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U.S. Job Woes: Canada 1990s Redux

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There is a new kind of unemployment in the U.S.—long duration structural unemployment. It now represents a record 3.2% of the labour force and a record 33.7% of the unemployed. These numbers are reminiscent of Canada's labour crises in the early-'80s and early-'90s recessions. In Canada, they required years of painful downsizing of government deficits, which has left the public education and health care systems underfunded. It also caused the sustained devaluation of our currency and the rise in inflation, which ended only after the central bank dramatically tightened monetary policy and drove interest rates sky high. Today, long-duration unemployment represents only 1.5% of the Canadian workforce and over 17% of the unemployed, roughly half the ratios of the past recessions and half the ratios in the U.S. today.

Fifteen million Americans are locked in the nightmare of unemployment, nearly 10% of the labour force. A third has been jobless for more than six months. The U.S. economy needs roughly 8 million net new jobs to take it back to the lean years of 2006 and 2007. Many of these long-duration jobless folks are among the first-time unemployed. They are fearful and depressed and unaccustomed to the indignities of job search. Many are formerly affluent, well-educated workers for which unemployment is a new and disheartening experience. A large number are boomers, burdened with exorbitant tuition fees and houses they can no longer afford. Those over 55 are finding it impossible to retire as they had planned and many retirees are rejoining the labour force.

Despite this enormous excess capacity in the U.S. labour market, wage growth has picked up in the last several months. In August, average hourly earnings of production and nonsupervisory workers on private nonfarm payrolls rose by 6 cents, or 0.3%, to \$18.65. Over the past 12 months, average hourly earnings have risen by 2.6%, while average weekly earnings have risen less due to declines in the average workweek as many are now involuntarily underemployed.

Job market turnover is now quite low. The pace of job separations (layoffs, discharges, retirements, quitters) has slowed in recent months to very low levels, but the pace of hiring has slowed as well. The good news is that for those that still have a job, they are probably likely to keep it, but for those who don't, they are having a very hard time finding one. And voluntary separation, the quit rate, is historically quite low.

Wages continue to be relatively sticky on the downside now that the major union blood letting is behind us. According to compensation consultants, Watson Wyatt, companies

worry if they cut wages, motivation will be impaired, so instead they lay off more workers and stop hiring. This concentrates the pain of the recession on the unemployed, who find themselves jobless for a very long time. In this recession, inflation has remained so low that real wages are actually rising, cushioning the still-employed. Inflation-adjusted pay is up 2½%-to-3½%. Amazingly enough, that's as high as the peak increases during the late 1990s boom. Sounds crazy, but this might well be reflective of the surge in productivity growth rarely seen during a recession.

Last week, the U.S. Census Bureau reported that median real household income was lower last year than a full decade earlier. But this figure includes all of the households with one or more job losses, which has biased down the median figure.

Bottom Line: There are many ways in which the Great Recession is like no other in the U.S. postwar period. Prominent among them is the dire pain suffered by the unemployed; their household income has fallen at unprecedented rates for a historically long period of time. For those who are lucky enough to still have work, in the aggregate, real wages are rising. That doesn't mean that in some sectors wages and hours worked have not fallen, just that in total for the economy, those effects have been more than offset by real-wage gains, thanks in large measure to falling inflation. Long-term structural unemployment in the U.S. will continue for some time as the economy deleverages, causing some sectors to continue to contract (think banking and retail trade).

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