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November Employment Summary

Economy Adds 146,000 Jobs, Unemployment Rate Declines to 7.7%

December 13, 2012 By William L. Pittenger, MAI, SRA

The nation's labor market absorbed the impact of super storm Sandy much better than had been expected. Indeed, any adverse effect on job totals was negligible overall. While the storm, which made landfall in the Northeast on October 29th, was severe and caused billions of dollars in both damage and lost productivity, the probable reason for the negligible impact on jobs was in the measurement standard used by the Bureau of Labor Statistics. Workers were counted as unemployed only if they were off payroll for one pay period or more and were not paid. Many workers lost hours or days but were still counted as employed whether or not they were paid for the lost time. Moreover, it will probably take another month or two before the fog clears from around the Sandy impact numbers. Regional and State employment estimates will be released on December 21st and that should show more granularly where the Sandy impact really was.

Sandy aside, total payroll employment also surprised on the upside. The economy added 146,000 net payroll jobs. The private sector added 147,000 while the government sector lost 1,000 jobs. Gains originally reported for September and October were revised down a total of 49,000 jobs to 138,000 and 132,000 respectively. The declines were largely government related. September was revised down from a gain of 20,000 to a gain of 10,000 and October was revised from a loss of 13,000 jobs to a loss of 51,000. In the private sector September and October revisions were offsetting.

By sector, construction employment declined 20,000 jobs which is likely the result of weather related delays including super storm Sandy. We expect the construction sector will begin to show a modest gain as early as December as Sandy recovery begins in earnest and new housing construction gains traction. Manufacturing changed little overall but gains and losses within the sector were mixed. Food manufacturing declined by 12,000 jobs and chemicals were down 9,000. These were in part offset by gains in motor vehicles and parts (+10,000) and wood products (+3,000). Other key sectors generally gained jobs.

The retail sector added 53,000 jobs. The sector typically shows gains at this time of year but the increase in November was larger than usual. That is probably a result of an earlier than usual Thanksgiving holiday which results in a longer holiday selling season. The retail sector has added 140,000 jobs over the last three months. The largest three month gains were in clothing and accessories (+33,000); electronics (+9,000) and general merchandise (+10,000). Healthcare added 20,000 jobs in November with noteworthy gains of 8,000 in hospitals and 5,000 in ambulatory care facilities. Professional and business services added an impressive 43,000 jobs with most of the gain in computer system design and related services.

Net job gains thus far in 2012 have averaged about 151,000 per month which is nearly the same as full year 2011. Private employers have averaged slightly more at 152,000 jobs monthly. Growth has generally been improving since mid year. The average, though positive, is indicative of modest economic recovery. The economy still needs around 125,000 new jobs per month just to keep up with population growth and double that to push the unemployment rate down significantly and drive more robust economic growth.

The headline **unemployment rate** declined from 7.9% to 7.7% in November, its lowest level in several years. Nevertheless, the decline was not the result of significant job gains but rather more workers dropping out of the work force. Over the month (October to November), some 350,000 more workers left the labor force. That also pushed the labor force participation rate down to 63.6% where it remains at its lowest level in 31 years. That is the share of the population actually working or looking for work. There are still 4.4 million fewer workers today than when the Great Recession Officially started in December 2007.

U.S. Employment at a Glance

New Jobs In November
146,000

Revised New Jobs September
138,000

Revised New Jobs October
132,000

Civilian Labor Force
155.3 Million

Change In November from October
-350,000

Labor Force Participation Rate
63.6%

Population - Employment Ratio
58.7%

Unemployment Rate
7.7%

Total Unemployed
12.03 Million

Long Term Unemployed
4.8 Million (40.1%)

Involuntary Part Time
8.2 Million

Marginally Attached
2.5 Million

Discouraged Workers
979,000

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Approximately 12.0 million Americans are unemployed and 40.1% of them have been unemployed long term which, by BLS definition, is 27 weeks or longer. That ratio is being driven by the fact that most job losses during and after the Great Recession have been more structural than cyclical. In other words, unlike most historical recessions, where job losses have been cyclical and workers have been called back after the economy or affected industries recovered, most job losses this time have been permanent as industries have changed and technology has chipped away at jobs.

The number of persons employed **part time** for economic reasons (also known as involuntary part time) held steady at about 8.2 million workers. The **marginally attached** category was also essentially unchanged at 2.5 million workers. Finally, a sub-set of the marginally attached category, **discouraged workers,** totaled 979,000. Persons in this category have stropped looking for work because they believe there is no job available for them. These categories, part time + marginally attached total approximately 10.7 million workers. Add to that 12.0 million unemployed and the total is 22.7 million workers who are either unemployed or under employed. The unemployment rate calculated on that basis; the so-called alternative measure U-6, is 14.4% or nearly double the headline rate of 7.7%.

Turning to labor turnover, the Bureau of Labor Statistics also produces the **JOLTS Report**, the Job Openings and Labor Turnover Survey. That report might be considered a back story to the BLS Employment Situation Report. In and of itself, it has little market sensitivity but it does add color to other labor reports as it measures the churning that goes on in the labor market.

The October JOLTS Report (most recent available) is generally consistent with a modestly improving labor market. The number of job openings edged slightly higher to 3.68 million from 3.55 million in September and there were 3.3 unemployed workers available for every job opening. That is half of what it was at the worst of the recession. In addition, the number of people hired in October rose to 4.34 million from 4.2 million a month earlier. Conversely, more people also left jobs in October than in September. That figure rose to 4.08 million from 4.02 million. Looking at both hires and separations, it becomes apparent that net hiring has improved modestly over the last few months.

Fewer workers were laid off in October. Nevertheless, layoffs still accounted for about 41% of all separations. More workers left their jobs voluntarily in October although that number has declined perhaps suggesting concern over the sustainability of the nation's economic recovery.

The number of job openings has trended flat for most of 2012 after rising in 2011. The JOLTS report suggests that employers are operating in a very lean fashion. Indeed, many small business owners say they are wary of the policy direction in Washington and have been reluctant to hire. Significantly, many managers report that their current staffing is adequate in comparison to current and forecast needs.

The Finance Sector. Layoffs in the financial sector have been brutal and employment conditions are likely to get worse before they get better. Banks, both Wall Street investment banks and commercial banks, are plagued by over capacity with too little demand for their services. Investment banks have been the hardest hit. Most firms have been reluctant to reduce head count as they have been steadfastly expecting robust recovery, something that has not occurred as of this writing.

Nomura Research studied revenue and head count at several of the largest Wall Street investment banks. They discovered that the investment banks in total saw head count rise one-percent between 2010 1nd 2012 while revenues declined 36%. The fixed income sector performed the worst with head count down four-percent against revenues which were down 48%. The same pattern permeated the industry and is not sustainable.

According to Bloomberg more than 300,000 financial industry jobs have disappeared in the last two years and there are more to come. CitiGroup, for example announced 11,000 job cuts last week. Bank of America is in the throes of cutting 15,000 jobs; a number which the company said may increase to 30,000. UBS announced 10,000 cuts in October as it exits fixed income trading. Many of these companies are under extraordinary pressure to trim costs in the face of equity returns that are lower than their cost of capital.

While the commercial banking sector is much leaner, it is not immune to some of the same pressures investment banks face as it strives to compete in a low rate environment with too little loan demand and rising costs. Expect more cuts in commercial banking.

Global Labor Situation. The U.S. is very much a player in the global economy. Clearly what happens globally affects the United States. This is particularly true when it comes to exports. If U.S. trading partners are economically impaired it follows they won't buy as many goods and services and that adversely affects the U.S. economy.

The 17 country Euro zone experienced a collective contraction in November and at least nine countries are clearly in recession. Additionally, according to the recent quarterly Manpower Employment Outlook Survey, global hiring conditions have softened. Weaker hiring intentions for the first quarter of 2013 were the weakest in Europe. That is certainly not surprising given the gloomy economic conditions there. Globally, twenty-nine of 42 countries surveyed reported deteriorating hiring conditions as compared to a year ago. Twenty-one countries reported their hiring outlook for 2013 had declined. The U.S. enjoyed modest year over year improvement in comparison to its global trading partners but even so, the U.S remains significantly below its pre-recession employment peak.

Employment conditions were strongest in Asia but still weaker than a year ago. Japan, India, China and Australia all held steady while Singapore and New Zealand declined fairly significantly. Employment prospects are by far the weakest in Greece, Italy and Spain; each of whom are experiencing sovereign debt crises. Hiring intentions in general remain soft virtually around the world with no short term improvement in sight.