Seacoast NATIONAL BANK

Real Estate Economic News and Insight

Economic Perspectives

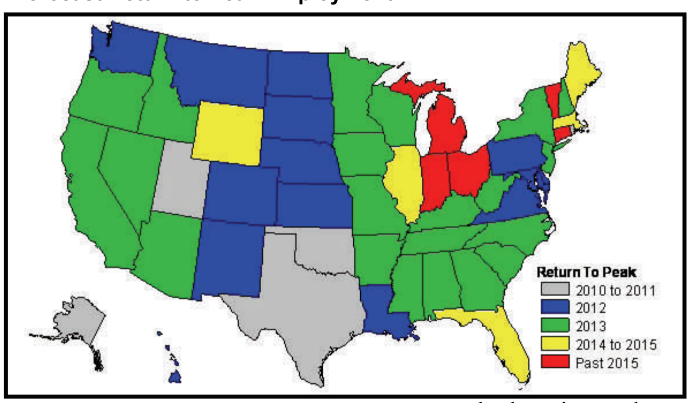
Why unemployment will remain elevated

August 19, 2009

As previously reported (Economic Perspectives — August 8, 2009) the nation's unemployment rate declined marginally to 9.4% in July. The decline itself, however, does not mean it is time to celebrate. The data behind the headline number tell a different story. Indeed, last month's modest decline was not because employment increased but rather because the labor force shrunk. The ranks of those marginally attached to the labor force (2.3 Million), discouraged workers (796,000) and those working part time because full time employment was not available (8.8 Million) have risen sharply thereby reducing the number of full time non-farm payroll employees. The nation's unemployment rate is likely to top 10% in the next few months. The rate may start trending down modestly in 2010 but will still not return to its pre-recession level for several years.

Once the recession is over, the nation will need strong hiring to cause a meaningful change in the unemployment rate. Over 7.0 Million jobs will have been lost through 2009 in the recession. The economy will need to recover those plus roughly 100,000 more each month just to compensate for the increased size of the labor force that will likely result when currently discouraged and part time workers return to the labor force. There is nothing currently known or in the data that suggest such growth is even possible.

Forecast Return to Peak Employment



SOURCE: IHS Global Insight

Unlike previous recessions, many of today's job losses are permanent rather than cyclical. In most previous recessions, workers who were laid off were often called back when their industry or the economy recovered. This time, many of those workers will not be called back especially those in manufacturing, financial and business/professional services. Many of those jobs were created during the housing and construction boom and they won't be replaced at anything near the pre-recession rate.

For years, demographers and economists assumed that workers older than 55 would slowly leave the work force. Instead, the labor force participation rate of the 55-64 age group has been rising. The increase is largely a result of wealth destruction caused in the recession. Many workers are forced to work longer. Labor force participation in the 55-64 age group is expected to be about 64.4% by the end of this decade and 65% by 2020. More older workers in the workforce longer combined with moderate employment growth and a larger labor force may translate into higher long term unemployment.

Finally, productivity has improved in the last two years. Companies are generally being forced to do more with a leaner workforce. According to the Bureau of Labor Statistics productivity increased in the second quarter of 2009 to 6.3% in the business sector and 6.4% in the non-farm business sector. Manufacturing productivity increased 5.3% which was 3.9% in durable goods manufacturing and 2.0% in non-durables (consumables). The reason for increased productivity was working hours falling faster than output. Business productivity peaked in the second quarter of 2003. It reached its cycle low of about 1% in the first quarter of 2009.

Unemployment will likely hover in the 9% range in 2011; the 6.5% range in 2013 and perhaps settle in at around 5% in 2014 where it is likely to remain for several years. The days of 4% unemployment are gone for at least a decade or more.

Florida's employment report for July will be released Friday, August 21, 2009

Questions or comments? Contact William Pittenger, Senior Vice President, Chief Real Estate Economist at william.pittenger@seacoastnational.com