

Another U.S. Jobless Recovery?

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The U.S. recession is over, with two straight quarters of real GDP growth and further gains anticipated. However, while the economy has grown since mid-2009, employment has continued to decline, raising talk of yet another jobless recovery.

The depth of decline in U.S. employment is unprecedented, totalling 8.4 million (6.1%) from the December 2007 peak. Historically, job growth lags GDP by a quarter, but in the last two recoveries, employment has taken much longer to bounce back. Following almost every post-war recession until 1991, the economy added jobs in the first quarter of recovery. However, the last two recoveries have been termed “jobless recoveries”, as it took five quarters before employment rose in 1991 and seven quarters in 2001. Despite the drop in January nonfarm payrolls, there’s still a decent

chance employment could rise for all of Q1. That would make this recovery better than 1991 and 2001, but still weaker than prior episodes.

Even so, if payrolls average a historically solid gain of 200,000 per month, it would take 42 months to return to the previous peak level of employment. Over the past 10 recessions, it’s taken an average of 24.5 months for employment to return to its peak. Again, the recovery from the 1991 and 2001 recessions underperformed, taking 32 and 48 months to come back, respectively (*Table 1*). Considering the depth of the decline, this recovery will almost certainly rank among the longest.

Even if we get payroll growth in Q1 or Q2, the pace of increase is another question. Heavily indebted U.S. households make strong job creation imperative, as income growth would speed the pace of deleveraging and support spending. The government’s dire fiscal position would also strengthen, as unemployment rolls would fall and there would be less need to support the economy, while revenues from income taxes would increase.

While the general consensus is for modest job gains throughout 2010, there are a few indicators pointing to potentially more solid increases. Labour productivity, which surged at a 6.7% annualized rate from 2009Q2-to-Q4, the fastest pace in 43 years, is one indicator (*Chart 1*). It’s unlikely that such significant gains in productivity can continue for much longer—there’s only so much juice you can squeeze out of an orange. Peaking productivity gains

TABLE 1
IT’S A LONG WAY TO THE TOP

	Total Payroll Decline (percent)	Job Growth Resumes (# of quarters post-recession)	Months for Employment to Recover to Peak
2008/09	-6.1*	?	?
1948/49	-5.2	1	22
1957/58	-4.4	1	24
1953/54	-3.4	2	23
1981/82	-3.1	1	28
1973/75	-2.8	1	20
1960/61	-2.3	1	20
2001	-2.0	7	48
1990/91	-1.5	5	32
1969/70	-1.5	1	18
1980	-1.3	1	10
			Average 24.5

* to January 2010

CHART 1
PRODUCTIVITY PEAKING?

United States (3-qtr % chng : ann.)

Productivity

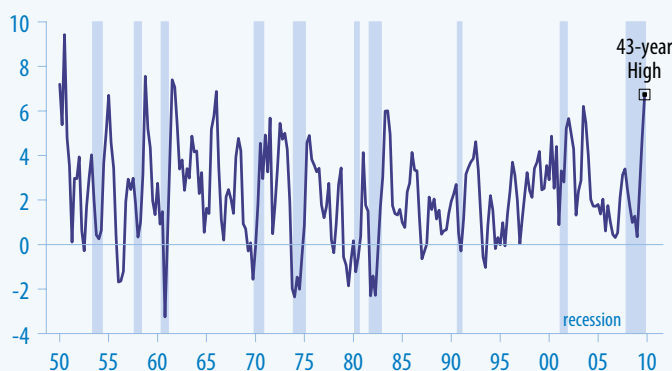


CHART 2
LEADING JOB GROWTH
United States

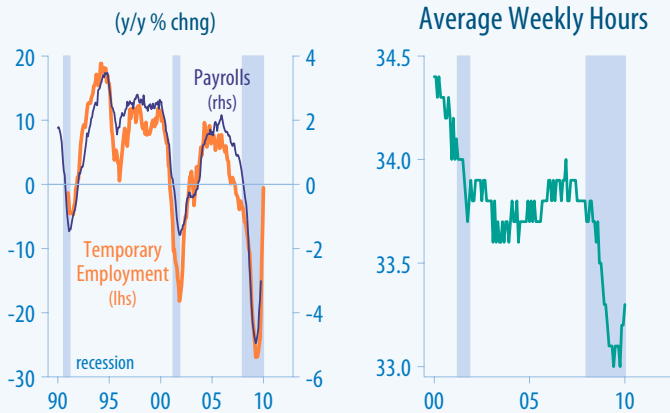


CHART 3
CASH TO BURN
S&P 500 Companies

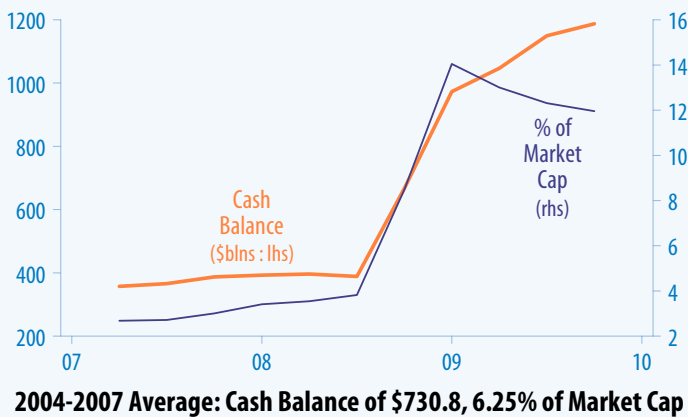
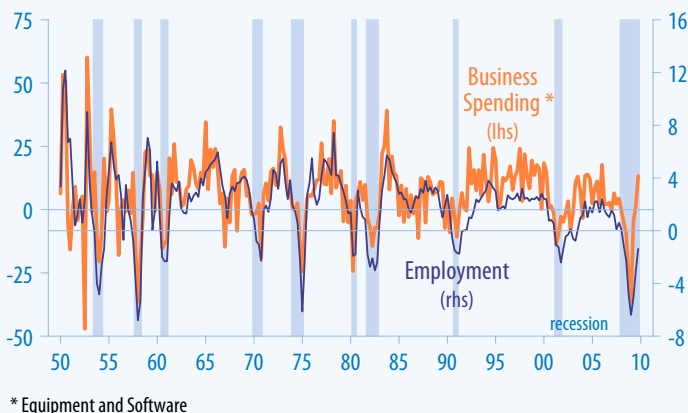


CHART 4
BUSINESS SPENDING SENDS HIRING SIGNAL
United States (q/q % chng : ann.)



mean more workers will need to be hired to expand output further. Another indicator pointing to improving employment is the rise in temporary help services workers, which has historically been an excellent predictor of future job growth. Firms tend to test the waters by hiring temporary workers before permanent ones. The rise in hours worked over the past three months is also encouraging, after the workweek stagnated at a record low through most of 2009. Clearly, there's still room for employers to increase hours before they take on new workers (Chart 2). Even so, the recent upward trend in the workweek bodes well for future employment.

The sharp recovery in corporate profits, along with massive cash balances, indicates that firms are financially able to hire. As the outlook improves and firms become more confident, the large cash hoards point to growth in payrolls. Cash & equivalents holdings of S&P 500 firms are nearly \$1.2 trillion, the highest in at least two years, and 62% above the average level from 2004-2007 (Chart 3). The strong cash positions likely contributed to the rebound in equipment and software spending, which surged 13.3% a.r. in Q4, and has historically correlated well with payrolls. Further solid gains in business spending (as appears likely in Q1) would indicate the potential for more significant job growth (Chart 4).

Despite all the potential positives, a number of headwinds remain. Consumers continue to deleverage, limiting spending in 70% of the economy. Until job growth picks up demonstrably, that dynamic is unlikely to change. Another headwind is banks' reluctance to lend. The Fed's latest Senior Loan Officer Survey showed that lending standards have only just started to ease for large businesses, while small firms face still-tighter conditions—not conducive to hiring or a strong recovery.

Bottom Line: While consistent job growth appears imminent, we aren't expecting big increases in payrolls in the near term as the above-mentioned headwinds persist. This recovery will be a step up from 1991 and 2001, but high unemployment will remain an issue for at least the next two years and a return to peak payrolls is a longer way off. Even so, there are some reasons to remain hopeful for a stronger-than-expected recovery on the jobs front.

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