

Employment gains slow in the first half of 1989

Slower job growth was particularly evident in construction and manufacturing; the unemployment rate edged up slightly in the second quarter

Steven E. Haugen

Employment growth moderated in the first half of 1989, as the economy moved into its seventh year of expansion from the 1981-82 recession. While unemployment showed continued improvement early in the year, it edged back up in the second quarter. This left both the number of unemployed persons, at 6.5 million, and the civilian unemployment rate, at 5.3 percent, about the same as in the fourth quarter of 1988.

The slackening job growth was most evident in the goods-producing sector. Both manufacturing, which had posted substantial employment growth in 1987-88, and construction, which had also made healthy employment gains, registered a slowdown in job growth during the first half of 1989. For the most part, the service-producing sector continued its pattern of strong employment growth, although several industries in the sector, particularly those closely tied to the goods-producing industries, also experienced a reduction in employment gains.

In the first quarter of 1989, there were already some signs that the brisk pace of economic growth that characterized 1987 and 1988 might be slowing. Interest rates had been trending upward throughout most of 1988, and as rates continued to rise in early 1989, the demand for interest-sensitive products began to wane. Construction activity slowed, owing largely to a decline in the demand for new homes. Consumer spending for durable goods, such as new cars, also softened. The effect of the slowdown in

consumption was quickly felt in the Nation's factories: new orders for durable goods dropped in January and February, and industrial production leveled off in the first quarter after rising throughout 1988.

Early in the second quarter, some of these yardsticks of economic performance recovered a bit. The uptrend in interest rates leveled off in April, and rates then began to edge down. Also in April, the number of permits for new housing edged up, and consumer spending increased. Nevertheless, homebuilding generally remained weaker than in 1988, as did sales of such big-ticket durables as new cars. In addition, the sharply rising value of the dollar midway through the second quarter did not augur well for those U.S. manufacturers who had been benefiting from robust export growth in recent years.

Employment

Developments in the labor market also pointed to slower economic growth in the first half of 1989.¹ While nonagricultural payroll employment, as measured by the survey of business establishments, grew by 1.5 million between the fourth quarter of 1988 and the second quarter of 1989, much of the job gain occurred early in the year. (See table 1.) Boosted by a large increase in January, nonagricultural employment expanded by approximately 880,000 in the first quarter, but slowed in the second quarter,

Steven E. Haugen is an economist in the Office of Employment and Unemployment Statistics, Bureau of Labor Statistics.

when only about 620,000 jobs were added.² This was the smallest quarterly gain since the third quarter of 1986. The slowing of employment growth within the first half of the year is shown clearly in chart 1, which presents seasonally adjusted monthly changes in nonagricultural employment.

Civilian employment, as measured by the household survey, also showed weaker growth in the second quarter. About three-fourths of the 1.4-million increase in the first half of 1989 occurred in the first quarter. (See table 2.) Overall, the payroll and household surveys indicated about the same volume of employment growth in the first half of 1989. During most of 1987 and 1988, however, the payroll series showed much faster growth than the household series. (For further information on the differences in employment growth between the establishment and household surveys, see the article in this issue entitled "How many new jobs since 1982? Data from two surveys differ.")

Goods-producing industries. Several barometers of economic activity indicated weakness in the construction and manufacturing industries during the first half of the year. In construction, declines in the number of building permits, housing starts, and new home sales in the first quarter suggested that the rise in mortgage interest rates, which began during the second half of 1988 and continued into 1989, had contributed to a softening of demand for new housing. Although interest rates eased in May, homebuilding continued at a more tepid pace than in 1988. (See table 3.)

Reflecting these developments, employment growth in the construction industry slowed markedly during the first half of 1989. In the second quarter, payroll employment in construction stood at 5.3 million, the same as in the first quarter and up only 85,000 over the level of the fourth quarter of 1988. The weakness in the industry was most apparent in the general building and special trades contractors divisions, which are highly involved in residential construction. Employment among heavy construction contractors held fairly steady. During the first 6 years of the current recovery, employment in this industry advanced little, while both general building and special trades contractors showed marked employment growth. In particular, job growth in the special trades division accounted for more than two-thirds of the total employment increase in construction.

Rising interest rates may also have affected the manufacturing industry in early 1989. Retail sales softened in the first quarter, particularly the sales of such interest-rate-sensitive items as

new cars. Reflecting the slowdown in consumer spending, new orders for durable goods declined slightly from late-1988 levels. Additionally, export growth, which had accounted for much of the strength in manufacturing over the 1987-88 period, eased a little as the value of the dollar stopped declining in 1988 and began to increase in the first half of 1989. The declining dollar had been helping some manufacturers by making U.S. exports less expensive.

Trends in manufacturing employment confirmed some slowing in the industry. Job gains in manufacturing, which had been rising at a rapid clip during much of 1987-88, slowed abruptly during the first quarter of 1989, and employment was essentially unchanged in the second quarter at 19.7 million; this left the job count up only 100,000 from fourth-quarter 1988 levels, about half the growth posted in the second half of 1988. The weakness was most apparent in the durable goods industries, notably in the machinery and electrical equipment components, industries which had been benefiting from the rapid growth in exports. There was also little or no job growth in the lumber industry and in stone, clay, and glass products, reflecting the slowdown in construction. Employment in auto manufacturing declined slightly, as car makers backed away from aggressive production schedules in the face of large inventory-sales imbalances. Employment growth in nondurable manufacturing also slowed in the first half of 1989. Smaller job gains were particularly evident in the paper products and printing and publishing industries.

Despite the slowdown in employment growth, the factory workweek remained at a very high level, as did overtime hours. Employees on manufacturing payrolls continued to average about 41 hours per week during the first 6 months of 1989, roughly as much as in 1987 and 1988. Similarly, manufacturing overtime, at 3.9 hours in the first half, remained at very high levels by historical standards.

After allowing for the effects of labor-management disputes which occurred in June, mining employment rose slightly in the first half of 1989. About half of the increase occurred in oil and gas extraction. Employment gains in this industry are directly related to the price of oil, and it may be that the rise in oil prices since mid-1988 provided an employment boost for the industry. At 715,000 in the second quarter, however, mining employment was still below its level one year earlier.

Service-producing industries. Job growth in the service-producing sector remained healthy

Nonagricultural employment exhibited the smallest quarterly gain since the third quarter of 1986.

Table 1. Employees on nonagricultural payrolls by industry, seasonally adjusted quarterly averages, 1982-89

[In thousands]

| Industry | 1982 | 1984 | 1988 | | | | 1989 | |
|---|--------|--------|---------|---------|---------|---------|---------|-----------------|
| | IV | IV | I | II | III | IV | I | II ^p |
| Total | 88,717 | 95,869 | 104,355 | 105,184 | 105,976 | 106,799 | 107,680 | 108,299 |
| Total private | 72,893 | 79,711 | 87,111 | 87,851 | 88,577 | 89,288 | 90,104 | 90,624 |
| Goods-producing | 22,980 | 24,936 | 25,022 | 25,202 | 25,313 | 25,452 | 25,634 | 25,647 |
| Mining | 1,029 | 956 | 722 | 725 | 723 | 713 | 712 | 717 |
| Oil and gas extraction | 651 | 609 | 409 | 411 | 407 | 397 | 395 | 399 |
| Construction | 3,837 | 4,501 | 5,028 | 5,116 | 5,155 | 5,189 | 5,263 | 5,276 |
| General building contractors | 959 | 1,188 | 1,354 | 1,372 | 1,373 | 1,373 | 1,394 | 1,383 |
| Manufacturing | 18,115 | 19,479 | 19,271 | 19,360 | 19,435 | 19,550 | 19,659 | 19,654 |
| Durable goods | 10,484 | 11,630 | 11,336 | 11,404 | 11,467 | 11,540 | 11,601 | 11,584 |
| Lumber and wood products | 596 | 703 | 760 | 763 | 762 | 775 | 780 | 769 |
| Furniture and fixtures | 425 | 492 | 528 | 529 | 530 | 532 | 534 | 534 |
| Stone, clay, and glass products | 558 | 593 | 595 | 599 | 601 | 605 | 607 | 606 |
| Primary metal industries | 824 | 843 | 763 | 770 | 778 | 784 | 787 | 788 |
| Blast furnaces and basic steel products .. | 344 | 317 | 277 | 278 | 277 | 277 | 276 | 275 |
| Fabricated metal products | 1,349 | 1,483 | 1,416 | 1,426 | 1,436 | 1,445 | 1,458 | 1,451 |
| Machinery, except electrical | 2,051 | 2,235 | 2,046 | 2,068 | 2,095 | 2,119 | 2,138 | 2,148 |
| Electrical and electronic equipment | 1,953 | 2,247 | 2,068 | 2,069 | 2,072 | 2,072 | 2,062 | 2,051 |
| Transportation equipment | 1,662 | 1,931 | 2,042 | 2,053 | 2,051 | 2,059 | 2,072 | 2,068 |
| Motor vehicles and equipment | 659 | 877 | 844 | 855 | 860 | 866 | 874 | 871 |
| Instruments and related products | 699 | 721 | 734 | 744 | 754 | 762 | 773 | 778 |
| Miscellaneous manufacturing | 367 | 382 | 384 | 385 | 387 | 387 | 390 | 391 |
| Nondurable goods | 7,631 | 7,850 | 7,935 | 7,956 | 7,968 | 8,011 | 8,058 | 8,070 |
| Food and kindred products | 1,628 | 1,608 | 1,636 | 1,634 | 1,628 | 1,646 | 1,652 | 1,656 |
| Tobacco manufactures | 68 | 64 | 57 | 56 | 55 | 56 | 56 | 53 |
| Textile mill products | 729 | 726 | 734 | 731 | 726 | 725 | 728 | 728 |
| Apparel and other textile products | 1,139 | 1,156 | 1,101 | 1,095 | 1,087 | 1,087 | 1,096 | 1,095 |
| Paper and allied products | 654 | 682 | 689 | 692 | 694 | 695 | 696 | 696 |
| Printing and publishing | 1,271 | 1,404 | 1,540 | 1,555 | 1,568 | 1,582 | 1,597 | 1,604 |
| Chemicals and allied products | 1,055 | 1,055 | 1,050 | 1,061 | 1,070 | 1,076 | 1,086 | 1,092 |
| Petroleum and coal products | 200 | 187 | 161 | 161 | 162 | 162 | 161 | 162 |
| Rubber and miscellaneous plastics products .. | 679 | 792 | 820 | 826 | 833 | 838 | 842 | 842 |
| Leather and leather products | 209 | 176 | 146 | 145 | 144 | 143 | 144 | 142 |
| Service-producing | 65,737 | 70,933 | 79,333 | 79,983 | 80,663 | 81,346 | 82,047 | 82,652 |
| Transportation and public utilities | 5,023 | 5,200 | 5,481 | 5,523 | 5,570 | 5,615 | 5,662 | 5,701 |
| Transportation | 2,735 | 2,963 | 3,270 | 3,309 | 3,353 | 3,401 | 3,448 | 3,486 |
| Communication and public utilities | 2,288 | 2,237 | 2,211 | 2,214 | 2,217 | 2,214 | 2,214 | 2,215 |
| Wholesale trade | 5,213 | 5,644 | 5,952 | 6,004 | 6,053 | 6,105 | 6,171 | 6,219 |
| Durable goods | 3,034 | 3,336 | 3,508 | 3,545 | 3,579 | 3,612 | 3,657 | 3,683 |
| Nondurable goods | 2,179 | 2,308 | 2,444 | 2,460 | 2,474 | 2,493 | 2,514 | 2,536 |
| Retail trade | 15,189 | 16,921 | 18,943 | 19,042 | 19,170 | 19,280 | 19,452 | 19,513 |
| General merchandise stores | 2,141 | 2,317 | 2,476 | 2,460 | 2,454 | 2,453 | 2,481 | 2,488 |
| Food stores | 2,510 | 2,685 | 3,039 | 3,073 | 3,115 | 3,165 | 3,212 | 3,242 |
| Automotive dealers and service stations | 1,634 | 1,833 | 2,047 | 2,074 | 2,106 | 2,130 | 2,149 | 2,156 |
| Eating and drinking places | 4,872 | 5,525 | 6,240 | 6,270 | 6,294 | 6,321 | 6,326 | 6,349 |
| Finance, insurance, and real estate | 5,356 | 5,779 | 6,635 | 6,658 | 6,686 | 6,727 | 6,761 | 6,789 |
| Finance | 2,664 | 2,890 | 3,291 | 3,285 | 3,286 | 3,300 | 3,312 | 3,315 |
| Insurance | 1,715 | 1,784 | 2,061 | 2,075 | 2,088 | 2,103 | 2,114 | 2,123 |
| Real estate | 977 | 1,105 | 1,283 | 1,297 | 1,313 | 1,324 | 1,335 | 1,350 |
| Services | 19,131 | 21,231 | 25,079 | 25,422 | 25,785 | 26,109 | 26,424 | 26,755 |
| Business services | 3,289 | 4,196 | 5,438 | 5,532 | 5,621 | 5,688 | 5,724 | 5,780 |
| Health services | 5,892 | 6,177 | 6,989 | 7,085 | 7,189 | 7,313 | 7,442 | 7,568 |
| Government | 15,824 | 16,159 | 17,244 | 17,333 | 17,399 | 17,511 | 17,576 | 17,675 |
| Federal | 2,745 | 2,830 | 2,969 | 2,961 | 2,970 | 2,983 | 2,981 | 2,993 |
| State | 3,641 | 3,772 | 4,030 | 4,057 | 4,079 | 4,084 | 4,094 | 4,121 |
| Local | 9,438 | 9,557 | 10,245 | 10,315 | 10,350 | 10,444 | 10,502 | 10,561 |

p = preliminary.

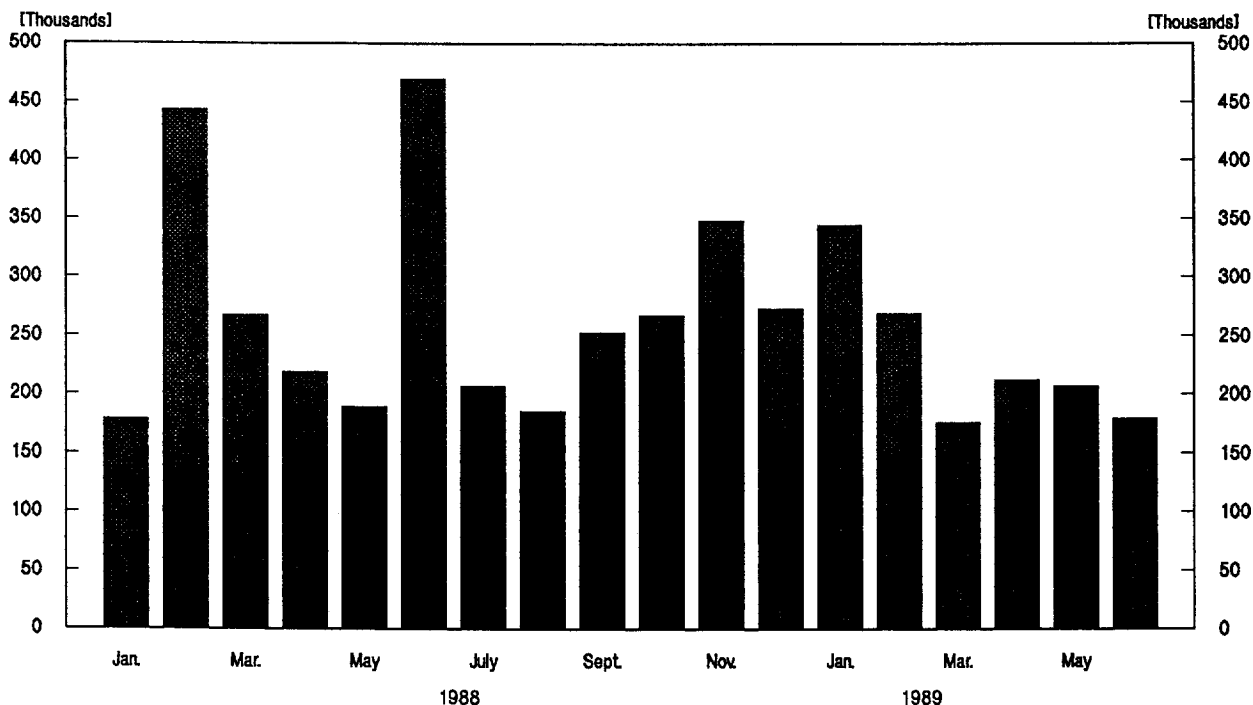
Table 2. Employment status by sex, age, race, and Hispanic origin, seasonally adjusted quarterly averages, 1982-89

[In thousands]

| Characteristic | 1982 | 1984 | 1988 | | | | 1989 | |
|-----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| | IV | IV | I | II | III | IV | I | II |
| Total | | | | | | | | |
| Civilian labor force | 110,959 | 114,257 | 121,045 | 121,352 | 121,881 | 122,388 | 123,291 | 123,790 |
| Percent of population | 64.1 | 64.5 | 65.8 | 65.8 | 65.9 | 66.1 | 66.4 | 66.5 |
| Employed | 99,120 | 105,944 | 114,152 | 114,688 | 115,202 | 115,843 | 116,900 | 117,289 |
| Agriculture | 3,471 | 3,324 | 3,212 | 3,139 | 3,126 | 3,223 | 3,243 | 3,104 |
| Nonagriculture | 95,649 | 102,620 | 110,940 | 111,549 | 112,076 | 112,620 | 113,657 | 114,185 |
| Employment-population ratio | 57.3 | 59.8 | 62.1 | 62.2 | 62.3 | 62.5 | 62.9 | 63.0 |
| Unemployed | 11,839 | 8,312 | 6,893 | 6,664 | 6,678 | 6,545 | 6,391 | 6,501 |
| Unemployment rate | 10.7 | 7.3 | 5.7 | 5.5 | 5.5 | 5.3 | 5.2 | 5.3 |
| Men, 20 years and over | | | | | | | | |
| Civilian labor force | 58,375 | 68,020 | 62,522 | 62,721 | 62,843 | 62,971 | 63,468 | 63,681 |
| Percent of population | 78.8 | 78.3 | 78.0 | 78.0 | 77.9 | 77.8 | 78.1 | 78.1 |
| Employed | 52,553 | 56,257 | 59,448 | 59,756 | 59,905 | 60,017 | 60,642 | 60,883 |
| Employment-population ratio | 70.9 | 73.4 | 74.1 | 74.3 | 74.3 | 74.2 | 74.6 | 74.7 |
| Unemployed | 5,822 | 3,764 | 3,074 | 2,965 | 2,938 | 2,953 | 2,827 | 2,798 |
| Unemployment rate | 10.0 | 6.3 | 4.9 | 4.7 | 4.7 | 4.7 | 4.5 | 4.4 |
| Women, 20 years and over | | | | | | | | |
| Civilian labor force | 44,112 | 46,357 | 50,501 | 50,604 | 50,919 | 51,449 | 51,890 | 52,131 |
| Percent of population | 52.9 | 54.0 | 56.6 | 56.6 | 56.8 | 57.2 | 57.6 | 57.7 |
| Employed | 40,127 | 43,256 | 47,963 | 48,122 | 48,423 | 49,022 | 49,514 | 49,632 |
| Employment-population ratio | 48.1 | 50.4 | 53.8 | 53.8 | 54.0 | 54.5 | 54.9 | 54.9 |
| Unemployed | 3,985 | 3,101 | 2,538 | 2,483 | 2,496 | 2,427 | 2,376 | 2,499 |
| Unemployment rate | 9.0 | 6.7 | 5.0 | 4.9 | 4.9 | 4.7 | 4.6 | 4.8 |
| Both sexes, 16 to 19 years | | | | | | | | |
| Civilian labor force | 8,472 | 7,880 | 8,022 | 8,026 | 8,119 | 7,969 | 7,933 | 7,978 |
| Percent of population | 54.3 | 54.1 | 55.0 | 55.1 | 56.0 | 55.2 | 55.2 | 56.0 |
| Employed | 6,440 | 6,432 | 6,742 | 6,810 | 6,874 | 6,804 | 6,745 | 6,774 |
| Employment-population ratio | 41.3 | 44.1 | 46.2 | 46.7 | 47.4 | 47.1 | 46.9 | 47.6 |
| Unemployed | 2,032 | 1,448 | 1,281 | 1,216 | 1,244 | 1,165 | 1,188 | 1,203 |
| Unemployment rate | 24.0 | 18.4 | 16.0 | 15.2 | 15.3 | 14.6 | 15.0 | 15.1 |
| White | | | | | | | | |
| Civilian labor force | 96,623 | 98,811 | 104,255 | 104,555 | 104,900 | 105,286 | 105,964 | 106,310 |
| Percent of population | 64.4 | 64.7 | 66.1 | 66.2 | 66.2 | 66.4 | 66.7 | 66.8 |
| Employed | 87,452 | 92,616 | 99,204 | 99,691 | 99,909 | 100,436 | 101,338 | 101,539 |
| Employment-population ratio | 58.3 | 60.7 | 62.9 | 63.1 | 63.1 | 63.3 | 63.8 | 63.8 |
| Unemployed | 9,171 | 6,195 | 5,050 | 4,864 | 4,991 | 4,849 | 4,626 | 4,772 |
| Unemployment rate | 9.5 | 6.3 | 4.8 | 4.7 | 4.8 | 4.6 | 4.4 | 4.5 |
| Black | | | | | | | | |
| Civilian labor force | 11,503 | 12,252 | 13,137 | 13,090 | 13,240 | 13,342 | 13,459 | 13,444 |
| Percent of population | 61.5 | 62.9 | 63.9 | 63.4 | 63.8 | 64.1 | 64.4 | 64.1 |
| Employed | 9,155 | 10,393 | 11,512 | 11,530 | 11,751 | 11,831 | 11,898 | 11,932 |
| Employment-population ratio | 48.9 | 53.3 | 56.0 | 55.8 | 56.7 | 56.8 | 56.9 | 56.9 |
| Unemployed | 2,348 | 1,859 | 1,626 | 1,559 | 1,489 | 1,510 | 1,561 | 1,512 |
| Unemployment rate | 20.4 | 15.2 | 12.4 | 11.9 | 11.2 | 11.3 | 11.6 | 11.2 |
| Hispanic origin | | | | | | | | |
| Civilian labor force | 6,826 | 7,614 | 8,889 | 8,914 | 9,007 | 9,119 | 9,212 | 9,321 |
| Percent of population | 63.5 | 65.4 | 67.6 | 67.2 | 67.3 | 67.6 | 67.7 | 67.9 |
| Employed | 5,783 | 6,819 | 8,176 | 8,127 | 8,286 | 8,409 | 8,546 | 8,568 |
| Employment-population ratio | 53.8 | 58.6 | 62.2 | 61.3 | 61.9 | 62.3 | 62.8 | 62.4 |
| Unemployed | 1,043 | 795 | 713 | 787 | 721 | 709 | 666 | 752 |
| Unemployment rate | 15.3 | 10.4 | 8.0 | 8.8 | 8.0 | 7.8 | 7.2 | 8.1 |

NOTE: Detail for race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

Chart 1. **Monthly changes in nonagricultural employment, seasonally adjusted, January 1988–June 1989**



NOTE: Data for the most recent 2 months are preliminary.

in the first half of the year. However, the pace of the increase was a little slower relative to the rapid rate of job growth achieved during 1988. Slower growth was particularly evident in industries, such as wholesale and retail trade, that were most affected by the slowdown in the demand for new construction and durable goods. Nevertheless, the service-producing sector grew by 1.3 million, accounting for nearly 9 out of every 10 jobs added.

Employment growth in wholesale trade slowed a bit during the first half. Job gains in durable goods distribution, which had been quite buoyant in 1988 due to strong export demand, slowed somewhat, while growth in non-durable goods distribution held steady. Overall, wholesale trade added 115,000 jobs in the first half of 1989. Employment increases in retail trade also tapered off somewhat in the second quarter, after surging in the first quarter of the year. Smaller job gains occurred in food stores and auto dealers—the latter probably reflecting slower car sales. In finance, insurance, and real estate, employment continued to show moderate growth.

Several service-producing industries continued to exhibit strong employment growth throughout the first half of 1989. Employment

in transportation and public utilities continued to make sizable gains, with an increase of about 85,000 (despite the labor-management dispute at Eastern Airlines). Most of the growth occurred in transportation, reflecting in part the ongoing expansion of airlines in order to meet the growing demand for air travel and further growth in trucking. The services industry continued its pattern of strong job growth, adding nearly 650,000 jobs. As has been the case in recent years, the sharpest growth was in health services, while net job additions in business services slowed somewhat. Government employment continued to grow in the first half of the year, driven mostly by increases in the local government area.

Unemployment

Unemployment continued to improve early in 1989, but then edged up in the second quarter. In the first quarter, both the number of unemployed persons and the civilian unemployment rate inched down. In March, these figures reached post-recession lows of 6.1 million and 5.0 percent. Subsequently, unemployment rose a bit, consistent with the slowing of employment growth. At 6.5 million and 5.3 percent,

Despite slower growth, the service-producing sector accounted for nearly 9 out of every 10 new jobs.

slowdown also occurred during 1986, only to be followed by more than 2 years of very robust job growth. Thus, it remains to be seen whether the moderation in growth in the first half of this year

is a harbinger of further weakness, or merely a temporary lull in the pattern of strong labor market performance that has characterized most of the current expansion. □

Footnotes

¹ The employment and labor force data used in this article are taken from two sources: The Current Employment Statistics program, a monthly survey of more than 300,000 business establishments nationwide conducted by the Bureau of Labor Statistics (BLS) in cooperation with State Employment Security Agencies, and the Current Population Survey, a monthly survey of about 56,000 households na-

tionwide conducted for BLS by the Bureau of the Census. For further information on these surveys, see *Handbook of Methods*, Bulletin 2285 (Bureau of Labor Statistics, 1988).

² Unless otherwise noted, estimates of employment change in this article refer to differences in seasonally adjusted quarterly averages.

The effects of unions on wages

Relatively centralized bargaining structures are only one of the institutional arrangements that insulate European employers from fear of union wage increases. Unionized competitors tend to face the same wage rates, and laws requiring an extension of negotiated wages to the unorganized sector in some countries require the nonunion sector to adopt the negotiated wage level. Labor policies therefore tend to reduce the competitive threat presented by union wage increases.

Unions in the United States also secure relatively high fringe benefits for their members, which increases the competitive threat from the nonunion sector. In addition, decentralized bargaining may result in differences in fringe benefit costs within the unionized sector. In Europe, most fringe benefits are established by law and hence apply with relatively equal force to most employers. International differences in the division of responsibilities between legislation and collective bargaining therefore influence the competitive threat associated with unions.

—Robert J. Flanagan

Labor Relations and the Litigation Explosion
(Washington, The Brookings Institution, 1987),
pp. 98–99.
