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Real Estate Economic News and Insight

Economic Perspectives

U.S. job losses rise slightly in June. Unemployment rate now 9.5%

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The U.S. economy shed another 467,000 jobs in June according to an advance estimate by the U.S. Department of Labor. That is higher than the 322,000 (adjusted) job losses recorded in May but lower than the 670,000 average recorded between November 2008 and March 2009. There are now 14.7 million persons unemployed resulting in an unemployment rate of 9.5% — the highest in a generation but only modestly higher than 9.4% recorded in May. Since the recession began in December 2007, 7.2 million people have lost jobs and the unemployment rate has risen by 4.6 percentage points. In Florida, 943,000 persons are jobless resulting in a 10.2% unemployment rate. Despite some positive economic signs such as a near bottom in housing and easing of the economic free fall that began last fall, employment is a lagging indicator and losses will likely rise well into 2010.

The current recession has now plagued the U.S. Economy for 18 months. It has become the longest, broadest and deepest since World War II and arguably the most severe since the early days of the Great Depression nearly 75 years ago.

Unemployment in every metro area in the country is now higher than it was a year ago. Nearly a third of the nation's 370 metro areas have jobless rates in excess of 10% and 15 cities now have unemployment rates over 15%. Most Seacoast served counties are now in double digits with Indian River and St. Lucie counties leading the way down with 13% and 13.3% unemployment rates respectively.

By sector, manufacturing cut 136,000 jobs in June compared with an average for the prior three months of 159,000. On par with previous months, job losses in motor vehicles and parts totaled 26,500. The full impact of auto industry layoffs at Chrysler and General Motors and their dealerships has not been fully reflected in the numbers and probably won't be until late this year as buy out and severance packages burn off.

Employment in professional and business services declined by 118,000 in June. The industry has shed 1.5 million jobs since its peak in December 2007. Financial activities declined by 27,000 jobs. Since the recession began, this industry has lost 489,000 jobs, far less than expected given the extraordinary credit services melt down in late 2008.

Retail trade lost 21,000 jobs in June. Losses in the sector have been moderating for the last three months even as the industry has deteriorated.

The information industry lost 21,000 jobs in June, a number very consistent with the last three months. Roughly half the decline was in publishing as the print media continues to struggle with reduced advertising sales and competition from the internet.

Construction lost 79,000 jobs. That is more than in May (-48,000) but it is the first back to back losses of *less than* 100,000 since last October. Losses in residential and commercial construction were about equally balanced.

The surprise sector was federal government where there was a loss of 49,000 jobs. Much of this was in temporary jobs added in March and April to do preparatory work leading up to the 2010 census. The loss trend should reverse course in the second half as the federal government aggressively begins hiring longer term employees for the census. Additionally, the FDIC is hiring aggressively to liquidate the assets of failed banks and thrifts. Most of the census and FDIC jobs are, however, temporary and intended to last only one to three years.

Local government employment continues to decline due to well publicized budget shortfalls. The number of local government job losses in the second half will likely rise as many municipalities begin a new fiscal year with fewer employees. Now that local government has entered the loss column, we expect sector losses to grow and remain elevated for at least 6-8 quarters as there are no apparent long term funding sources available to make up budget shortfalls.

Healthcare employment was the only major sector to grow in June with 21,000 new jobs. Despite the gain, that is down from an average of 30,000 jobs per month in 2008.

Economic stimulus related jobs in both public and private sectors have not materialized nearly as fast as hoped. An interesting sidebar is that lawyers are reportedly challenging nearly every major project on behalf of environmental groups, states, municipalities and others. As a result, implementation of many so called *shovel ready* projects is not likely to occur until late 2009 at the earliest. Neither public nor private job additions are likely to show up in the numbers until 2010.

Behind the numbers. The employment to population ratio continued to trend down finishing June at 59.2%. The ratio is down 3.2 percentage points since the recession began.

About 2.2 million persons were marginally attached to the labor force in June. That is 618,000 more than a year earlier. This category of persons includes those who are willing and able to work; have searched for a job in the last 12 months, but had not searched in the four weeks preceding the survey. Among the marginally attached workers are an estimated 793,000 discouraged workers. Discouraged workers are those who are not currently looking for work because they believe there are no jobs available for them. That is up 373,000 from a year earlier. This number has steadily risen and suggests that more job losses in this recession may be more permanent than cyclical.

The number of persons working part time for economic reasons has also risen significantly since the recession began but it was relatively unchanged from May to June. About 9.0 million workers fall into this category. That number has risen by 4.4 million — nearly double — since the recession began.

Wages are falling. The average work week declined to 33 hours in June — the lowest on record. While average hourly earnings were flat, nominal wages still continue to decline as many workers are taking pay cuts, unpaid leave or fewer hours. Those who are employed are seeing raises, bonuses and other forms of compensation evaporate. Unpaid furloughs for state and local government workers are also becoming increasingly common.

In the current recession, those who become unemployed are staying unemployed longer. The percentage of people who have been unemployed 27 weeks or longer has risen to 29%. Fifteen percent of idled workers have been out of work for more than a year. Thirty three states (including Florida) plus the District of Columbia have established extended benefit programs. The amount of benefit both initially or in extended benefits varies widely by state.

The unemployment rate is now the highest in a generation. Additionally changes in the nation's employment profile appears more structural than cyclical. In previous recessions, workers who lost jobs were later called back or found similar work with other companies when the economy began to recover. This time is different. More job losses are permanent. They have affected every educational, age, gender and racial segment of the population. In this recession, many professionals and skilled workers have been terminated making this recession much different than others in recent years.

The largest population sector to have been displaced in this recession is men over 45 years old who have lost construction or manufacturing jobs. The total since 2006 is over 3.5 million and will certainly grow as auto industry workers are displaced in coming months. Many of the displaced workers will not find work at comparable wages. This structural dislocation will almost certainly slow recovery of the broader economy. Unlike younger workers, many in this age group own houses, have families, may be supporting children in college and perhaps even be caring for elderly parents. In addition to human tragedy, these workers are in their prime producing and innovating years and as the group is so large, their loss will impair productivity, innovation and raise social costs in the broader economy.

Looking forward. Employment is a lagging indicator in a down economy and in the recovery phase. Nevertheless, recent employment reports have provided numerous insights into the future. For example, the permanent nature of recent job losses and structural changes to the economy are especially revealing.

After the last severe recession in the early 1980's, many displaced workers were able to return to their previous employment. Even so, the nation's unemployment rate did not return to pre-recession levels for five years after the peak.

The last two recessions of the early 1990's and early 2000's were followed by jobless recoveries. That was driven largely by the permanent nature of job losses during each recession. The scale of job losses in the current recession and especially their permanent nature is much greater than the most recent recessions. Additionally, the two hardest hit industries in this recession — construction and manufacturing — are not likely to bounce back any time soon.

Job losses will likely continue throughout 2009 and very likely into 2010. We continue to expect unemployment to peak in 2010 and remain elevated into the foreseeable future. Recovery will be a long and bumpy road.

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