Seacoast NATIONAL BANK

Real Estate Economic News and Insight

Economic Perspectives

U.S. job losses moderate — unemployment steady 9.7%

March 9, 2010

February non-farm payrolls declined by 36,000 jobs according to an advance estimate by the U.S. Bureau of Labor Statistics. While that is twice the decline experienced in January, it is a fraction of the 750,000± average job losses experienced at the depth of the Great Recession in late 2008 and the average monthly loss of 690,000 in the first quarter of 2009.

Despite the job losses, there are several kernels of good news in the estimate which together suggest that payrolls could begin to grow modestly or at least stop declining later in 2010. First, temporary help grew by 48,000 jobs. Employers often test the waters with temporary help before committing to new permanent hiring. Manufacturing was also fractionally higher with an increase of 1,000 jobs on the heels of a 20,000 job gain in January.

Second, productivity surged and has probably reached its limit. Employees have been doing more with fewer staff for several years which has driven up productivity. It is doubtful that productivity can rise much higher. Fourth quarter productivity growth was up 6.9% and output was up 7.6%. Year over year productivity growth in the fourth quarter was climbing at 5.8% — a rate nearly triple that of the last 50 years. At the same time, hourly compensation was down 2.8% after adjusting for inflation. Nevertheless, it is virtually impossible to separate productivity gains which are cyclical and driven by recessionary cut backs from gains driven by companies using new technology and finding better ways to produce products and services. As software and technology purchases have been soft the last three years, we suspect that most of the recent productivity increase has been recession driven. With that, it is reasonable to expect productivity to start declining this year and that will cause hiring to increase modestly.

Third, inventories have been declining dramatically (see Economic Perspectives — January 29, 2010) to the point that manufacturers will need to ramp up production and begin hiring again.

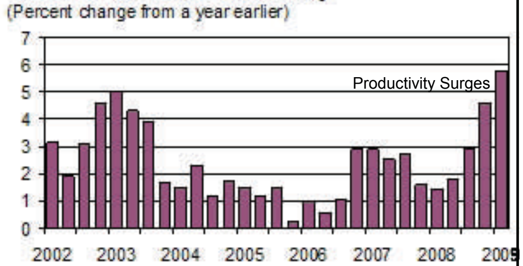
Looking behind the headline numbers in the Employment Situation Report, construction employment fell by 65,000 jobs after falling 77,000 a month earlier. Most of the loss was in non-residential construction (45,000 jobs lost) followed by residential with 11,000 jobs lost and civil engineering projects (infrastructure) accounting for the remaining 9,000.

State and local governments continued to feel the squeeze of declining tax revenues and together lost about 25,000 jobs. Most of the losses were in education. The federal government had a net gain of 7,000 jobs and added another 15,000 temporary workers for the census. March should show a large gain in temporary employment as the Census Bureau is expected to add another 100,000 jobs. Nevertheless, temporary census hiring has been slower thus far this year than it was in previous decades. There is no apparent reason for the delay.

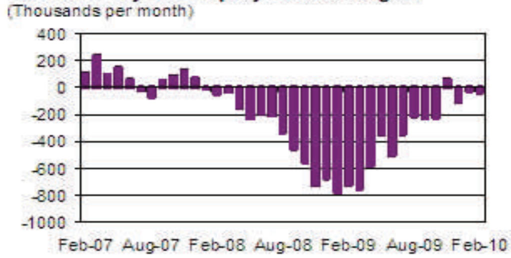
Retail jobs were flat in February while healthcare continued to trend upward. The report did not show as severe an impact from weather as anticipated. That could be a data collection problem that will be corrected in subsequent releases. The winter storms in the Northeast, Midwest and Mid Atlantic states should have affected employment more than the numbers seem to show.

The unemployment rate remained steady at 9.7% which is a positive sign. The underemployment rate (U6 measure) which includes the marginally attached, involuntary part time workers and discouraged workers rose modestly to 16.8%.

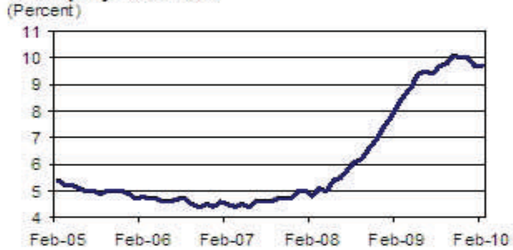
Nonfarm Business Productivity
(Percent change from a year earlier)



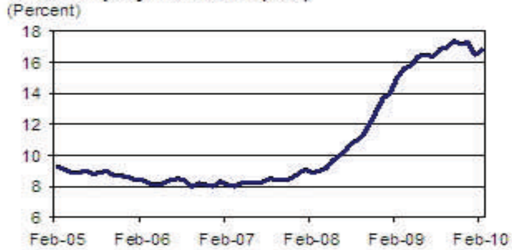
Nonfarm Payroll Employment Changes
(Thousands per month)



Unemployment Rate
(Percent)



Underemployment Rate (U-6)
(Percent)



Average Hourly Earnings
(Percent change from a year earlier)

SOURCE: IHS Global Insight | Bureau of Labor Statistics

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