# Weekly Economic Commentary

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## Jobs Looking for People Redux

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### Highlights

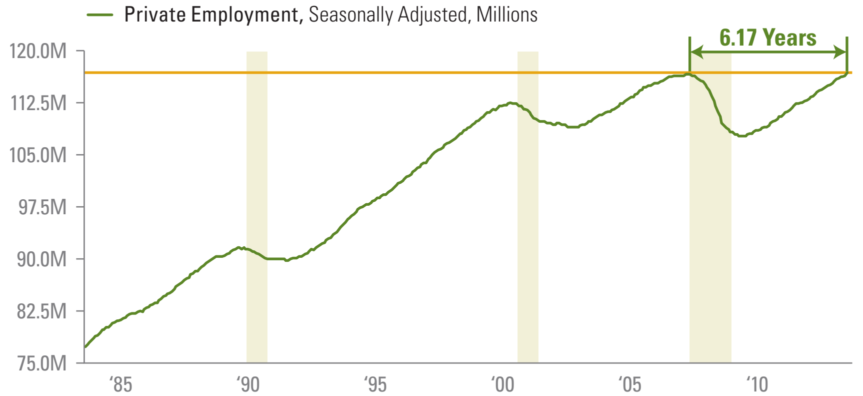
The U.S. labor market finally reached a milestone in March 2014, getting back all the jobs lost during the recession, but raising questions about the sustainability of the economic expansion.

The JOLTS data continue to tell a familiar story: the labor market is healing, but it still has a long way to go to get back to normal.

Looking around the country at open jobs by industry, firm size, and pay, it seems like a good time to be a business and professional services worker in the South looking for work in a small-to-medium sized (50 to 249 employee) business.

As reported by the Bureau of Labor Statistics of the U.S. Department of Labor last Friday, April 4, 2014, the private sector economy added 192,000 net new jobs in March 2014, despite another round of unusually cold weather in most of the nation during the month. As of March 2014, 116.1 million people are employed in the private sector economy in the United States, a new all-time high. The prior peak for employment was at the onset of the 2007–09 Great Recession in January 2008, when the economy employed 116 million people. It took the economy 74 months to get back to the prior employment peak [Figure 1].

1 The Labor Market Hit a Milestone in March 2014, Finally Surpassing the Pre-Recession Peak on Employment




Source: LPL Financial Research, Bureau of Labor Statistics, Haver Analytics 04/04/14

Shaded areas indicate recessions.

This suggests that the current economic expansion, which will turn five years old in June 2014, could last almost 10 years, dating the start of the next recession late in this decade.

In the seven economic recoveries since 1960, it has taken the economy, on average, 27 months to recoup the prior high in employment after a recession [Figure 2]. Excluding the short 1980 recession, it has taken, on average, 30 months. While the labor market has finally recovered all the jobs lost during the recession, reaching that milestone brings up new questions about the sustainability of the expansion.

The amount of time from employment regaining its prior peak to the start of the next recession has varied widely over the past 50+ years, from as

2 On Average, the Economy Continues to Expand for Nearly Five Years After Reaching the Prior Peak in Employment

Private Sector Employment

| Peak | → | Passes Prior Peak | → | Next Recession |
|---|---|---|---|---|
| 04/1960 | 22 Months | 02/1962 | 94 Months | 12/1969 |
| 03/1970 | 21 Months | 12/1971 | 23 Months | 11/1973 |
| 10/1974 | 18 Months | 04/1976 | 45 Months | 01/1980 |
| 03/1980 | 11 Months | 02/1981 | 5 Months | 07/1981 |
| 08/1981 | 26 Months | 10/1983 | 81 Months | 07/1990 |
| 03/1990 | 37 Months | 04/1993 | 103 Months | 11/2001 |
| 12/2000 | 54 Months | 06/2005 | 18 Months | 12/2007 |
| Average* | 30 Months | | 60 Months | |
| **01/2008** | **74 Months** | **03/2014** | **?** | **?** |

Source: LPL Financial Research, Bureau of Labor Statistics, National Bureau of Economic Research 04/04/14

*Excluding 1980 recession.

The Index of Leading Economic Indicators (LEI) is an economic variable, such as private-sector wages, that tends to show the direction of future economic activity.

long as 103 months (8.5 years) and 94 months (nearly eight years) during the long expansions in the 1990s and 1960s, to as short as five months in the early 1980s double-dip recession. On average—excluding the short recession in 1980—the economy continued to expand for another 60 months (five years) once the employment level hit its prior peak. This suggests that the current economic expansion, which will turn five years old in June 2014, could last almost 10 years, dating the start of the next recession late in this decade.

This timing is consistent with the odds of a recession derived from the Index of Leading Economic Indicators, which suggests that the probability of a recession in the next two years (through mid-2017) is between 10% and 15%. History suggests that recessions typically occur when imbalances build up in the economy: too much inflation, too much debt, overbuilding, or overinvesting in a certain sector. The tepid pace of both economic and job growth since the start of the recovery also suggests that we are still well within the middle stages of the economic expansion that began in June 2009.

## Inner Workings of Labor Market

Each month, market participants and the financial media obsess over the monthly jobs report that details how many jobs were added in the economy, the industries in which the jobs were added, how much workers were paid, and why (and for how long) workers were unemployed. That report is typically released on the first Friday of each month. The March 2014 Employment Situation report was released last Friday, April 4, 2014. On the other hand, the monthly report on Job Openings and Labor Turnover Survey (JOLTS), also released by the Bureau of Labor Statistics, is met with little, if any, fanfare from the financial markets or the financial media.

The JOLTS data provide more insight into the inner workings of the labor market than the monthly employment report does.

While the monthly Employment Situation report provides a timely look at the U.S. labor market, it fails to capture the dynamic quality of its inner workings. The monthly JOLTS report provides an account with this added level of information. The report does not get a lot of attention, mainly because it is dated by the time it is released. The JOLTS report for February 2014 is due out this week (April 8, 2014). The market already has detailed information on the labor market for both February and March 2014 and, by next week, will have seen several weeks' worth of initial unemployment claims data for April 2014. However, the JOLTS data provide more insight into the inner workings of the labor market than the monthly employment report does. In general the latest JOLTS data suggest that there are more open jobs now than at any time in the past six years, professional and business service jobs are in high demand, and that small- and medium-sized businesses in the South are looking for business and professional services workers.

JOLTS provides data on:

- The number of job openings on an economy-wide scale , openings by firm size, and openings by region;
- The number of new hires in a given month; and
- Job separations.

On the surface, the JOLTS data reveal just how dynamic the U.S. labor market is, demonstrating how the economy both creates and destroys tens of millions of jobs per year. It can also help us answer questions we receive quite often in the LPL Financial Research Department like, Where are all the jobs coming from? What do those jobs pay? What kind of companies are hiring? and, Where are the jobs located?

At the end of January 2014 (the latest data available), there were 4.0 million job openings, up from 2.4 million open jobs at the start of the economic recovery in June 2009 [Figure 3]. However, the 4.0 million open jobs at the end of January 2014 were 700,000 fewer than at the end of the 2001–07 recovery. Thus, the JOLTS data continue to tell a familiar story: the labor market is healing, but it still has a long way to go to get back to normal.

3 Solid Percentage Increase in Both Construction and Manufacturing Jobs During the Recovery

Open Jobs by Industry

| | Start of Recovery (06/2009) | 01/2014 | Increase/ Decrease | Avg. Hourly Earnings |
|---|---|---|---|---|
| Construction | 47K | 156K | 109K | $27/hr |
| Manufacturing | 95K | 270K | 175K | $25/hr |
| Retail Trade | 260K | 377K | 117K | $17/hr |
| Professional and Business Services | 361K | 656K | 295K | $29/hr |
| Education and Health Care | 525K | 689K | 164K | $25/hr |
| Leisure and Hospitality | 296K | 633K | 337K | $14/hr |
| Federal Government | 59K | 48K | -11K | NA |
| State and Local Government | 258K | 321K | 63K | NA |
| Total | 2.4M | 4.0M | 1.6M | $24/hr |

Source: LPL Financial Research, Bureau of Labor Statistics, National Bureau of Economic Research 04/04/14

## Where Are the Jobs?

Currently, the manufacturing sector has 270,000 job openings (versus just 95,000 at the end of the Great Recession).

The industry group that has seen the biggest percentage change (231%) in the number of open jobs since the start of the recovery is the construction sector, aided by the recovery in the housing sector, which of course was at the center of the 2007–09 Great Recession. Manufacturing (184% increase in open jobs since the end of the Great Recession), leisure and hospitality (112%), and professional and business services (82%) have also seen large increases in job openings. Currently, the manufacturing sector has 270,000 job openings (versus just 95,000 at the end of the Great Recession).

As we have noted in this and other publications over the past several years, the manufacturing sector is experiencing a mini-revival. The recent boom in domestic natural gas production provides U.S. manufactures with very cheap energy input costs. In addition, the United States continues to have the most productive, highly educated, and mobile workforce in the world, The manufacturing sector is experiencing a mini-revival.

all at relatively low wage rates. The superior workforce allows better quality control and more domestic production (instead of imports); it also cuts down on transporting goods long distances back to the domestic market. Finally, political "arm-twisting" has also contributed to the rebound in U.S. manufacturing in recent years, as manufacturers take advantage of tax rebates and other incentives to open or expand factories in Toledo instead of Taiwan. It's not back to where it was in the 1970s and 1980s, but after declining for 70+ years since the end of WWII, manufacturing employment may be poised to climb higher over the medium term.

Since the economy began regularly creating jobs again (early 2010) after the end of the Great Recession, the manufacturing sector has added 626,000 jobs, the best four-year performance for manufacturing jobs since the late 1990s. In addition, the economy has created manufacturing jobs in 39 of the 40 months since March 2010. Almost all of the gains in manufacturing have come in the durable goods area, led by fabricated metals, machinery, and motor vehicles and parts. The non-durable goods sector (textiles, apparel, printing and publishing, etc.) continues to struggle. Please see the *Weekly Economic Commentary* from March 31, 2014, *The Employment Situation: Slow Climb Back,* for more details.

## How Much Do They Pay?

Job openings have surged by 112% in the relatively low-paying ($14 per hour, on average) leisure and hospitality area and by 45% in retail ($17 per hour) [Figure 3]. But large increases in job openings since the beginning of the recovery have not been limited to low-paying jobs. Job openings in both manufacturing and construction have soared, and these are among the highest paying jobs. Even in health care and education—which didn't see many job cuts during the recession—job openings have increased by 31%, for jobs that pay, on average, $25 per hour. Overall government job openings have increased only modestly since the end of the recession, with a sizable 24% gain in state and local openings masking a drop in open jobs at the federal level. As noted in our *Outlook 2014: The Investor's Almanac*, we expect the drags on economic growth from the government sector to fade in 2014. Indeed, since early 2013, state and local governments have added 80,000 net new jobs, after shedding nearly 750,000 jobs between mid-2008 and early 2013. The 361,000 open jobs in the state and local sector in June 2013—the end of the school year in most parts of the country—was the highest for any June since 2007 and suggests that there is more hiring to come in this sector.

4 Vast Majority of Gains in Job Openings Have Come From Small Businesses (Under 499 Employees)

Gains in Job Openings

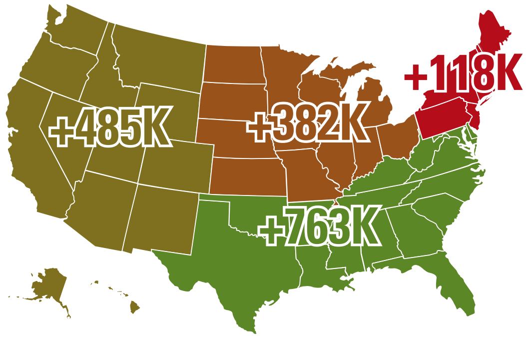
| | Q2 2009 | Q4 2013 | Increase |
|---|---|---|---|
| 1 to 9 Employees | 250K | 474K | 224K |
| 10 to 49 | 662K | 950K | 288K |
| 50 to 249 | 623K | 1.17M | 548K |
| 250 to 999 | 305K | 646K | 341K |
| 1000 to 4999 | 174K | 313K | 139K |
| 5000+ | 41K | 68K | 27K |

Source: LPL Financial Research, Bureau of Labor Statistics, National Bureau of Economic Research 04/04/14

## What Size Companies Are Hiring?

Figure 4 looks at job openings by firm size. Since the early 1990s, small businesses have created two-thirds of the jobs in the United States. The Bureau of Labor Statistics collects this data, but it lags the other data mentioned in this commentary, and the most recent report is from the middle of 2013. However, some private sector firms collect data on hiring by

5 The South Enjoys the Most Job Openings and Most Open Jobs Added Since the Great Recession




Source: LPL Financial Research, Bureau of Labor Statistics, National Bureau of Economic Research 04/04/14

Numbers above represent the increase in open jobs from 06/2009–01/2014.

NORTHEAST: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

SOUTH: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

MIDWEST: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

WEST: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

firm size, most notably the ADP Research Institute. These data show that small businesses (fewer than 499 employees) have accounted for more than 70% of all job gains since early 2010, when the economy began to routinely create jobs after the end of the Great Recession. Recent surveys do show an uptick in small business optimism, albeit from very low levels, helping to corroborate the hiring data, but as noted in the recent *Weekly Market Commentary*, *The Real Reason for the Rebound*, February 24, 2014 the two main concerns of small businesses right now are high taxes and too much government regulation.

## What Regions Have Jobs?

Figure 5 breaks down job openings by region. The region with the most openings (1.6 million), and the biggest increase in job openings since June 2009, is the South. On the other hand, the Northeast has seen the smallest increase in job openings in the past four-and-a-half years and also has the fewest open jobs right now. The Northeast continues to lag behind both the western and midwestern regions in the increase in the number of open jobs. One explanation for lagging performance in the Northeast region is that the Northeast had both a housing and construction bubble and was at the center of the financial sector bubble that burst alongside the housing bubble in 2007 through 2009. Looking around the country at open jobs by industry, firm size, and pay, it seems like a good time to be a business and professional services worker in the South looking for work in a small-to-medium sized (50 to 249 employee) business. ■





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