Fed @ Issue

When Are U.S. Jobs Coming Back?

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As the economy recovers from a severe and prolonged recession, many people have begun wondering when employment will recover. The data indicate employment growth has turned positive: the U.S. economy added 290,000 jobs nationally in April. Today's payrolls have just over 130 million workers, a number that is 7.8 million jobs fewer than at the beginning of the recession. More than 15 million people were unemployed in the United States in April, which is twice the number from when the recession began. After a slight decline for the last two months, the nation's unemployment rate rose from 9.7 percent in March to 9.9 percent in April, driven up by an increase in the size of the labor force.

Although initial unemployment insurance claims have fallen, their levels are still high, with the current level close to the peak in the last two recessions. Furthermore, continuing claims also are at historically high levels as the average duration of unemployment reached approximately 30 weeks—the highest level in the 60-year history of these data. Also, underemployment in the workforce is prevalent. The underemployed include both discouraged workers—those who want to work but are not actively seeking work, generally because of a prolonged lack of success in finding it—and individuals who want to work full time but are only able to find part-time work. Combined, the percentage of unemployed and underemployed is just over 17 percent.

What will improvement require?

Moving forward, two things will need to happen for the unemployment rate to decrease and the labor market to recover. Of course, the first is the creation of new jobs. The level of job openings declined sharply during the recession, and while job openings have increased in recent months, the level is still well below any measured in the last 10 years. One explanation is that labor productivity is extremely high, suggesting, along with

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anecdotal evidence, that firms are learning to produce more without expanding their workforce. If this explanation is the case and firms have become more efficient, then large gains in production will not be met with similar increases in hiring.

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The second factor that could be affecting the unemployment rate is a change in the time it takes to fill those job vacancies that do become available. The fact that job vacancies held steady for most of 2009 while unemployment continued to rise suggests the existence of what labor economists call "match inefficiencies."

Grappling with inefficiency

Two main types of match inefficiencies occur in the labor force. One is geographic mismatch, meaning people don't reside where the job opportunities exist. In 2008, the percentage of individuals living in a different county or state from the previous year is the lowest recorded in more than 50 years of data, likely because people may be reluctant to relocate to take a new job if the value of their house has declined. Further, many who would like to move are underwater in their mortgage, making it difficult or impossible to sell their homes.

The second inefficiency is skills mismatch, which occurs when a more or less permanent change in the composition of jobs results in a large number of available workers without the skills required for the jobs that are available. By way of example, construction employment may not be likely to return to prerecession levels, and these construction workers may not have the skills to move into, say, the healthcare sector. This type of skills mismatch will require new training. Anecdotal information indicates that this retraining is occurring, especially for men. For example, Miami-Dade College, which is the largest college in the nation and has several degree options including vocational and associate degrees, has identified this trend as especially relevant for men in their 20s.

So will the nation get back to prerecession levels of employment? The answer is likely not any time soon. If the job growth of 290,000 that occurred in April was repeated for a year, keeping labor force participation constant and controlling for projected population growth, the unemployment rate would drop only to 9.1 percent. To put this into perspective, the average monthly job growth during the expansionary period between the 2001 and 2007–09 recessions was fewer than 100,000 new jobs per month.

So while the trend in U.S. labor markets appears to be headed in the right direction, it is quite possible economic recovery—even a modestly paced one—could be well advanced before any significant reduction of unemployment materializes. ▮