

October's Employment Situation: Progress, But Long Shadow of Recession Remains

The November 4, 2016 jobs report from the Bureau of Labor Statistics will be the final report before the presidential election on November 8th. The report will cover employment and wages in October 2016.

The U.S. Economy in October 2008 Compared With Today

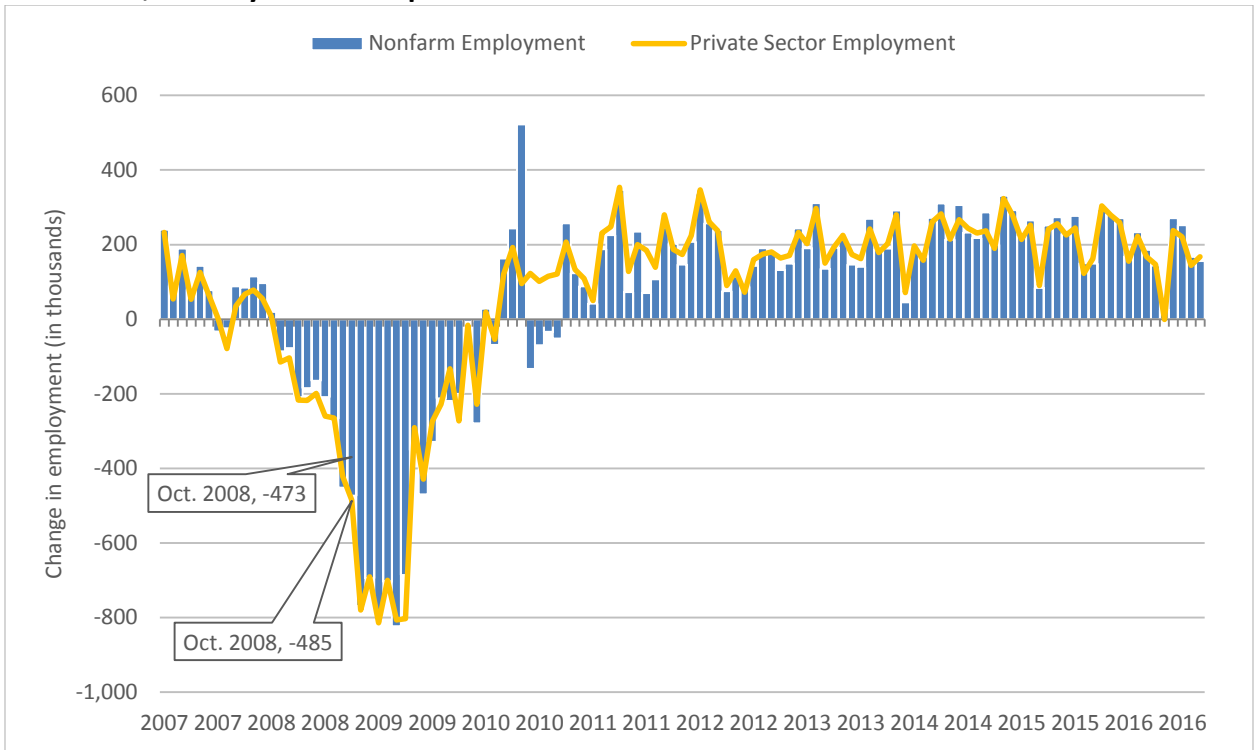
Between the eve of the 2008 presidential election and today, U.S. workers endured the most severe recession since the 1930s, as the economy cratered, unemployment exploded, and wages declined. We now know the recession had officially begun in December 2007, almost a year before the 2008 presidential election, but as we look ahead to where the economy is heading, we thought it would be useful to compare where we were in October 2008 and where we are today.

As the following data points reflect, on certain measures, the economy has rebounded and America's workers face brighter job prospects than before. But many other measures show the long shadow of the Great Recession. Many of America's workers still struggle, and the next president will need to confront serious challenges relating to the continued strength of the U.S. economy and its ability to produce good, family-sustaining jobs.

To start, **Figures 1 and 2** make clear just how deep of a hole the Great Recession left in its wake, and how far we have come since its darkest days. In October 2008, the U.S. was in its ninth straight month of net private sector job loss. Then, private sector employment was approximately 2.0 percent lower than the pre-Great Recession peak of January 2008 (**Figure 2**). The hemorrhaging of jobs would persist through the next year, finally ceasing in February 2010. By then, private sector employment had contracted by nearly 8 percent in total.

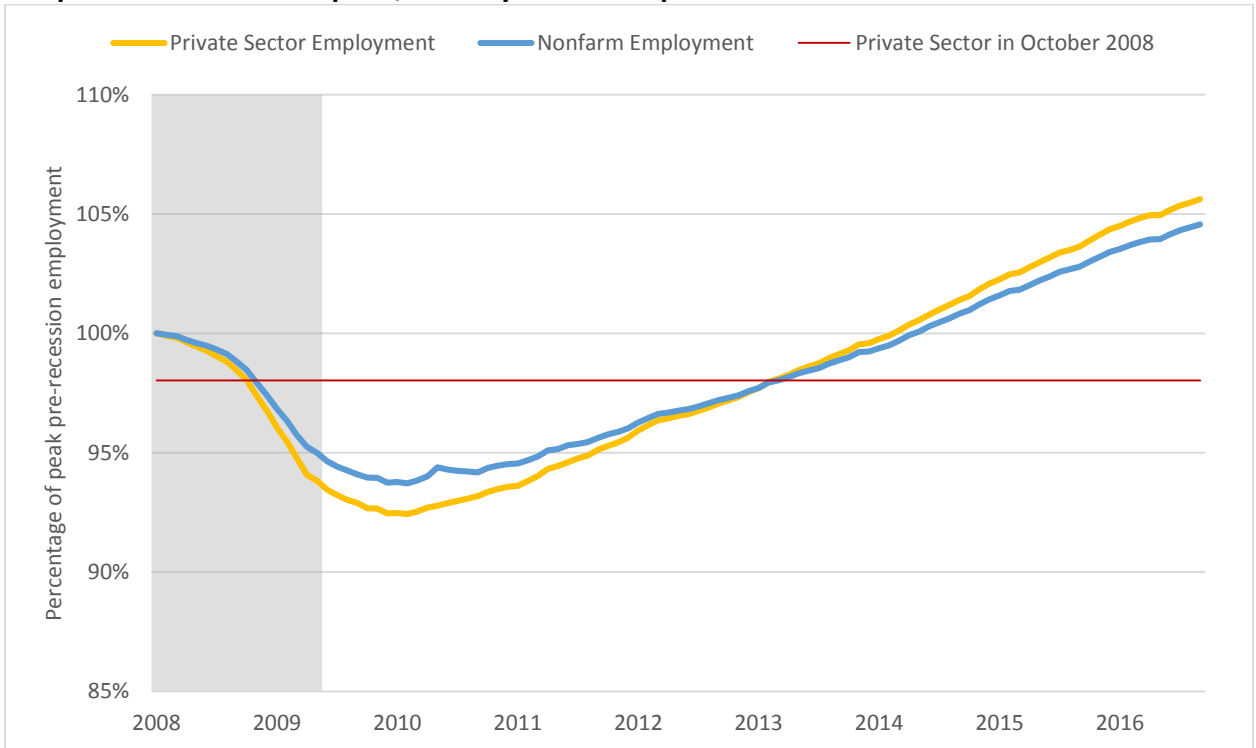
Since then, net private sector employment has increased in every month but one (May of this year), as businesses added approximately 15.3 million jobs on net over this period. Today, private sector employment is approximately 5.6 percent greater than its pre-recession peak. Though monthly jobs growth has slowed somewhat in 2016, it shows no signs of weakening significantly in the near term.

Figure 1: Monthly change in nonfarm and private sector employment, in thousands, January 2007 to September 2016



Source: CES

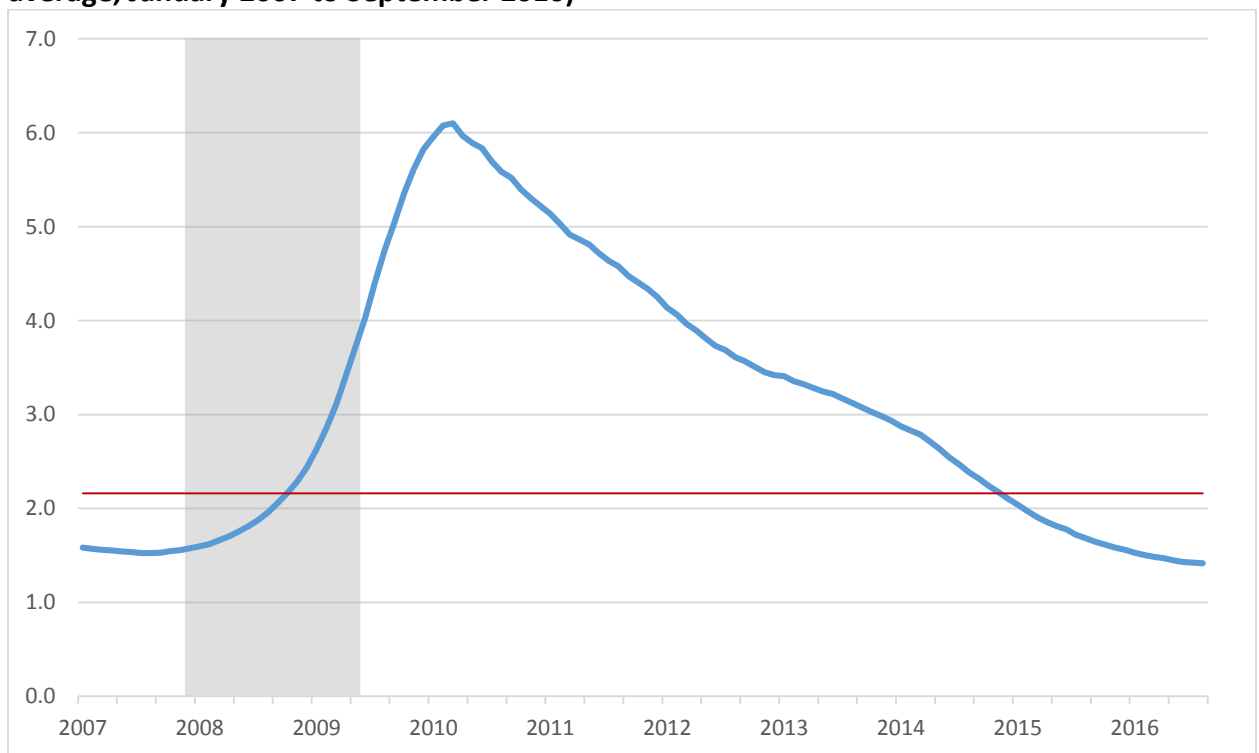
Figure 2: Monthly nonfarm and private sector employment as a percentage of the pre-Great Recession peak, January 2008 to September 2016



Source: CES

The Job Openings and Labor Turnover survey—known as JOLTS—provides valuable information about churn in the U.S. labor market. Using it, we can compare the number of unemployed workers to the number of open positions, to gain a sense of just how stiff the competition for any work was at the downturn’s peak. As **Figure 3** shows, eight years ago, before conditions really worsened, this ratio stood at 2.2. It would peak about a year and a half later, in early 2010, at just over six jobless workers per one open position. Fortunately, this ratio has fallen steadily over the past six years, and at 1.4, is now lower than it was before the recession. That said, given the high number of missing workers—that is, potential workers on the labor market’s sidelines, who, if conditions were improved, would be looking for a job or working—one wonders if this figure doesn’t slightly understate the demand for work in the U.S. economy.

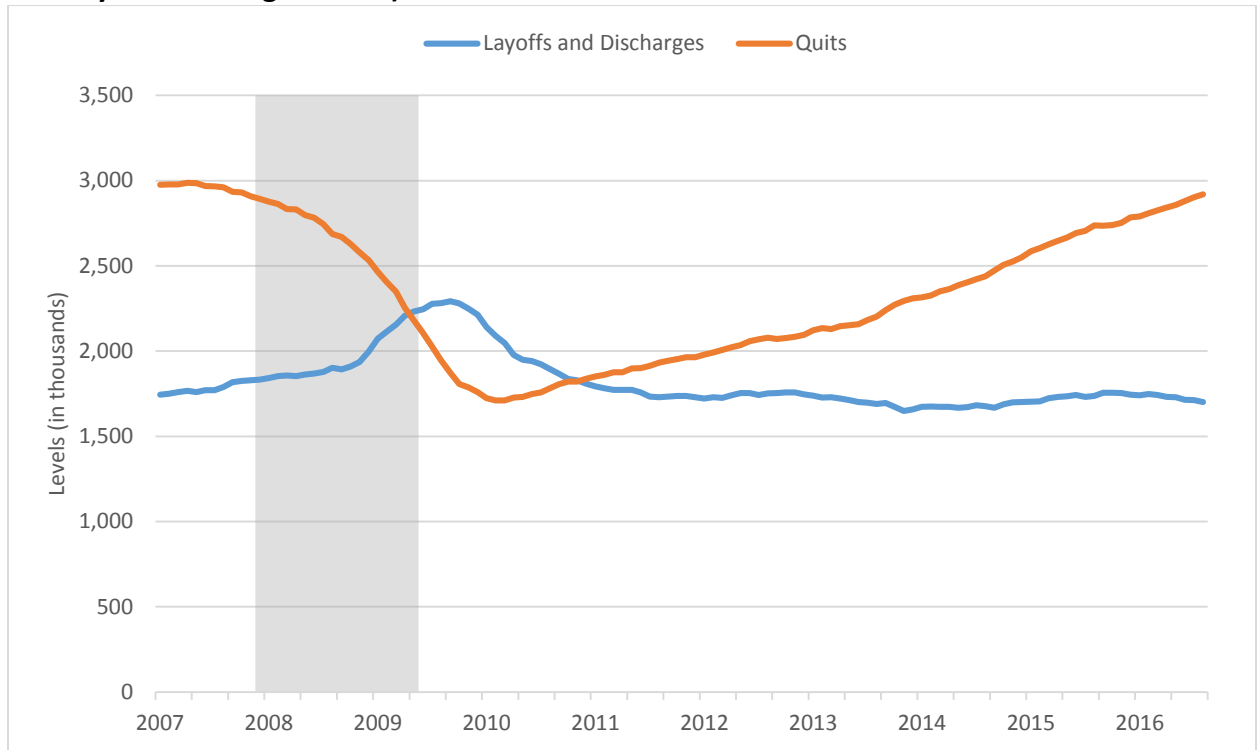
Figure 3: Ratio of unemployed workers to job openings (12-month moving average, January 2007 to September 2016)



Source: JOLTS and CPS

Figure 4 plots additional measures from JOLTS, including layoffs and quits. Fall 2008 is roughly when layoffs, measured as a 12-month moving average, started to really pick up. They wouldn’t reach their peak until about a year later, in September 2009, when an average of 2.3 million people were being issued pink slips in every month. The good and not-so-surprising news is that layoffs are down significantly since then, by about one-quarter as of the last 12 months ending August. At the same time, the number of quits has steadily increased since hitting its low point in 2010. Over the last year, quits per month averaged 2.9 million. That greater numbers of workers feel confident enough in their job prospects to voluntarily quit their jobs is a sure sign of improvement.

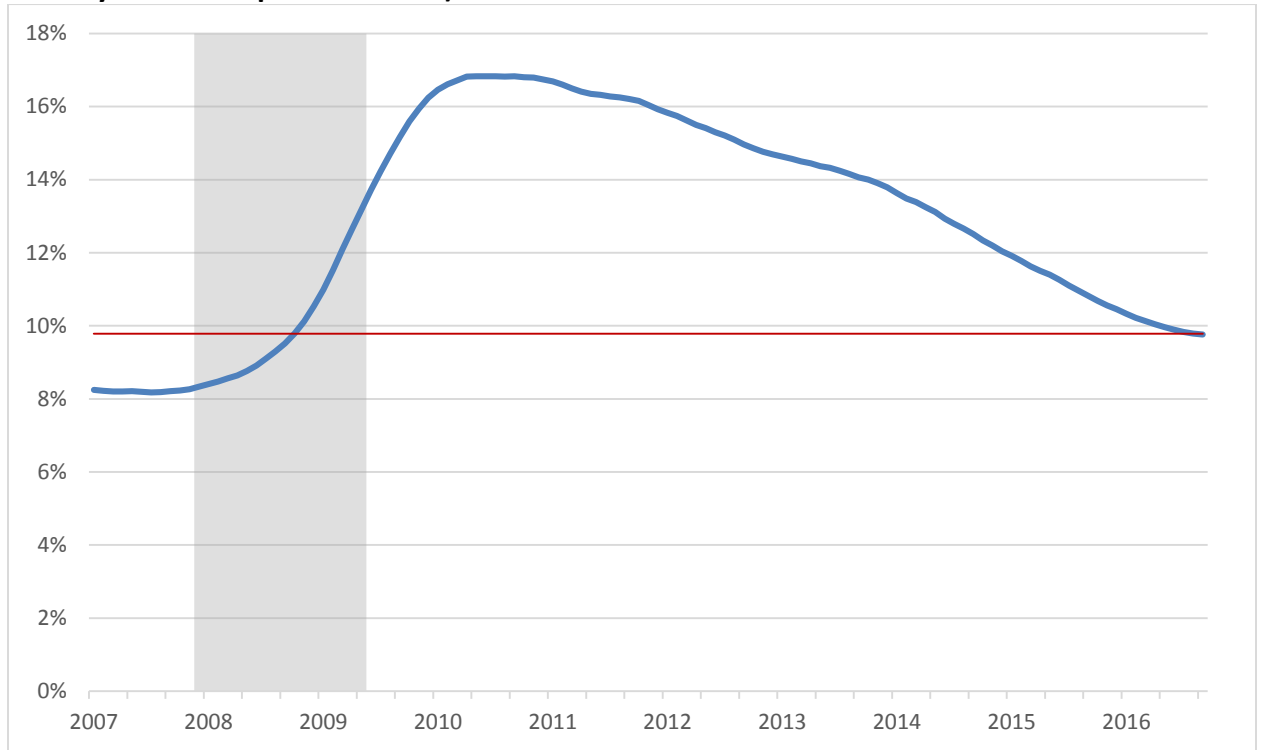
Figure 4: Layoffs and Quits Levels, in thousands (12-month moving averages, January 2007 to August 2016)



Source: JOLTS

Even though monthly unemployment has dropped, millions of people remain on the sidelines of the labor market, or else they’re working but for fewer hours than they want and need. **Figure 5** plots what is known as the U-6 measure, which captures unemployment—including workers who have stopped searching but if offered a job would take it—and underemployment. On an annual basis, it just recently dipped below 10 percent, which is a sign of progress. However, at 9.8 percent, it remains exactly where it was in October 2008, and significantly elevated relative to its 8.3 percent level just prior to the recession in December 2007. The continued elevation in the number of workers employed part time for economic reasons—also known as involuntary part-time work—was the subject of relatively intense debate earlier in the recovery, especially when the employer mandate of the Affordable Care Act was to take effect, and had some questioning whether the observed increase was structural in nature. Fortunately, that debate has largely died down. Most evidence suggests the elevation is cyclical, and that involuntary part-time work will continue to fall as the labor market continues to strengthen.

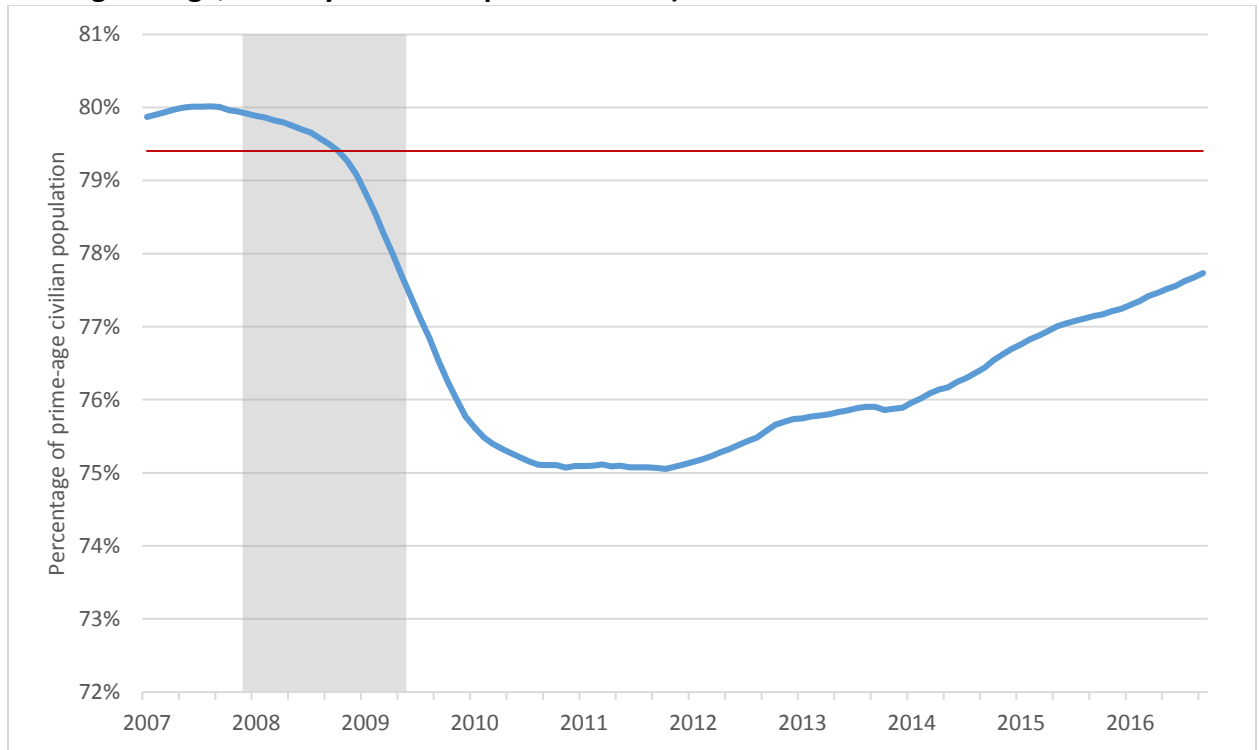
Figure 5: Unemployment and underemployment as a percentage of the labor force plus workers marginally attached (U6) (12-month moving average, January 2007 to September 2016)



Source: CPS

Even though monthly unemployment has returned to its precession level, the proportion of workers with jobs remains suppressed, reflecting continued slack in the economy. As shown in **Figure 6**, of the civilian population in their prime working years (ages 25 to 54), 79.4 percent were employed as of the 12 months ending this September. This figure has steadily increased over the last few years, but it remains 1.7 percentage points lower than it was in October 2008, and more than two percentage points lower than the prerecession peak of 80 percent.

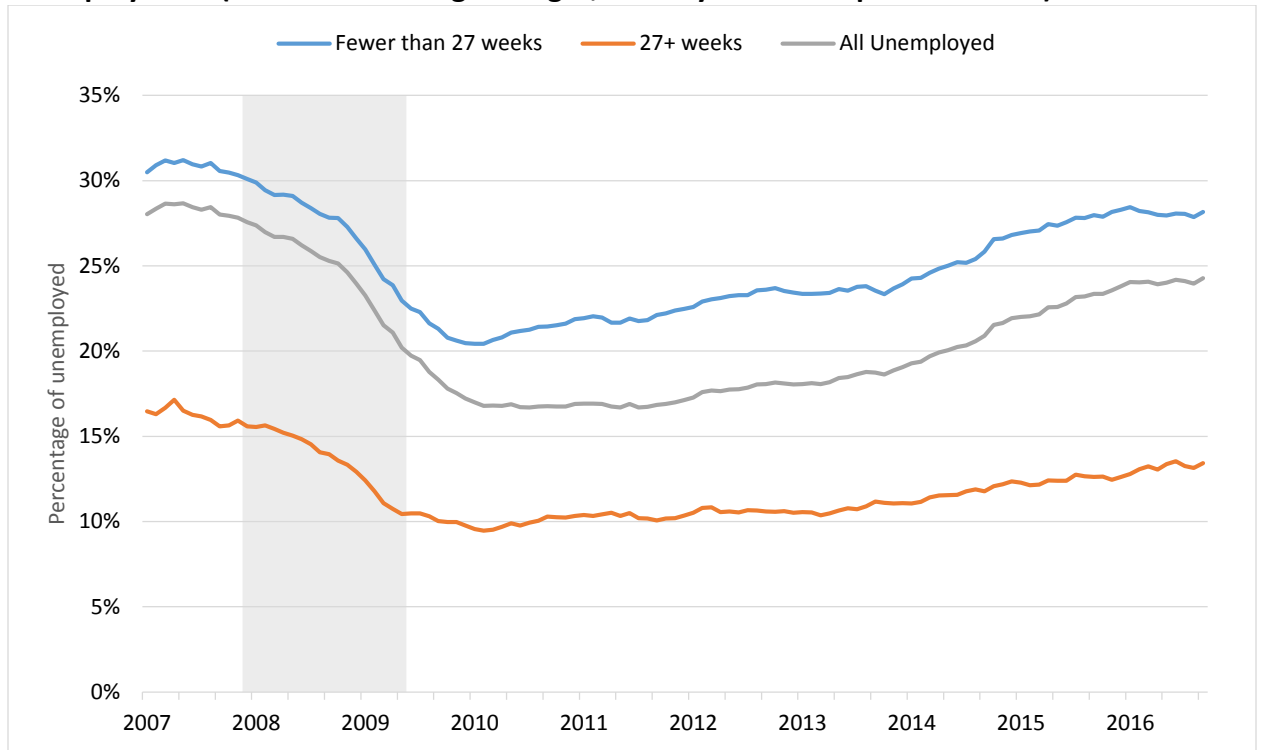
Figure 6: Employment rate of prime-age workers, ages 25 to 54 (12-month moving average, January 2007 to September 2016)



Source: CPS

A defining feature of the Great Recession is the record high number of jobseekers unemployed for 27 weeks or more. We would not realize the full scope of the damage until 2010, when the number of long-term unemployed workers reached nearly seven million, representing a staggering 47 percent of all unemployed, or more than four percent of the workforce. Although the number of the long-term unemployed has declined substantially in the last couple of years, to just under two million workers as of September, workers who have been unemployed for extended durations continue to struggle to find work. As **Figure 7** shows, the rate at which the long-term unemployed transition to work from one month to the next has yet to recover to its pre-recession level. And, as usual, the long-term unemployed find work at significantly lower rates than the short-term unemployed—over the last year, just 13 percent transitioned to work compared to 28 percent of the short-term unemployed.

Figure 7: Monthly job-finding rate of the unemployed, by duration of unemployment (12-month moving averages, January 2007 to September 2016)



Source: CPS

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