

Employment and unemployment in the first half of 1988

Unemployment declined to a 14-year low by midyear; job growth slowed in the second quarter, and was not as widespread as in the previous year

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During the first half of 1988, job growth began to moderate from the rapid pace of 1987, but the civilian unemployment rate, which averaged 5.5 percent in the second quarter, was down considerably from 5.9 percent at the end of last year. In this article, these developments are viewed in the context of the wider economic background and also are compared to conditions at a similar period in recent business cycle history.

The economic context

As 1987 drew to an end, there were signs that the 5-year expansion in employment may have been in some danger of coming to a close. The collapse of stock prices in October 1987 cast a shadow over expectations for short-term economic developments as the new year began. Paced by the decline in stock prices, the Commerce Department's index of leading indicators fell in the last quarter of 1987—its first quarterly decline in more than 3 years. The slippage stopped in the first quarter of the new year, but the leading index was still lower than it was two quarters earlier.

There was a rapid runup in inventories in the last quarter of 1987, and, as firms began to correct that imbalance, inventory investment declined in early 1988.

The Commerce Department's index of coincident indicators, a measure of current economic activity, which had posted strong increases in the last half of 1987, slowed somewhat in the first quarter.

In contrast to these moderating factors, statistics on foreign trade showed that the export push that had fueled rapid gains in manufacturing employment in the last half of 1987 was continuing, and estimates of consumer spending rebounded quickly after dropping at the end of 1987. At the same time, however, imports were also rising, so that there was only slow progress toward a more balanced merchandise trade account.

Individual industries, of course, faced differing economic environments. Manufacturers, especially those with interests in international markets, were helped by a decline in the exchange rate for the dollar. Partly as a result of the rise in exports that the falling dollar encouraged, industrial production and capacity utilization figures remained fairly upbeat throughout the first half of 1988.

As consumer spending paused in the last quarter of 1987, the distribution system, especially at the wholesale level, saw inventory growing faster than sales, and the inventory-to-sales ratio for wholesalers rising sharply. The construction industry faced declining sales as interest rates rose both late in 1987 and in the second quarter of 1988. As a result, housing starts dipped and residential construction spending flattened.

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Employment gains slower in second quarter

None of the worst scenarios for the labor market that had been generated by the financial turbulence of late 1987 came true in the first half of 1988. Unemployment continued to recede, and there was only a slight slowdown in payroll job growth from the rapid rate of 1987.¹ Gains in nonfarm payroll employment were still strong in early 1988, totaling nearly 1 million jobs in the first quarter, before slowing to an 875,000 increase in the second. (See table 1.) Goods-producing employment continued to expand, although at a slower pace than in late 1987, increasing by 375,000 in the first half of 1988. While construction gains were concentrated in the February-April period, they still totaled 170,000. There was, however, no slowdown in factory employment growth; 205,000 jobs were gained in the first half, about the same growth rate as in the previous year. Much of the rise was confined to a few of the industries that have higher than average ratios of exports to shipments, especially machinery and chemicals. The following tabulation shows the growth rate and percent distribution of job gains of selected industries with high ratios of exports to shipments:

Industry	Exports/ shipments ratio, 1987	Job growth, first-half 1988	Share of job growth, first-half 1988
Manufacturing	8.5	1.1	100.0
Machinery	18.9	2.8	28.4
Chemicals	12.0	1.8	9.3
Electrical equipment	10.8	.8	7.8

A measure of the extent to which employment gains are distributed across industries is the index of diffusion—the percentage of 185 private nonagricultural industries in which employment increased over a specified time (with half of nonchanging components counted as rising). During periods of economic growth and job gains, a rise in the index indicates a more broadly based expansion in employment, while a lower figure would indicate a more concentrated pattern of growth.

The monthly index of diffusion averaged 62 percent in the first half of 1988, down 5 percentage points from 67 percent during the fourth quarter of 1987. Thus, job growth was not as widespread during the first half of 1988 as it had been the previous year. One weakness of the diffusion index is its overrepresentation of manufacturing industries at a time when service-sector jobs are dominating the totals. Indeed, during the first half of 1988, the service sector grew by 1.5 million, more than 80 percent of net job gains. However, its rate of growth also started to fall during the second quarter. While growth in wholesale trade and health services continued to be relatively strong, gains in retail trade and business

services, two mainstays of the current expansion, slowed in the spring. And there were virtually no gains in the finance industry, reflecting a year-old retrenchment in banking and, by the second quarter, cutbacks among securities brokers.

Overall civilian employment, as measured by the Current Population Survey (CPS), rose 1.2 percent during the first half of 1988. (See table 2.) While this was below the pace of 1987, it was about equal to the growth rates of 1986 and the last half of 1985. While month-to-month movements were quite erratic, growth still averaged out to a 485,000 quarterly rise. As in the payroll survey, most of the increase occurred in the first quarter. The civilian employment-to-population ratio also rose fitfully during the first half, but edged up to 62.2 percent by midyear, a record level.

Declines in joblessness

The civilian unemployment rate averaged 5.5 percent in the second quarter of 1988. The rate had been on a downward trend since the previous fall and was lower than at any time since the second quarter of 1974. During the first half, declines in unemployment were most evident among whites and teenagers. In contrast, the unemployment rate for black workers did not improve at all.

The number of unemployed persons, which had fallen in absolute terms in every quarter since the second quarter of 1986, stood at 6.6 million at midyear, down 465,000 from late 1987. This was the lowest absolute level of unemployment since the fourth quarter of 1979. Despite continuing growth in the labor force, both the level and rate of unemployment had fallen below where they had been at the start of the recessions of the early 1980's.

The number of long-term unemployed—those jobless 27 weeks or more—fell by about 120,000 during the first half of 1988, to 810,000. Also, by the second quarter, the median duration of ongoing unemployment spells had fallen to 5.8 weeks, compared with 6.1 weeks at the end of the prior year. Workers who had lost their jobs accounted for virtually the same share of the unemployed, 46 percent, while those who had voluntarily left their jobs to search for new ones increased from 13 percent to 14 percent. A rise in the proportion of job leavers is often taken as a sign of workers' confidence in labor market conditions.

Other measures of distress

Not all indicators of labor market difficulty improved during the first half of the year. After declining throughout the expansion, the number of discouraged workers—persons not in the labor force who report that they would like a job but are not actively seeking one because they

Table 1. Employees on nonagricultural payrolls by industry, seasonally adjusted quarterly averages, 1979-88

[Numbers in thousands]

Industry	1979		1986			1987				1988	
	II	III	IV	I	II	III	IV	I	II		
Total	89,671	99,676	100,347	101,024	101,841	102,669	103,683	104,670	105,544		
Total private	73,781	82,987	83,496	84,130	84,869	85,643	86,518	87,406	88,221		
Goods-producing	26,529	24,454	24,443	24,523	24,644	24,847	25,116	25,260	25,489		
Mining	946	741	715	704	715	728	737	731	738		
Oil and gas extraction	464	418	396	389	400	412	419	416	424		
Construction	4,461	4,811	4,843	4,924	4,964	5,007	5,089	5,142	5,257		
General building contractors	1,282	1,285	1,302	1,317	1,317	1,325	1,347	1,375	1,401		
Manufacturing	21,122	18,902	18,885	18,895	18,965	19,112	19,290	19,388	19,494		
Durable goods	12,822	11,184	11,137	11,129	11,157	11,235	11,353	11,403	11,481		
Lumber and wood products	772	710	723	731	736	741	749	755	757		
Furniture and fixtures	498	500	501	504	513	525	531	535	537		
Stone, clay, and glass products	712	584	581	583	581	580	585	584	586		
Primary metal industries	1,264	737	729	730	744	756	768	770	777		
Blast furnaces and basic steel products	574	265	255	256	269	274	279	280	281		
Fabricated metal products	1,727	1,413	1,404	1,397	1,398	1,407	1,428	1,437	1,449		
Machinery, except electrical	2,491	2,036	2,002	1,995	2,007	2,030	2,062	2,092	2,120		
Electrical and electronic equipment	2,116	2,115	2,102	2,084	2,070	2,080	2,101	2,113	2,117		
Transportation equipment	2,108	2,026	2,037	2,048	2,048	2,049	2,048	2,031	2,048		
Motor vehicles and equipment	1,035	866	868	876	870	859	855	837	850		
Instruments and related products	689	703	698	694	693	696	703	705	708		
Miscellaneous manufacturing	444	359	360	362	366	372	378	381	382		
Nondurable goods	8,300	7,719	7,748	7,766	7,808	7,877	7,937	7,985	8,014		
Food and kindred products	1,734	1,605	1,616	1,614	1,620	1,627	1,635	1,648	1,647		
Tobacco manufactures	71	57	57	55	55	54	53	54	53		
Textile mill products	887	704	709	715	721	729	732	731	727		
Apparel and other textile products	1,314	1,095	1,094	1,091	1,095	1,106	1,107	1,105	1,099		
Paper and allied products	707	672	676	676	677	680	683	686	688		
Printing and publishing	1,231	1,463	1,475	1,487	1,501	1,514	1,527	1,543	1,559		
Chemical and allied products	1,109	1,020	1,017	1,016	1,017	1,029	1,041	1,049	1,060		
Petroleum and coal products	209	168	165	165	165	165	167	165	165		
Rubber and miscellaneous plastics products	788	789	797	806	815	827	845	857	869		
Leather and leather products	249	145	143	142	142	146	145	147	146		
Service-producing	63,142	75,222	75,904	76,500	77,196	77,822	78,567	79,410	80,054		
Transportation and public utilities	5,097	5,250	5,285	5,317	5,358	5,398	5,465	5,514	5,561		
Transportation	2,989	3,064	3,093	3,115	3,146	3,174	3,230	3,273	3,313		
Communication and public utilities	2,109	2,186	2,192	2,202	2,212	2,224	2,235	2,241	2,248		
Wholesale trade	5,191	5,765	5,761	5,794	5,843	5,893	5,959	6,035	6,116		
Durable goods	3,073	3,384	3,381	3,394	3,422	3,464	3,516	3,573	3,633		
Nondurable goods	2,118	2,382	2,380	2,400	2,421	2,430	2,443	2,462	2,483		
Retail trade	14,972	18,025	18,157	18,272	18,431	18,572	18,750	19,007	19,139		
General merchandise stores	2,282	2,377	2,379	2,373	2,411	2,448	2,493	2,543	2,544		
Food stores	2,283	2,930	2,945	2,931	2,958	2,960	2,979	3,029	3,060		
Automotive dealers and service stations	1,835	1,950	1,967	1,983	1,995	2,011	2,028	2,047	2,060		
Eating and drinking places	4,488	5,951	6,007	6,063	6,092	6,141	6,213	6,290	6,340		
Finance, insurance, and real estate	4,955	6,330	6,401	6,467	6,537	6,580	6,610	6,640	6,655		
Finance	2,356	3,178	3,210	3,238	3,273	3,290	3,298	3,306	3,301		
Insurance	1,625	1,955	1,978	1,999	2,016	2,028	2,045	2,055	2,067		
Real estate	974	1,197	1,214	1,230	1,248	1,262	1,267	1,279	1,287		
Services	17,038	23,162	23,448	23,756	24,056	24,352	24,618	24,949	25,262		
Business services	2,870	4,841	4,926	5,039	5,146	5,208	5,292	5,370	5,445		
Health services	4,964	6,571	6,632	6,703	6,778	6,868	6,962	7,054	7,158		
Government	15,890	16,689	16,851	16,894	16,972	17,027	17,165	17,264	17,322		
Federal	2,768	2,887	2,899	2,915	2,935	2,949	2,973	2,972	2,956		
State	3,519	3,891	3,925	3,941	3,952	3,970	3,991	4,017	4,040		
Local	9,604	9,911	10,026	10,037	10,085	10,108	10,200	10,275	10,327		

Table 2. Employment status by sex, age, race, and Hispanic origin, selected seasonally adjusted quarterly averages, 1979–88
 [Numbers in thousands]

Characteristic	1979	1986			1987				1988	
	II	III	IV	I	II	III	IV	I	II	
Total										
Civilian labor force	104,327	118,203	118,557	119,151	119,626	120,053	120,568	121,142	121,258	
Percent of population	63.4	65.4	65.3	65.5	65.5	65.6	65.7	65.8	65.8	
Employed	98,371	109,973	110,436	111,271	112,147	112,854	113,486	114,214	114,642	
Agriculture	3,298	3,132	3,176	3,212	3,237	3,180	3,212	3,241	3,116	
Nonagriculture	95,073	106,841	107,260	108,059	108,910	109,674	110,274	110,972	111,526	
Employment-population ratio	59.8	60.8	60.9	61.1	61.4	61.7	6.9	62.1	62.2	
Unemployed	5,956	8,230	8,121	7,880	7,479	7,199	7,082	6,928	6,616	
Unemployment rate	5.7	6.9	6.8	6.6	6.3	6.0	5.9	5.7	5.5	
Men, 20 years and over										
Civilian labor force	55,378	61,369	61,657	61,925	62,051	62,091	62,253	62,544	62,707	
Percent of population	79.7	78.0	78.2	78.2	78.1	77.9	77.9	78.0	78.0	
Employed	53,191	57,599	57,873	58,308	58,607	58,858	59,129	59,440	59,757	
Employment-population ratio	76.5	73.2	73.4	73.6	73.8	73.9	74.0	74.1	74.3	
Unemployed	2,188	3,771	3,784	3,617	3,444	3,233	3,124	3,105	2,950	
Unemployment rate	4.0	6.1	6.1	5.8	5.6	5.2	5.0	5.0	4.7	
Women, 20 years and over										
Civilian labor force	39,326	48,893	49,005	49,308	49,648	49,926	50,237	50,580	50,565	
Percent of population	50.2	55.8	55.7	55.9	56.1	56.3	56.5	56.7	56.6	
Employed	37,100	45,886	46,070	46,452	46,959	47,255	47,631	48,038	48,100	
Employment-population ratio	47.4	52.3	52.4	52.6	53.1	53.3	53.6	53.9	53.8	
Unemployed	2,226	3,007	2,935	2,856	2,689	2,671	2,615	2,542	2,465	
Unemployment rate	5.7	6.2	6.0	5.8	5.4	5.3	5.2	5.0	4.9	
Both sexes, 16 to 19 years										
Civilian labor force	9,623	7,941	7,895	7,919	7,927	8,036	8,078	8,018	7,986	
Percent of population	57.7	54.8	54.3	54.4	54.3	54.9	55.2	55.0	54.8	
Employed	8,081	6,488	6,492	6,511	6,581	6,740	6,736	6,736	6,786	
Employment-population ratio	48.5	44.8	44.6	44.8	45.1	46.0	46.0	46.2	46.6	
Unemployed	1,542	1,453	1,402	1,408	1,346	1,296	1,342	1,282	1,200	
Unemployment rate	16.0	18.3	17.8	17.8	17.0	16.1	16.6	16.0	15.0	
White										
Civilian labor force	91,351	102,125	102,425	102,777	103,179	103,374	103,769	104,317	104,491	
Percent of population	63.6	65.6	65.7	65.7	65.8	65.8	65.9	66.1	66.1	
Employed	86,887	96,005	96,350	96,941	97,622	98,056	98,529	99,264	99,660	
Employment-population ratio	60.5	61.7	61.8	62.0	62.3	62.4	62.6	62.9	63.1	
Unemployed	4,464	6,120	6,075	5,835	5,558	5,318	5,240	5,053	4,832	
Unemployment rate	4.9	6.0	5.9	5.7	5.4	5.1	5.0	4.8	4.6	
Black										
Civilian labor force	10,626	12,597	12,719	12,851	12,853	13,072	13,187	13,162	13,045	
Percent of population	61.3	62.9	63.2	63.6	63.3	64.1	64.4	64.0	63.2	
Employed	9,297	10,759	10,918	11,051	11,160	11,438	11,583	11,511	11,474	
Employment-population ratio	53.6	53.7	54.3	54.7	54.9	56.1	56.6	56.0	55.6	
Unemployed	1,329	1,838	1,800	1,800	1,693	1,634	1,603	1,652	1,571	
Unemployment rate	12.5	14.6	14.2	14.0	13.2	12.5	12.2	12.5	12.0	
Hispanic origin										
Civilian labor force	(1)	8,171	8,256	8,402	8,495	8,526	8,730	8,900	8,905	
Percent of population	(1)	65.9	66.0	66.2	66.3	66.0	66.9	67.7	67.1	
Employed	(1)	7,280	7,425	7,593	7,740	7,832	7,990	8,195	8,096	
Employment-population ratio	(1)	58.7	59.4	59.8	60.4	60.6	61.3	62.3	61.0	
Unemployed	(1)	891	831	809	755	694	739	705	809	
Unemployment rate	(1)	10.9	10.1	9.6	8.9	8.1	8.5	7.9	9.1	

¹Data are not available on a revised basis that reflects the adjustment to the population totals introduced in January 1986.

data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

NOTE: Detail for race and Hispanic-origin groups will not sum totals because

think it would be impossible to find one—rose by 100,000 to about 1 million in the first quarter before returning to its late-1987 level of 910,000.

The number of persons working part time even though they would prefer a full-time job—those on part-time schedules for economic reasons—continued to fluctuate within the 5.2- to 5.8-million range of the previous 4 years. While a dip to 4.8 million in May left the second quarter average below that of earlier quarters, the return to 5.3 million in June indicates that the May estimate was probably an outlier. Still, with the rapid growth of total employment, persons working part time for economic reasons made up a smaller proportion of American workers.

Comparisons to an earlier era

There was considerable comment when the monthly unemployment rate reached 5.4 percent in April 1988, the lowest rate since June 1974. However, a comparison of current labor conditions with the middle of 1974 is probably not valid because, in 1974, the economy was sliding into the second most severe recession since CPS-based unemployment statistics have been regularly published. A more useful comparison might be with the second quarter of 1979. At that point, the business cycle was well into a prolonged expansion, and the unemployment rate was 5.7 percent—conditions not much different from those in the second quarter of this year.

One of the most striking changes since mid-1979 has occurred in the relationship of the unemployment rates of men and women. In 1988, the jobless rate for adult men was 4.7 percent, well above the 4.0-percent rate posted in mid-1979. In comparison, the rate for women, at 4.9 percent, was almost a full percentage point lower in 1988 than in 1979. In effect, the unemployment rates of men and women have converged significantly since mid-1979. Among the reasons for women's relative improvement are their greater employment concentration in many high-growth service-sector industries, their increased tendency to work full time and year round, the growth and pattern of their labor force participation, and their dramatic improvements in educational attainment.

While there has been a significant shift in the relative incidence of joblessness between the sexes since 1979,

there has been little progress toward more even unemployment rates across racial and ethnic divisions. The ratio of black-to-white unemployment rates was 2.6-to-1 in mid-1988, the same ratio as in the second quarter of 1979. Unemployment among Hispanic workers averaged 9.1 percent in the second quarter of 1988, or 1.7 times the overall rate. This actually reflects some deterioration since 1979, when their jobless rate was 8.2 percent, or 1.4 times the national average.

On the employment side, the last 9 years have seen a continuation of the secular trend toward service-producing industries, while there has actually been a decline in goods-producing employment. Mining employment has fallen by 210,000, and manufacturing employment has gone down 1.6 million. Although the other goods-producing industry, construction, grew by about 800,000, it still left employment for the entire sector roughly a million less than it had been. Partly as a result of this decline, but more fundamentally as a function of its own new net gain of more than 17 million jobs, the service-producing share in payroll employment grew by about 5 percentage points to a bit over 75 percent.

THE FIRST HALF OF 1988 saw more moderate employment growth, following robust gains in 1987. However, the unemployment rate continued to fall, reaching a point clearly below that prevailing at the start of the recessions of the 1980's. Some problems persisted, such as relatively high numbers of involuntary part-time workers and discouraged workers and the high jobless rates for minority workers. But it is important to note that this was the first time since the prolonged expansion of the 1960's that the jobless rate fell below the lowest point reached in the previous business cycle. □

—FOOTNOTES—

¹The labor force and employment data used in this report are derived from the Current Population Survey (a monthly survey of households conducted by the Census Bureau on behalf of the Bureau of Labor Statistics) or the Current Employment Statistics program (a monthly survey of business establishment payrolls conducted by the Bureau of Labor Statistics in cooperation with State Employment Security Agencies). For additional information concerning these programs, see *Handbook of Methods*, Bulletin 2285 (Bureau of Labor Statistics, 1988).