State Notes

TOPICS OF LEGISLATIVE INTEREST

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Where Are The Jobs?
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The number one problem for both the U.S. and Michigan economies is the lack of growth in the number of people with jobs. While a number of key economic indicators are reflecting a pickup in economic activity – including an acceleration in quarterly growth in real Gross Domestic Product, a decline in initial unemployment claims, a sharp increase in corporate profits, increased activity in the manufacturing and nonmanufacturing sectors, and a sustained increase in the stock market – employment remains weak. Nationally, employment has increased slightly during the past seven months, but the pace of the increase has been very weak. In Michigan, a three-year downward trend in employment has not yet been reversed. This article provides an overview of the job market situation in both the U.S. and Michigan economies.

Weak National Employment

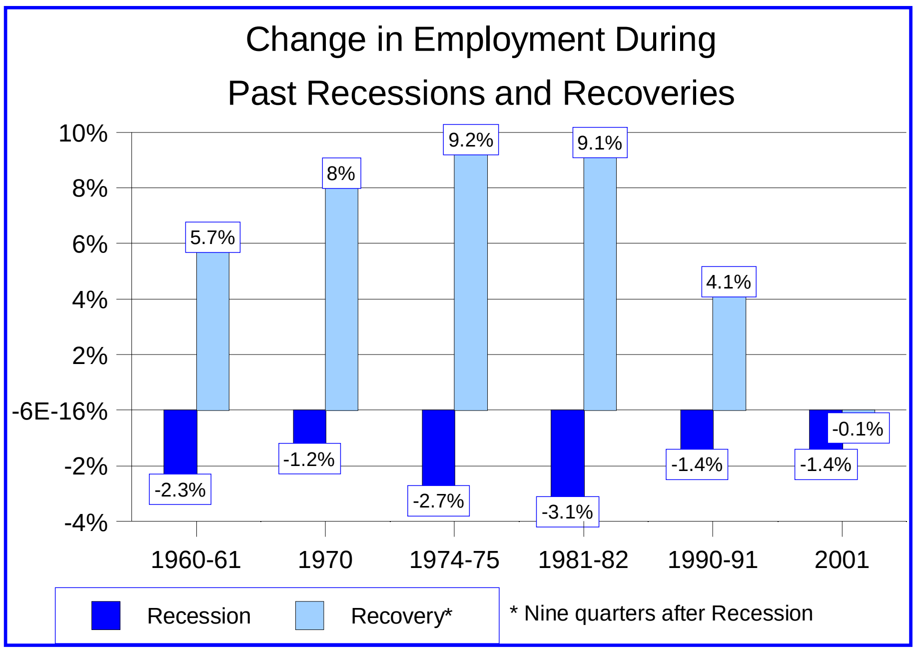
The good news is that payroll employment in the U.S. has increased for seven consecutive months from September 2003 to March 2004, as shown in Figure 1. During this time, employment is up 759,000 workers or 0.6%. The bad news is that this increase in employment did not begin until 22 months after the recession officially ended, which was at the end of 2001.

Figure 1

Source: U.S. Department of Labor, Bureau of Labor Statistics.

This weakness in the U.S. labor market is further illustrated in Figure 2, which compares the change in payroll employment during the previous six recessions and the first nine quarters of the economic recovery that followed each of these recessions. In the 2001 recession, U.S. payroll employment declined 1.4%, which was equivalent to the rate of job loss experienced during the 1970 and 1990-91 recessions, but the decline was not as severe as those experienced in the other three recessions. However, in terms of the job growth experienced during the first nine quarters of economic growth following the end of the recessions, the comparison between the current recovery and the previous five recoveries is very different. During the first nine quarters of economic recovery following the five recessions that occurred between 1960 and 1991, the percentage increase in the number of people employed ranged from 4.1% following the 1990-91 recession to 9.2% following the 1974-75 recession. During the first nine quarters since the 2001 recession, employment has shown no improvement. In fact, despite the recent improvement in employment since September 2003, the employment level in March 2004 was still 0.1% below the employment level at the end of the 2001 recession. As a result, it is clear that the labor market situation is much weaker currently than it was during any of the previous five economic expansions since 1960.

Figure 2



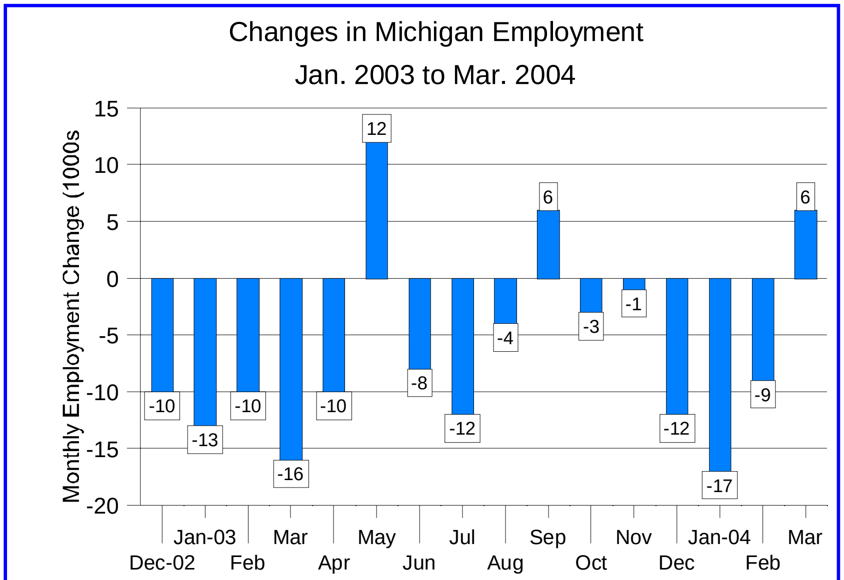
Even Weaker Michigan Employment

While the national employment situation has been very weak, the employment situation in Michigan has been even weaker. Michigan's employment level peaked in June 2000, at 4,689,600. Since then it has maintained a fairly steady downward trend. In March 2004, payroll employment totaled 4,372,000, which is down 318,000 workers or 6.8% from June 2000. Even from September 2003 to March 2004, when U.S. employment was finally increasing by a modest 0.6%, employment in Michigan declined 30,000 workers or 0.7%. This continuing downward trend in Michigan's employment level is illustrated in Figure 3, which shows the monthly change in payroll employment in Michigan from December 2002 through March 2004.

Manufacturing Employment

While the decline in employment has occurred in most sectors of the economy, the largest declines have occurred in the manufacturing sector. Nationally, from July 2000 to February 2004, manufacturing employment decreased every month. This 43-month decline resulted in a loss in manufacturing employment of 3.0 million workers, a decline of 17.4%. In March 2004, the consecutive-month decline was finally broken as manufacturing employment remained unchanged from the February level.

Figure 3



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Manufacturing employment in Michigan also has fallen dramatically since 2000. In June 2000, manufacturing employment totaled 906,500 workers, but by March 2004 it had fallen to 712,000 jobs. This equates to a 21.5% decline or the loss of one in five jobs.

What Is Keeping Employment From Increasing?

The major reason why employment has been so slow to rebound since the end of the 2001 recession is that productivity has been extremely strong. Productivity measures the amount the economy can produce per hour worked. Over the past few years, productivity has been growing at a fairly strong and steady rate. As shown in Figure 4, productivity grew at a fairly good pace of between two and three percent during the last part of the 1990s, and it did not slow down much during the 2001 recession. Then in 2002 and 2003, productivity grew at historically robust rates of 4.9% and 4.4%, respectively. The improvement in productivity has occurred because businesses invested in new equipment to help keep production costs down and stay competitive in the marketplace. It is also believed that some of this recent strong growth is due to the lingering effects of the investment in computers and software that occurred leading up to Y2K. As a result of these historically strong increases in productivity, businesses have been able to achieve increasing levels of output while still reducing the number of people they employ. It is predicted that the recent strong pace of productivity growth is not sustainable and the pace of growth will likely slow down during 2004 and 2005; however, the demand for goods and services is expected to continue to improve. In order to meet the increasing demand for goods and services while productivity growth slows, businesses will have to hire new workers. As a result, it is forecasted that employment will finally experience some meaningful increases during the remainder of 2004, both nationally and in Michigan, and that these increases in employment will gain momentum in 2005.

Figure 4