 - Fewer constraints
 - Less unionization
 - Deregulation
 - Available temps, outsourcing
 - Effective policy reduced non-fundamental turbulence



Sectoral job losses weighted toward men

Goods	-15.8%	22.7%
Manufacturing	-14.6%	28.8%
Construction	-19.0%	12.5%
Natural resources & mining	-4.8%	13.2%
Services	-3.0%	53.7%
Trade & transportation	-5.9%	40.9%
Information	-6.7%	42.4%
Financial activities	-6.5%	59.3%
Professional & business services	-8.3%	44.7%
Educational & health services	4.0%	77.3%
Leisure & hospitality	-2.9%	52.5%
Other services	-1.8%	52.1%
Government	0.5%	57.0%

*Data through August 2009.

**Data for December 2007

Source: *Bureau of Labor Statistics*

