Job Growth Remains Elusive

Some areas of the economy are gaining strength. But the labor market lags behind increased productivity.

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Production in the U.S. economy finally returned to pre-recession levels in the third quarter of 2011. The economy is now producing the same amount of goods and services as it did in 2007. But it is doing so with 6.3 million fewer workers.

AIER's indicators of business-cycle conditions suggest that growth will continue in the near future. According to our staff economists, 73 percent of the primary leading indicators are appraised as expanding. This means that eight out of the 11 indicators for which a trend is apparent signal expansion, unchanged from last month. The cyclical score of leaders, based on a separate, purely mathematical analysis, also remains unchanged at 72. With values above 50 for both of these measures, continued expansion is likely.

Although the economy now produces the same amount of goods and services it did in 2007, it does not produce the same mix of goods and services. Underlying the country's economic expansion is a radically reallocated market.

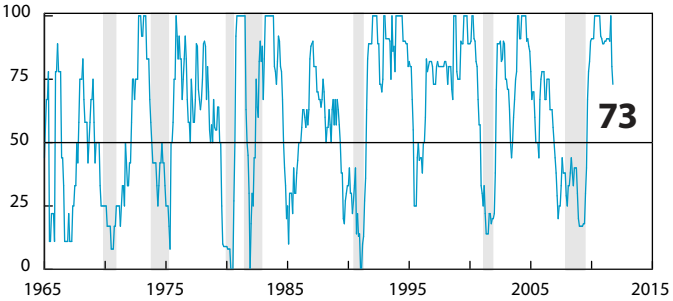
Statistical Indicators of Business-Cycle Changes

Change in Base Data					*Cyclical Status*		
Aug.	*Sep.*	*Oct.*	*Nov.*	***Primary Leading Indicators***	*Oct.*	*Nov.*	*Dec.*
+	+	+	-	M1 money supply	+	+	+
+	+	+	+	Yield curve index	+	+	+
-	+	-	+	Manufacturers' supply prices	-?	-	-
-	-	+		New orders, consumer goods	+	+?	+?
+	+	-		New orders, core capital goods	+	+	+
+	-	+		New housing permits	?	?	?
+	+			Ratio of sales to inventories	-?	-?	-?
+	+	-	-	Vendor performance	-?	-?	-?
-	-	+	+	Index of common stock prices	+?	+?	+?
-	nc	+	-	Average workweek, mfg.	+	+	+
-	-	+	+	Initial claims, unemplmt. insurance*	+	+	+
-	-	-		Change in consumer debt	+	+	+
				Percentage expanding cyclically	*73*	*73*	*73*
				Primary Roughly Coincident Indicators			
+	+	+	+	Nonag. employment	+	+	+
+	-	+	-	Index of industrial production	+	+	+
-	-	+		Pers. income less transfer payments	+	+	+
+	+			Manufacturing and trade sales	+	+	+
+	-			Civilian emplmt. to population ratio	-	-	-?
+	+			Gross domestic product	+	+	+
				Percentage expanding cyclically	*83*	*83*	*83*
				Primary Lagging Indicators			
+	-	+	-	Avg. duration of unemployment*	-	-	-
+	-			Manufacturing & trade inventories	+	+	+
+	+	+		Commercial & industrial loans	+	+	+
-	+	-		Ratio of cons. debt to income	-	-?	-?
-	-			Chg. in labor cost/output, mfg.	+	+?	+?
nc	-	+	-	Short-term interest rates	?	?	?
				Percentage expanding cyclically	*60*	*60*	*60*

nc No change. r Revised. * Inverted. Under "Change in Base Data," plus and minus signs indicate increases and decreases from the previous month or quarter and blank spaces indicate data not yet available. Under "Cyclical Status," plus and minus signs indicate expansions or contractions of each series as currently appraised; question marks indicate doubtful status when shown with another sign and indeterminate status when standing alone.

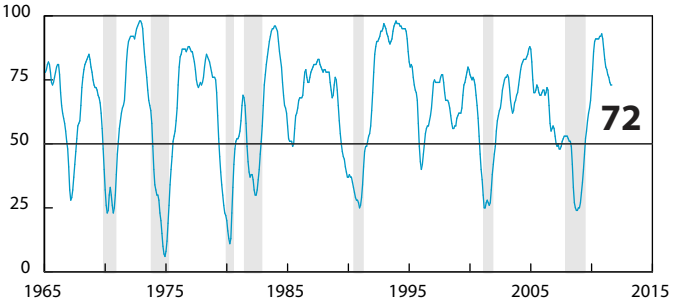
AIER Leaders Expanding and Cyclical Score Charts

Percentage of AIER Leaders Expanding



The percentage of leaders expanding is based on the analysis of 12 statistical series that move reliably in advance of general business activity. The cyclical score is based on a separate, purely mathematical analysis. For each measure, a score above 50 indicates an expansion is likely.

Cyclical Score of AIER Leaders



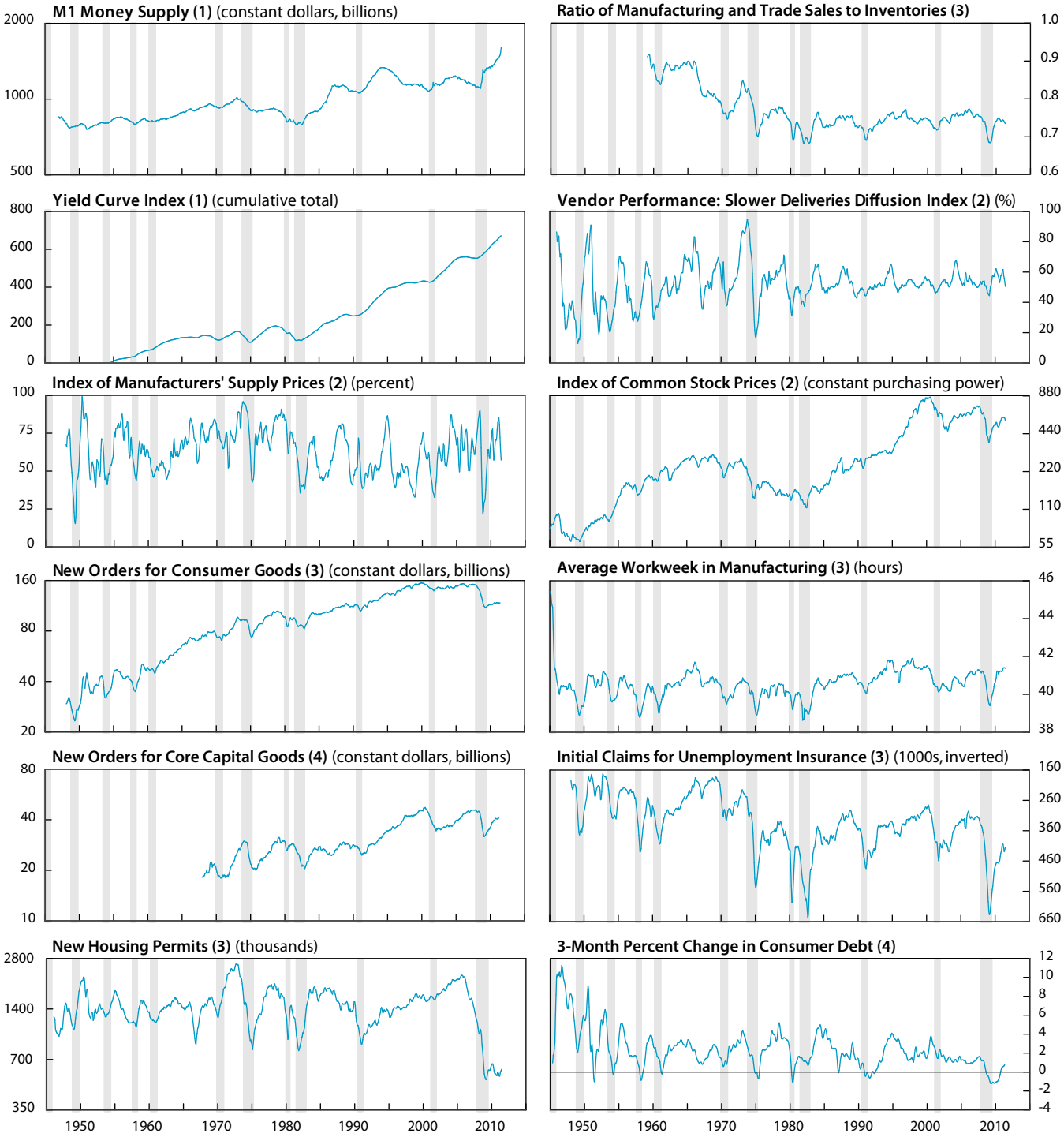
The table on page SI—4 summarizes the changes in production and employment in various industries since the start of the recession to 2010 (the latest available data).

Shrinking industries include utilities, construction, manufacturing, wholesale trade, transportation and warehousing, real estate, management of companies and enterprises, administrative and waste management services, arts, entertainment, recreation, accommodation, and food services.

Growing areas of the economy are agriculture, forestry, fishing, and hunting, mining, retail trade, information sector, finance and insurance, professional, scientific, and technical services, educational services, healthcare and social assistance, and government.

When businesses are growing, they're likely to hire more people. Unfortunately, the industries that are

Primary Leading Indicators



growing now are not the ones that lost the most jobs during the recession. Many of the workers from firms hit hardest by the recession—such as construction, manufacturing, and transportation—will not find new jobs in their former professions.

Even when hard-hit industries eventually start to grow, they are unlikely to need as many employees as they once did. Some workers from weaker industries will have to change careers.

To find jobs in expanding industries, currently unemployed people may need to acquire new skills. Growing industries such as education, healthcare, and finance, for example, require abilities different from those former workers in manufacturing or construction are likely to possess.

Economists call the mismatch between available positions and the skills of workers seeking jobs structural unemployment. It can create labor shortages in some high-growth areas.

Unfilled jobs in the mining industry, for example, reached a 10-year high in 2011. Of all positions in that area, 3.3 percent remain vacant.

Unfilled jobs in information firms rose to 3.5 percent, a level not seen since before the recession. And vacancies in education never really fell much below their average level for the past 10 years, despite the downturn.

In terms of overall employment, these vacancies are more than offset by joblessness created by the struggling construction and manufacturing industries. Because of this structural mismatch, high overall unemployment persists. Job searches for people impacted by structural unemployment are often harder and last longer.

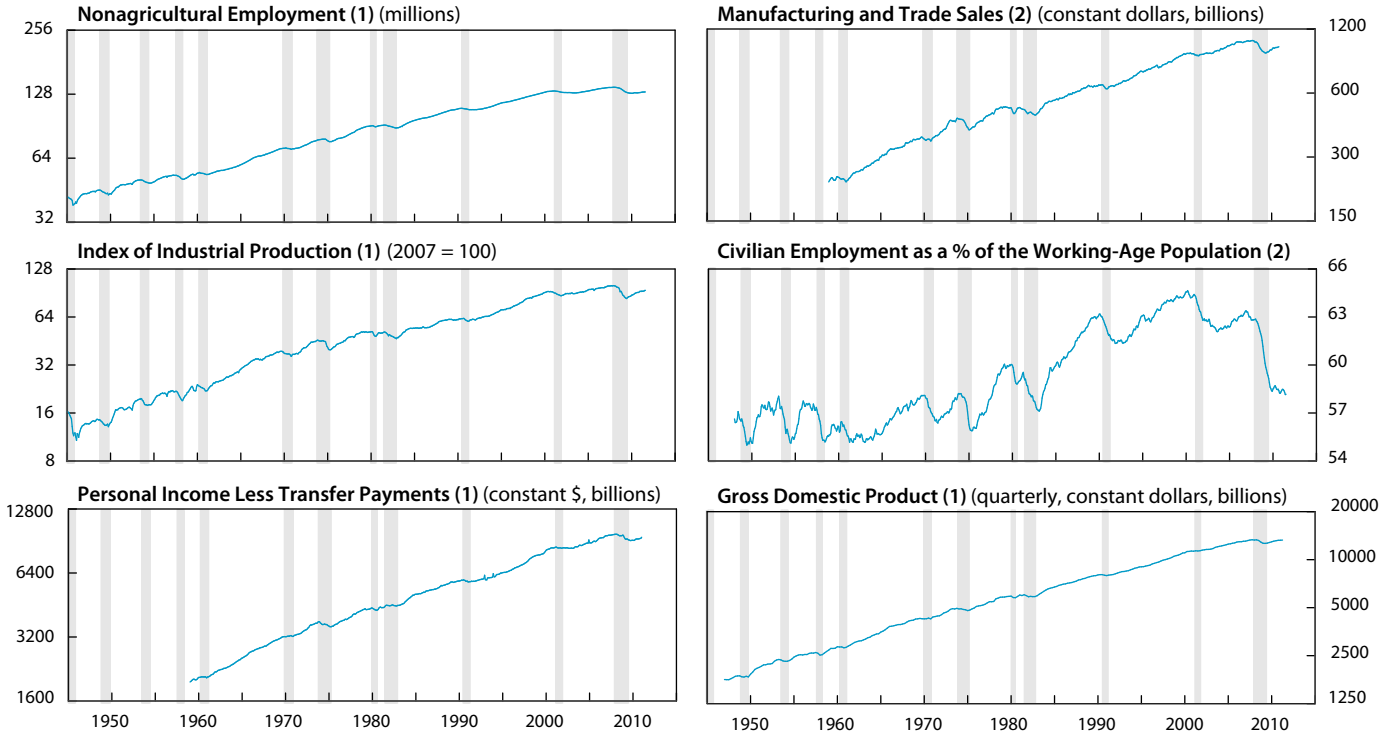
The table on page SI—4 also shows changes in the employment landscape. It covers the period from 2007 to 2010, when overall the economy lost 8.2 million full-time equivalent employees.

Employment fell across the board except in utilities, education, healthcare and social assistance, and the federal government. For other areas, an increase in their share of employment means only that the industry lost proportionally fewer jobs than did the overall economy.

The changes in productivity and employment draw a bleak picture of blue collar jobs. Most industries that traditionally employ many blue-collar workers—manufacturing, construction, transportation, and even waste management—are producing less and employing fewer people.

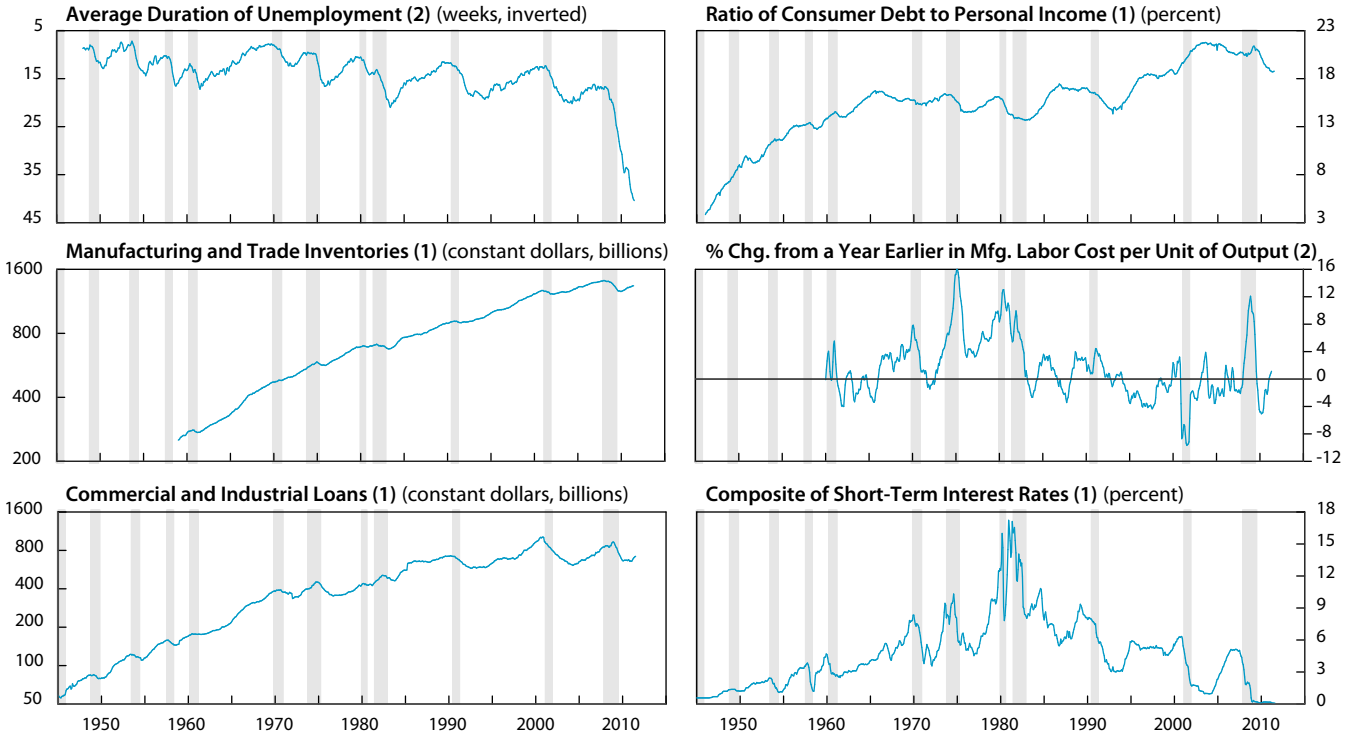
Of the blue collar occupations, only the mining and utilities industries are expanding their share of either production or employment. But these two industries combined account for a mere 1 percent of total employment. And the other expanding areas of the economy,

Primary Roughly Coincident Indicators



Notes: 1) Shaded areas indicate recessions as dated by the National Bureau of Economic Research. 2) The number in parentheses next to the name of a series is an estimate of the minimum number of months over which cyclical movements of a series are greater than irregular fluctuations. That number is the span of each series' moving average, or MCD (months for cyclical dominance), used to smooth out irregular fluctuations. The data plotted in the charts are those MCDs and not the base data.

Primary Lagging Indicators



such as education and healthcare, have not traditionally hired many blue-collar workers.

There will not be a boom in blue-collar jobs any time soon.

Dwindling employment in nearly every industry signals that the economy has become more efficient in using labor. Nearly all industries need fewer workers to create the same amount of goods and services.

In the immediate future, the productivity gains will be yet another reason for persistent unemployment. Over the long term, the gains will lower costs of production. This will result in lower-priced goods and increased sales, leading to an expansion of employment. But in a struggling global economy, that may take a while.

Change in Output and Employment Since Start of Recession

	Output (real value added) percent of GDP			**Employment** (full-time equivalent) percent of total employment		
	2007	**2010**	**Change**	**2007**	**2010**	**Change**
All industries (gross domestic product)	100.0	100.0		100.0	100.0	
Agriculture, forestry, fishing, and hunting	0.9	1.1	0.20	0.8	0.9	0.10
Mining	1.6	1.8	0.20	0.5	0.5	0.03
Utilities	1.6	1.6	-0.10	0.4	0.5	0.03
Construction	4.2	3.4	-0.90	5.9	4.5	-1.40
Manufacturing	12.8	12.3	-0.50	10.5	9.3	-1.20
Wholesale trade	6.0	5.3	-0.60	4.5	4.4	-0.10
Retail trade	6.5	6.6	0.10	10.6	10.4	-0.20
Transportation and warehousing	2.9	2.7	-0.20	3.4	3.3	-0.10
Information	4.9	4.9	0.10	2.2	2.1	-0.10
Finance and insurance	7.9	8.5	0.60	4.6	4.6	-0.03
Real estate and rental and leasing	12.8	12.4	-0.30	1.6	1.5	-0.10
Professional, scientific, and technical services	7.1	7.4	0.30	5.7	6.0	0.30
Management of companies and enterprises	1.6	1.6	-0.10	1.4	1.5	0.10
Administrative and waste management services	3.0	2.9	-0.04	6.0	5.7	-0.30
Educational services	0.9	1.0	0.04	2.1	2.4	0.30
Health care and social assistance	6.7	7.3	0.70	10.9	12.3	1.50
Arts, entertainment, recreation, accommodation, and food services	3.9	3.7	-0.20	8.6	8.7	0.10
Other services, except government	2.4	2.3	-0.20	4.6	4.7	0.04
Government (federal, state, and local)	12.2	12.7	0.50	15.6	16.9	1.20

Source: Bureau of Economic Analysis