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August Employment Weaker Than Expected

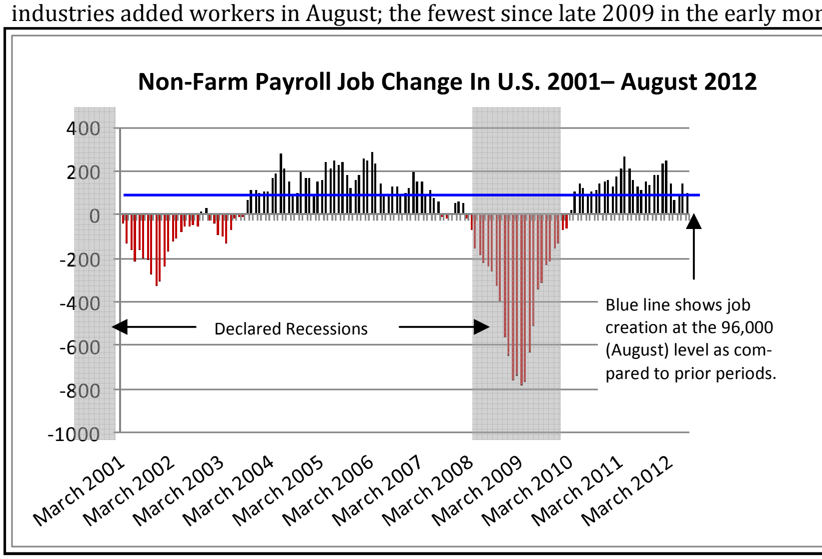
Fewer Jobs Added, Previous Months Revised Down

September 10, 2012 By William L. Pittenger, MAI, SRA

The much anticipated August jobs report proved to be weaker than expected. The report fell short of expectations with only 96,000 new payroll jobs having been created. In addition, June and July estimates were revised down. In the latest estimate, June was reduced to 45,000 new jobs from the last estimate of 63,000. That is the second downward revision for June which was originally reported at 69,000. The July gain was originally estimated at 163,000 but revised down to 141,000. Payroll job growth has averaged 94,000 over the last three months. That is above the recent low point in June but still about half the pace achieved early in the year. It is also less than half of what is necessary to reduce the nation's employment rate. Although the rate did decline slightly to 8.1% from last month's 8.3%, the underlying reason was not job growth but a decline in the size of the civilian labor force. While 96,000 new jobs were created, 368,000 persons dropped out. That ratio is 3.83 to one. In other words, for every new job created, nearly four people dropped out. The nation's unemployment rate has now been above that psychologically important 8% marker for 43 consecutive months.

Of the net 96,000 jobs added in August, 103,000 were private sector while the government sector lost 7,000 jobs. The government sector August decline brought the total jobs lost in the government sector in 2012 to 93,000. The breakdown is 61,000 state and local job losses and 32,000 federal.

Manufacturing has been showing signs of weakness in recent weeks. Inventories have risen while new orders have declined and exports have softened. The shifting dynamics have now shown up in manufacturing employment. The sector gained 23,000 jobs in July but lost 15,000 in August. That was the biggest about face in any sector and the weakness is concerning. Some, but certainly not all, of that change was linked to auto plant shut downs for new model retooling. For that reason, auto manufacturing employment can be volatile at this time of year and should bounce back, at least in part, next month. Fewer auto workers were laid off this year in July but fewer workers were also recalled in August. A complete rebound in manufacturing though, seems unlikely in the next few months as only 36.4% of manufacturing industries added workers in August; the fewest since late 2009 in the early months of recovery.



SOURCE: Bureau of Labor Statistics

The chart to the left shows job change in the U.S. since 2001. The black bars are gains; the red lines are losses and the gray bars indicate periods of declared recession. Note that job losses have consistently been greater than the gains which clearly indicates widespread and continuing systemic labor market weakness.

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Several industries added jobs in August. These included food and drinking establishments which gained 28,000 in August and 298,000 over the year. Professional and technical services gained 27,000 while healthcare gained 17,000. Finance and insurance gained 11,000.

All told, the economy has added 1.11 million jobs in the first eight months of 2012. That is an average of 138,750 per month. The private sector has added 1.21 million jobs. At the current pace the economy is on track to add 1.8 million jobs in all of 2012. That is less than the 2.1 million added in 2011. At the current rate of growth the unemployment rate will also continue to hover above 8% for the rest of the year.

The average workweek for private non-farm workers was unchanged at 34.4 hours. For production and non-supervisory workers, the work week was slightly shorter at 33.7 hours. The average hourly wage inched down fractionally to $23.52 per hour after having risen 1.7% year over year. Production and non-supervisory workers saw an average hourly rate of $19.75.

The number of unemployed persons remains at about 12.5 million, changed only fractionally from the last three months. The number of long-term unemployed, which is defined by BLS as 27 weeks or more, remained virtually unchanged at about 5.0 million or 40% of total unemployed workers. Another 8.03 million workers were classified as involuntary part time. That is down from 8.25 million a month earlier.

That group (involuntary part time) may have had hours reduced or for other reasons had accepted part time work when they could not find full time opportunities. Another 2.6 million workers were classified as marginally attached to the work force. That group includes persons who wanted and were available for work; had looked in the last 12 months but had not looked in the four weeks leading up to the survey. This category is about equal to what it was a year ago. Finally, another 844,000 workers were classified as discouraged. They believe there is no job available for them. When all these groups are tallied and added to the headline unemployment rate of 8.1%, the under-employment rate (alternative measure U-6) becomes 14.7%. That is little changed over the last few months but down from 16.1% a year ago.

While the overall continuing weakness in the labor market is concerning, three categories of data stand out. The first is the labor force participation rate which, at 63.5% in August, hit another cycle low. Indeed, that rate is also the lowest in 31 years. This figure represents the percentage of working age population who are actually in the labor force. The rate increased significantly for several decades beginning in the mid 1930s as women entered the work force in large numbers. A rate of 66-67% has been the norm for the last two decades but it began declining concurrent with The Great Recession. The decline appears to be the product of demographic movement as older workers retire or drop out as well as the lingering effects of the recession including extraordinary uncertainty in the broader economy. A companion statistic is the employment to population ratio which declined to 58.3% in August. This is a new low for the year and just above the cycle low.

The level of long term unemployment at 40% (5.03 million people) is also concerning. Although that rate is trending down from its cycle high and even over the month it remains obvious that workers who become unemployed tend to stay unemployed longer. This is clearly one of the leading labor market difficulties.

Similarly, the employment to population ratio in the 25-54 age group, though still higher than all age groups in aggregate, has declined significantly. This age group represents the most productive age group and should be around 80%. It has been hovering in the 74-75% range.

While many companies are flush with cash and some are pushing the limits of productivity most are reluctant to hire as they fear the impact of the fiscal cliff which could push the economy back into recession. Others are dealing with the uncertain aspects of health care legislation and new regulation that many fear will impact their businesses adversely. Clearly, the labor market continues to be plagued by structural rather than mere cyclical issues.