

Employment in financial activities: double billed by housing and financial crises

The housing market crash, followed by the financial crisis of the 2007–09 recession, helped depress financial activities employment; the industry recorded historic monthly job losses that persisted even after the recession ended

George Prassas

Historically, employment in financial activities¹ has been affected little by economic downturns and usually has grown during an entire recession or started to grow shortly after a recession began. (See chart 1.) In stark contrast, employment in financial activities grew more slowly in 2006 and eventually peaked in December 2006,² 1 year before the official start of the December 2007–June 2009 recession.³ Even after the recession ended, employment in financial activities continued to decline. (See chart 2.)

Leading into the 2007–09 recession, most employment losses in financial activities were concentrated in industries directly involved in buying and selling homes. However, after the stock market declined sharply in September 2008, all industries within the financial sector began to cut jobs at unprecedented rates. These employment losses were uncharacteristic compared with those sustained in previous downturns.

Prerecession housing crash

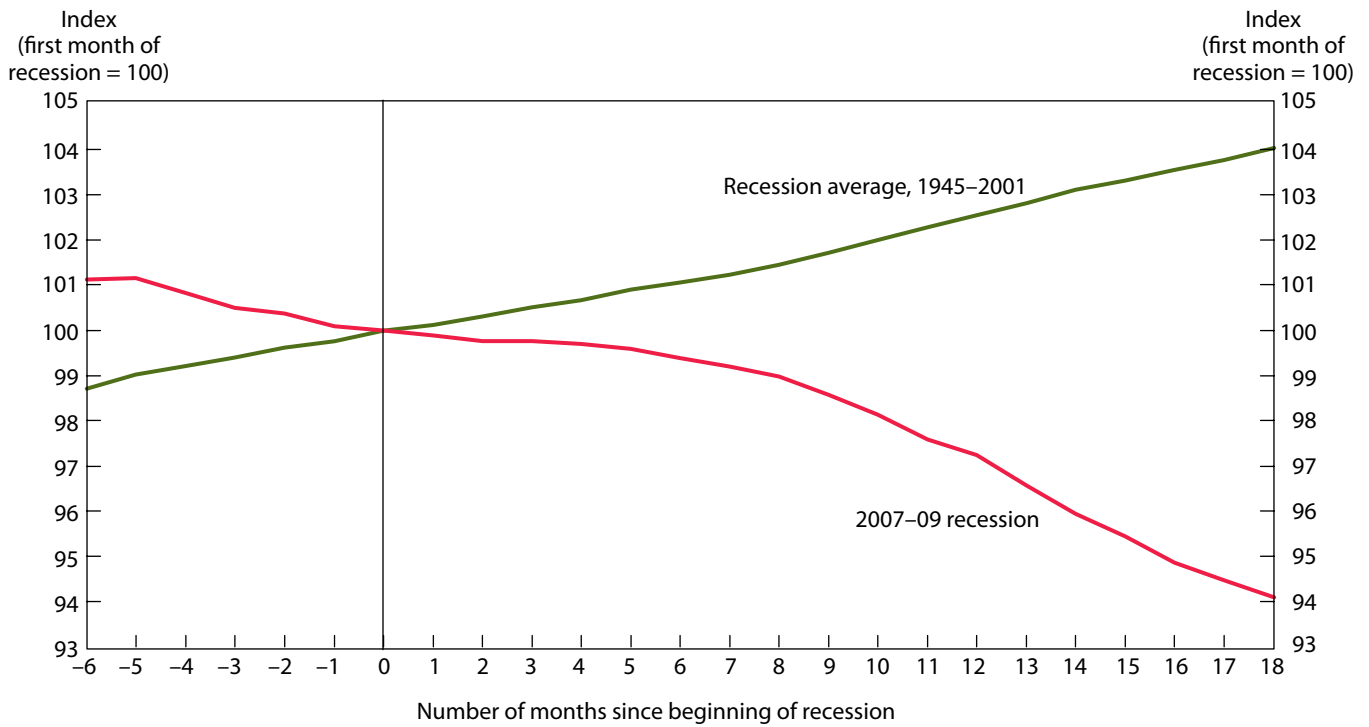
Over the past decade, employment changes in financial activities were tied closely to those in construction. (See chart 3.) Between 2000 and 2006, roughly 40 percent of the job growth in financial activities occurred in industries directly related to the selling and

buying of homes.⁴ During this period, construction employment grew by 976,000,⁵ sales of new and existing homes increased by 14 percent and 26 percent, respectively,⁶ home prices in the top 20 major metropolitan areas in the United States doubled,⁷ and mortgage rates reached historical lows.⁸ In order to continue to qualify consumers for the purchase of a home, and to help drive the housing market, lenders offered more creative financing options, such as 40-year mortgages, interest-only loans, and jumbo loans, in addition to the typical business practices of offering loans based on fixed- and adjustable-rate mortgages, refinancing, and lending on the basis of home equity. According to the Federal Reserve Bank of Dallas, “although low interest rates bolstered homebuying early in the decade, the expansion of nonprime mortgages clearly played a role in the surge of homeownership.”⁹

In 2005, sales of new and existing homes in the United States peaked, and employment in construction and in several housing-related financial industries followed. (See chart 4.) Combined, employment in real estate credit, mortgage and nonmortgage brokers, and real estate agents and brokers reached a prerecession employment high in April 2006, corresponding with an employment peak in the construction industry, and then declined by 184,000 through December 2007. Real estate credit and mortgage and nonmortgage brokers respectively lost 32 percent and 34 percent of their workforce during this period. Job losses continued through

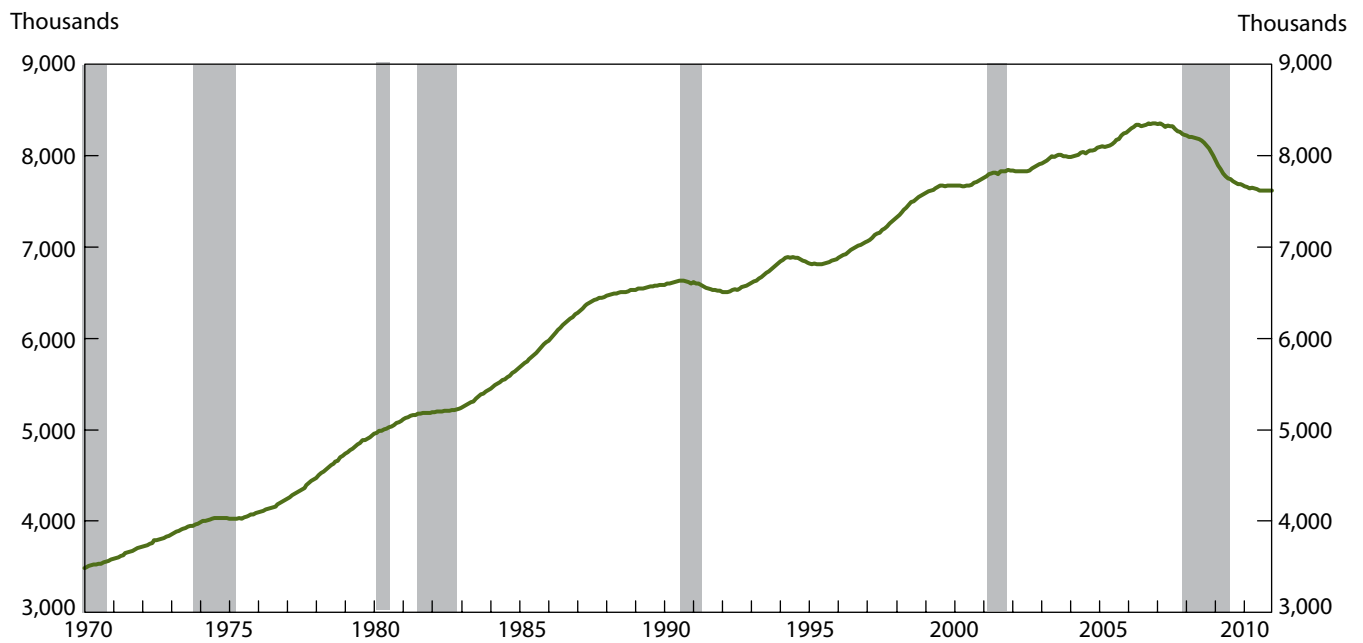
George Prassas is an economist in the Office of Employment and Unemployment Statistics, Bureau of Labor Statistics. Email: prassas.george@bls.gov

Chart 1. Financial activities index of employment, seasonally adjusted



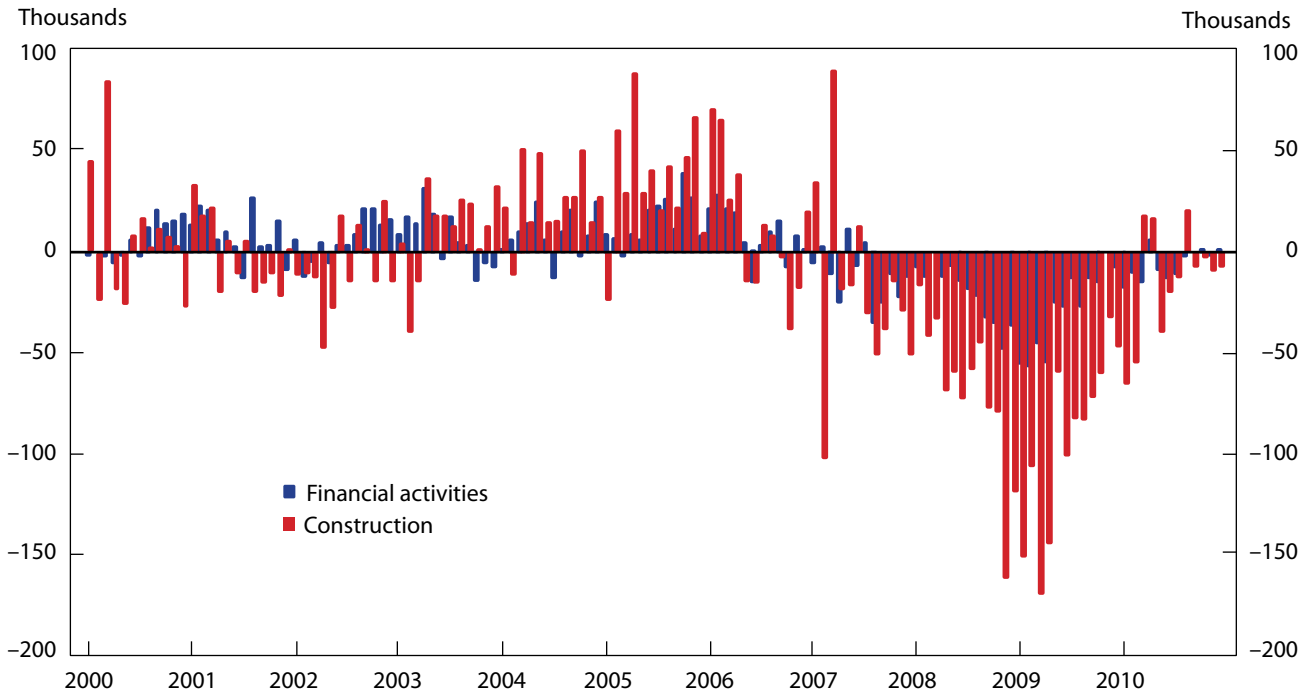
SOURCES: U.S. Bureau of Labor Statistics, National Bureau of Economic Research.

Chart 2. Financial activities employment, seasonally adjusted, January 1970-December 2010



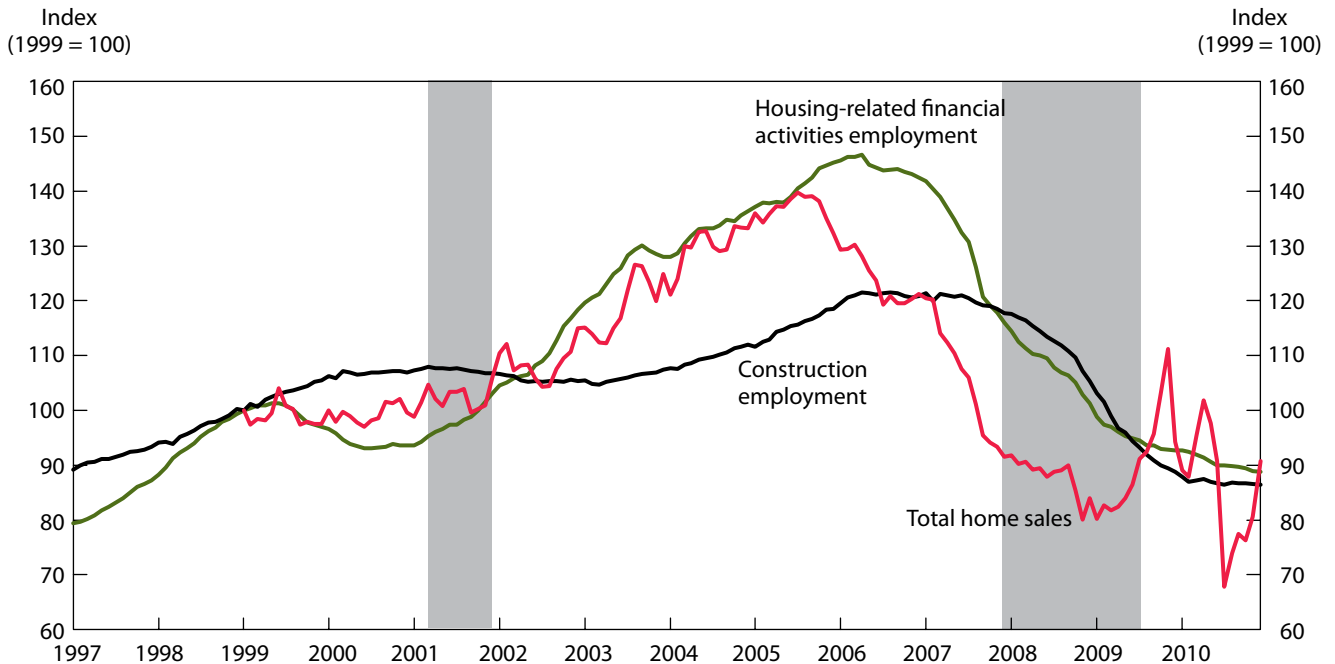
NOTE: Shaded areas represent recessions as determined by the National Bureau of Economic Research (NBER).
SOURCE: U.S. Bureau of Labor Statistics.

Chart 3. Over-the-month changes in employment in construction and financial activities, 2000–10, seasonally adjusted



SOURCE: U.S. Bureau of Labor Statistics.

Chart 4. Index of annual rate of total homes sales, construction employment, and housing-related financial activities employment, seasonally adjusted, 1997–2010



NOTE: Total home sales are the sum of seasonally adjusted annual rates of new and existing home sales. Housing-related financial industries are real estate credit (NAICS 522292), mortgage and nonmortgage brokers (NAICS 52231), and offices of real estate agents and brokers (NAICS 5312). Shaded areas represent recessions as determined by the National Bureau of Economic Research (NBER).

SOURCES: U.S. Bureau of Labor Statistics, U.S. Census Bureau, National Association of Realtors.

the end of the recession, although at a slower pace. Between April 2006 and December 2010, housing-related financial industries lost 348,000 jobs and employment fell to its lowest level since January 1998.

By mid-2007, delinquencies in mortgage payments had begun to rise, particularly among consumers holding nontraditional loans.¹⁰ Depository institutions, such as commercial banks and savings institutions, started to announce job cuts, and many underwent internal restructuring and discontinued nontraditional loan lending. Employment in depository credit intermediation peaked in September 2007, leading the recession by 3 months. In October 2008, the financial markets experienced large losses, including a 17-percent decline in value according to the S&P 500 index.¹¹ Commercial banks substantially decreased new loans and leases in bank credit. Job losses in depository credit intermediation accelerated, and employment fell at a record pace until reaching a trough in April 2010.

In 2009, loans and leases by commercial banks fell by 10.3 percent.¹² Without credit, most firms were in unsustainable budgetary situations and cut payrolls. Employment losses throughout the economy were tied to the inability of firms to attain credit to continue their day-to-day business activities.

Financial crisis and job losses

With ongoing job losses occurring in financial activities industries related to the housing market crash,

a financial crisis that began after the start of the recession pushed losses into other industries within the sector. Employment in the CES series titled “securities, commodity contracts, investments” had been largely unaffected during the first 9 months of the recession, but after the deterioration of the financial markets, job cuts quickly followed: between September 2008 and June 2009, 55,000 jobs were lost. (See table 1.)

Employment in insurance carriers and related activities also was unaffected during the first 9 months of the recession. However, year-over-year real personal consumption expenditures in insurance began to decline in April 2008 and accelerated as the recession grew more severe.¹³ With large layoffs occurring in most segments of the economy, households continued to cut back on personal consumption expenditures; insurance expenditures decreased at an annualized rate of 4.7 percent during the fourth quarter of 2008. New individual life insurance premiums, the main revenue stream for life insurance companies, dropped 14 percent that quarter.¹⁴ The decline in personal consumption expenditures, followed by contracting credit markets, coincided with large layoffs in insurance carriers.

With both households and firms tightening their budgets and the loss of confidence in the market, establishments in rental and leasing services began to shed jobs. Employment in rental and leasing services generally follows the business cycle, because business in this industry is dependent on consumer spending. With personal consumption expenditures slashed and reduced access to credit, firms in automotive equipment rental and leasing and in consumer goods rental cut jobs.

Table 1. Financial activities employment, selected industries, seasonally adjusted, December 2007–June 2009

[In thousands]					
Industry	December 2007 employment level	September 2008 employment level	June 2009 employment level	Net monthly change in employment between December 2007 and September 2008	Net monthly change in employment between October 2008 and June 2009
Financial activities.....	8,227.0	8,110.0	7,742.0	-13.0	-40.9
Credit intermediation and related activities.....	2,790.0	2,716.6	2,592.0	-8.2	-13.8
Depository credit intermediation	1,825.4	1,809.0	1,758.0	-1.8	-5.7
Commercial banking.....	1,358.4	1,355.7	1,316.3	-3	-4.4
Securities, commodity contracts, investments.....	855.9	861.0	805.4	.6	-6.2
Insurance carriers and related activities ...	2,315.4	2,300.7	2,250.1	-1.6	-5.6
Real estate.....	1,493.0	1,478.9	1,406.2	-1.6	-8.1
Rental and leasing services.....	632.9	611.1	552.3	-2.4	-6.5

SOURCE: U.S. Bureau of Labor Statistics.

EMPLOYMENT IN FINANCIAL ACTIVITIES declined by 473,000, or 5.8 percent, during the historic 2007–09 recession. The job loss experienced during that time was the largest in both absolute and percentage terms during a recession in the history of financial activities employment.

First the housing market crash, and then the financial market crisis, hit financial activities employment. During 2010, however, employment losses moderated, but the industry continued to lose jobs and employment decreased to levels not seen since 1998. □

Notes

¹ This article uses the term “financial activities” to denote the North American Industry Classification System (NAICS; see *North American Industry Classification System: United States, 1997* (U.S. Census Bureau, 1997), and *North American Industry Classification System, 2002* (U.S. Census Bureau, 2002)) industry sectors 52, or “finance and insurance,” and 53, or “real estate and rental and leasing.”

² The data on employment used in this article are from the Current Employment Statistics (CES) survey, a monthly survey of approximately 140,000 nonfarm business and government agencies representing approximately 440,000 individual worksites. For more information on the survey’s concepts and methodology, see “Technical Notes to Establishment Survey Data Published in *Employment and Earnings*” (U.S. Bureau of Labor Statistics, Feb. 4, 2011), www.bls.gov/web/cestn1.htm (visited Apr. 12, 2011). To access CES data, see “Current Employment Statistics - CES (National)” (U.S. Bureau of Labor Statistics, no date), www.bls.gov/ces (visited Apr. 12, 2011). The CES data used in this article are seasonally adjusted unless otherwise noted.

³ Recessions are identified by the National Bureau of Economic Research (NBER), according to which the most recent recession began in December 2007 and ended in July 2009. The previous two recessions were from March 2001 to November 2001 and from July 1990 to March 1991, respectively. For a complete list of business cycle dates, see “U.S. Business Cycle Expansions and Contractions” (Cambridge, MA, National Bureau of Economic Research, Apr. 4, 2011), <http://www.nber.org/cycles/cyclesmain.html> (visited Nov. 2, 2010).

⁴ The housing-related financial industries are real estate credit, mortgage and nonmortgage brokers, and offices of real estate agents and brokers.

⁵ For an overview of construction employment trends during the December 2007–June 2009 recession, see Adam Hadi, “Construction employment peaks before the recession and falls sharply throughout it,” this issue, pp. 24–27.

⁶ The Census Bureau defines sales of new homes on the basis of the condition that “A sale of the new house occurs with the signing of a sales contract or the acceptance of a deposit” (see “Comparing New Home Sales and Existing Home Sales” (U.S. Census Bureau, no date), <http://www.census.gov/const/www/existingvsnewsales.html> (visited Apr. 12, 2011).) The house can be in any stage of construction. Data on sales of new homes are found in “Houses Sold by Region” (U.S. Census Bureau, no date), <http://www.census.gov/const/soldreg.pdf> (visited Apr. 12, 2011). Data on existing-home sales are found in “Existing-Home Sales” (Chicago, National Association of Realtors, Mar. 21, 2011), <http://www.realtor.org/research/research/ehsdata> (visited Apr. 12, 2011), and are provided by the National Association of Realtors®, which defines such sales on the basis of the condition that “the majority of transactions are reported when the sales contract

is closed.” (See “Comparing New Home Sales,” which also discusses definitional differences between the two series.)

⁷ Data on home prices appear courtesy of the Case-Shiller Home Price Index for the top 20 metropolitan regions, in “S&P/Case-Shiller Home Price Indices” (New York, Standard & Poor’s, no date), <http://www.standardandpoors.com/indices/sp-case-shiller-home-price-indices/en/us/?indexId=spusa-cashpidff-p-us----> (visited Apr. 12, 2011).

⁸ Data on mortgage rates appear courtesy of HSH Associates, in “Mortgage Rates Trends and Analysis” (Pompton Plains, NJ, HSH, no date), http://www.hsh.com/mortgage_rate_trends/National/30-Year-FRM/2000-01_2011-01.html (visited Apr. 12, 2011).

⁹ See “Insights from the Federal Reserve Bank of Dallas,” in *Economic Letter* (Federal Reserve Bank of Dallas, November 2007), <http://www.dallasfed.org/research/ecllett/2007/el0711.html> (visited Apr. 12, 2011).

¹⁰ See various charts on residential mortgage foreclosure and delinquency rates from the Mortgage Bankers Association and Haver Analytics, http://www.richmondfed.org/banking/markets_trends_and_statistics/trends/pdf/delinquency_and_foreclosure_rates.pdf (visited Apr. 12, 2011).

¹¹ S&P 500 index data appear courtesy of Standard and Poor’s. (See “S&P 500” (New York, Standard & Poor’s, no date), <http://www.standardandpoors.com/indices/sp-500/en/us/?indexId=spusa-500-usdof-p-us-1--> (visited Apr. 12, 2011).)

¹² The Federal Reserve collects data on loans and leases by all commercial banks. To access the data, see “Assets and Liabilities of Commercial Banks in the United States (Weekly) – H.8” (Board of Governors of the Federal Reserve System, Apr. 1, 2011), <http://federalreserve.gov/releases/h8/current/default.htm> (visited Apr. 12, 2011).

¹³ In this article, data on real personal consumption expenditures for insurance are from the Bureau of Economic Analysis. (See “Table 2.4.6U. Real Personal Consumption Expenditures by Type of Product, Chained Dollars,” entry 264 (Bureau of Economic Analysis, Mar. 28, 2011), http://www.bea.gov/national/nipaweb/nipa_underlying/TableView.asp?SelectedTable=18&FirstYear=2009&LastYear=2010&Freq=Qtr&ViewSeries=Yes (visited Apr. 12, 2011).)

¹⁴ In this article, data on annualized life insurance premiums appear courtesy of the Life Insurance and Market Research Association. (See “LIMRA Reports Sharp Quarterly Drop in Individual Life Insurance Sales” (Windsor, CT, LIMRA International, Feb. 24, 2008), <http://www.limra.com/newscenter/newsarchive/archivedetails.aspx?prid=83> (visited Apr. 12, 2011).)