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January Employment Report — A Mixed Story

Economy Adds Net 157,000 Jobs, Unemployment Up Fractionally To 7.9%

Annual Benchmark Revisions Show Larger Gains Than Originally Reported

February 5, 2013 By William L. Pittenger, MAI, SRA

The January 2013 employment situation report offered up a mixed view of the U.S. labor market. Payroll employment grew by 157,000 jobs over the month. The private sector added 166,000 jobs while state and federal government shed 9,000. At first blush, January looks like another in a long line of mediocre job reports. The bigger story, however, is the revisions for November and December as well as the annual benchmark revisions which showed more jobs having been added than originally reported throughout most of 2012. November payroll growth was revised up to +247,000 (from +161,000) while December was revised up to +196,000 (from +155,000).

The Bureau of Labor Statistics also performs an annual "benchmark revision" wherein the original monthly estimates for the previous year are revised using the full universe of data from the employment tax system. The level of non-farm payroll employment in March 2012 was revised up by 424,000 jobs (not seasonally adjusted) or +0.3%. All in, the increase to last year's payrolls was a highly significant +747,000 with a total of 600,000 jobs having been created in the last three months. That is a revised average of 200,000 new jobs per month since November. On average, payrolls increased by about 181,000 jobs monthly over the last year rather than the 153,000 average monthly gain previously estimated. As a result, 2013 is beginning with a little stronger employment foundation than originally thought. Nevertheless, the job market still faces widespread uncertainty and significant negative pressure.

Returning to the January numbers, the 157,000 net gain is underwhelming. By sector, health care continued its string of monthly job gains. Growth in ambulatory health care services such as physician offices and outpatient care centers grew by 28,000 jobs. That was partially offset by a modest loss in employment at residential care facilities resulting in a net gain of 23,000 jobs. The sector has added 320,000 jobs over the last year.

Employment in construction increased by about 28,000 jobs. The gain was almost equally divided between residential and non-residential specialty trade contractors. Since its trough in January 2011, the sector has added 296,000 jobs with about one-third of that gain occurring in just the last three months. The recent gain is largely the result of the housing sector beginning to rebound. Nevertheless, the construction sector remains about 2.0 million jobs below its peak level in April 2006 at the height of the housing bubble. Going forward, we expect the sector to continue to grow steadily but modestly as housing, particularly new construction, continues its slow but steady recovery.

Service providing industries added about 130,000 jobs during the month. The gains were spread among a wide variety of industries. Retail trade also added about 33,000 jobs. Clothing stores led the way among retailers. That seems unusual given the weakness in consumer spending. The sector also lost 8,000 temporary workers. While the loss is typical in January as seasonal employees are released, the number is high by historical standards. It is unclear at this writing whether retailers over-hired in anticipation of stronger holiday sales; are anticipating slower sales going forward or are dealing with the requirements of the affordable healthcare act.

Employment in wholesale trade rose by 15,000 jobs in January. The gain was largely in the non-durable goods component (consumables). The sector has added about 291,000 jobs since its cycle low in May 2010. At the same time employment in manufacturing, financial activities, professional and business services and leisure and hospitality were essentially unchanged over the month.

January 2013
U.S. Employment
at a Glance

Net new Jobs In January
157,000 (-)

Revised New Jobs December
196,000 (+)

Revised New Jobs November
247,000 (+)

Civilian Labor Force
155.6 Million (+)

Change In January from December
+143,000

Labor Force Participation Rate
63.6% (=)

Population - Employment Ratio
58.6% (=)

Unemployment Rate
7.9% (+)

Underemployment U-6 Rate
14.4% (=)

Total Unemployed
12.3 Million (+)

Long Term Unemployed
4.7 Million (38.1%) (-)

Involuntary Part Time
8.0 Million (-)

Marginally Attached
2.4 Million (-)

Discouraged Workers
808,000 (+)

Parentheses (+, -, =) indicate change of direction from previous month

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Transportation and warehousing declined. Couriers and messengers lost 19,000 jobs following strong seasonal hiring in November and December. That seasonal pattern of growth followed by decline is typical.

The government sector lost 9,000 jobs in local and federal government in January. Over half of the jobs lost were in public education. Total government payrolls have contracted by 74,000 jobs over the last 12 months. Most were in state and local government. The contraction is slowing and we expect the burden of job losses to shift to the federal government this year as sequestration takes a currently uncertain toll on defense and other federal government spending.

Total payroll unemployment was essentially unchanged at about 12.3 million in January. Those unemployed long term, which by Bureau of Labor Statics definition is 27 weeks or longer was essentially unchanged at about 4.7 million persons or 38.1% of the unemployed population. Those working part time because their hours were reduced or they could not find full time employment remained at about 8.0 million workers. Those marginally attached to the workforce fell by 366,000 as compared to a year earlier although the total is still elevated at 2.4 million persons. That category also includes 804,000 discouraged workers which is a category of workers who have given up looking as they believe there is no job available for them. These categories total 22.7 million and represent the approximate number of Americans who are unemployed or under-employed.

The **unemployment rate** in January inched up 0.1% to 7.9%. Among the major worker groups, both adult men and adult women (age 20 and over) experienced an unemployment rate of 7.3%. The teenage unemployment rate (age 16-19) was 23.4%. By race or ethnicity, whites experienced a 7.0% unemployment rate while blacks experienced 13.8% and Hispanics experienced 9.7%. By educational attainment, those with less than a high school education experienced 12% unemployment. With a high school diploma, unemployment dropped to 8.1%. It dropped further to 7.0% with either some college or an associate degree and to 3.7% with a Bachelor's degree or higher. All rates are seasonally adjusted by the BLS.

The nation's official unemployment known variously as the headline unemployment rate or the U-3 measure was 7.9% in January. It has hovered at or near eight-percent for the last 50 months and there are no leading indicators to suggest the rate will decline significantly anytime soon. Moreover, the rate may even be deceptively low as it does not account for more than 5.0 million persons who have left the labor force since the technical end of the Great Recession in June 2009. The headline rate also does not account for persons moving from full time to part time employment. Indeed the raw number of jobs may rise even if full time employment declines but part time employment rises.

The better measure in our view is the so-called *U-6 measure of labor underutilization* as it offers a more comprehensive look at unemployment and underemployment. The U-6 starts with the official unemployment rate (U-3) then adds discouraged workers (sum = U-4), then adds all other marginally attached workers (sum = U-5) and finally adds involuntary part time workers resulting in the U-6 measure. The BLS asserts that the U-6 is not truly an "unemployment" rate as it includes some who are working such as the involuntary part time workers. Indeed, that is correct. It does, however, more precisely measure the effect of underemployment including those persons involuntarily moving from full time to part time. This issue will take on more significance going forward as more companies shed full time workers in favor of part time workers to avoid the need to provide health care benefits under the Affordable Care Act which is in the early stages of implementation.

The U-6 measure of labor underutilization in January was 14.4%. It has been stuck at that level (±) throughout most of the current post recession period making this the slowest employment recovery following any recession since World War II.

The nation's **labor force participation rate** was 63.6% in January. That is the lowest participation rate since 1981; some 32 years ago. It was 65.7% when the recession technically ended in mid 2009 and was also higher than the current rate throughout the last four recessions. Some will pass off the extraordinary low participation rate as more baby boomers retiring and leaving the labor force. According to the non-partisan Congressional Budget office, however, an aging and retiring population explains only about one-third of the downward change. The balance is the product of a troubled economy where Americans cannot find full employment. The employment to population ratio was 58.6% in January. It too was unchanged.

Looking forward at employment. The short term future for employment is mixed. While growth is far from robust, housing appears to have turned the corner. After being a drag on economic growth since the bubble burst in 2007, housing is now contributing positively. We expect that trend to continue and with it will come additional jobs. While new home construction and sales are far from robust, permitting activity, construction starts and sales have all risen and the multiplier effect of creating jobs in allied industries is significant.

On the down side, the labor force faces several new challenges this year. By some accounts, the economy could lose one-million jobs if Congress and the President fail to change the law that will make sequestration a reality in March or soon thereafter. Federal government spending cuts are already being felt. In addition, small businesses are being squeezed by slow economic recovery together with the effect of higher taxes plus the effect of the Affordable Healthcare Act. Indeed, small businesses are not creating the number of jobs they did during previous recoveries and that is clearly slowing the current recovery.

Notwithstanding the January payroll data revisions, we expect monthly job creation to remain in the 150,000 range for most of 2013. That will be enough to support population growth and new work force entrants but it is not likely to push the unemployment rate down measurably.