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### Employment Trends And the Nation's Jobs Crisis

The nation's prolonged jobs recovery is being driven by a wide variety of factors. Some are structural as described herein. Others are self inflicted by fiscal policy, regulation and other actions of government. Clearly there is no easy answer to the worst jobs crisis in over 75 years.

Knowing there are so many complex driving forces, this article will be the first of a short series on the subject. Our next commentary will focus on how fiscal policy and regulation are altering employment dynamics and exacerbating recovery. We'll address coming sequestration, the effect of The Affordable Healthcare Act and the unintended consequences of certain entitlements.

We are interested in your views too. Feel free to join this conversation by e-mailing me at:

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## Employment Dynamics To Watch

### *Structural Unemployment Contributes to Volatile Employment Dynamics*

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

The Great Recession, as it has come to be known, profoundly changed the nation's employment sector. Today, nearly four years after the recession was declared over, employment and the broader economy still struggle to recover. The reasons, which are not at all obvious are both many and diverse and range from structural changes in employment dynamics, the darker side of technology, fiscal policy, law, regulation and much more.

Job losses during recessions. Have usually been cyclical and, when graphed, they resemble a "V" shape. Historically, jobs were lost then the economy or industry recovered and employees were rehired either by the same company or at least in the same or allied industries. That was the pattern throughout eight of the eleven recessions since World War II. That pattern began to change following the recession of the early 1990s. While the losses were not particularly deep, the "loss curve" flattened and it took about 32 months to recover. That is far longer than historical recoveries. The same pattern repeated itself following the relatively mild recession 10 years later in the early 2000s. It took about four years to recover lost jobs and during the recovery, wages stagnated. Enter the 2007 Great Recession. Job losses were much deeper than at any time since The Great Depression of the 1930s and have still not recovered.

The common element throughout the three recent recessions is technology. While technology has been chipping away at employment for decades, its effect became most pronounced in the early 1990s and, in our view, that was the leading cause of the shift from cyclical to structural job loss. Moreover, from the three most recent recessions, it has become apparent that many jobs — especially at lower levels — probably will not be replaced. Technology now does what people might have historically done. That means that to remain employed, many Americans must upgrade their skills and learn new ones. Retraining has become a huge need as has the need to better educate our children and better prepare them to compete in a more technological global economy. Workers are no longer mindlessly assembling so-called widgets. Robots now do that but people run the computers that run the robots and that takes an entire new skill set which goes far beyond the rote task of assembly.

As the economy recovers, global competition and skill based technological change will drive worker skill requirements even higher. If the level of educational achievement does not keep up — and it has not for nearly four decades — many workers will be left behind, wages will stagnate, long term unemployment will rise and wage inequality will widen further thus increasing the structural unemployment rate even more. Moreover, America's well recognized innovation advantage will suffer. A depressing sidebar is that the median wage for men with only a high school education has declined an inflation adjusted 46% since 1970. If that trend continues, the effect will ripple through the broader economy inhibiting spending. It may also lead to a widening gap between the wealthy and middle class and perhaps lead to cultural changes and even unrest such as we have seen in several European companies in recent years.

Duration of unemployment is another unwanted trend of recent vintage. Today, the average duration of unemployment has reached a disturbing 35 weeks which is the longest it has ever been. The longer someone is unemployed, the more their skills are likely to deteriorate and the less likely they are to find a comparable new job. The back story here is that many employers are reluctant to hire the long term unemployed and that is clearly exacerbating an already difficult employment recovery.

The nation's employment problem is exceedingly complex and certainly defies easy or traditional answers. Much of the traditional reasoning and rules of thumb no longer apply.

