

WHERE DOES THE LABOR MARKET STAND?



EMPLOYMENT

Jobs in private service-providing industries came back relatively quickly, while other major sectors, notably manufacturing, construction, and government, lagged.

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UNEMPLOYMENT

How much of the improvement in the unemployment rate is due to declining labor force participation? A falling unemployment rate does not necessarily mean a healing labor market.

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The labor market has been recovering slowly. We look at vital signs, including recent employment growth and unemployment and some of the key ingredients of both. Labor force participation has been a particular concern for economists and policymakers.



LABOR FORCE PARTICIPATION

The unemployment rate has improved considerably since the recession ended, but other labor market indicators showed less progress.

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SOUTHEASTERN PERSPECTIVE

By the end of 2013, the United States had regained 87 percent of lost jobs; the Southeast had reclaimed only 62 percent.

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EMPLOYMENT RECOVERY HAS BEEN HISTORICALLY SLOW



The nation's labor market has recovered far more slowly after the Great Recession than it did following every other economic downturn since World War II. To be sure, employment growth was promising in 2013, and the unemployment rate declined.

Other measures of the labor market remained subdued, however. The compensation to workers—including benefits and adjusted for inflation—has barely risen above its prerecession level. At year's end, almost 38 percent of unemployed people had been jobless for at least 27 weeks, by far the highest percentage of long-term unemployment since World War II. Moreover, 12.6 million people left the labor force in the six years through December 2013.

By any measure, the labor market healing has been gradual. Consider that it took 10 months on average for the United States to regain all the jobs lost during seven recessions between 1950 and 1989. It's taken increasingly longer to recover lost jobs in each subsequent downturn.

This recovery has been the slowest yet. From the prerecession employment peak in 2007, total U.S. nonfarm employment declined by 8.7 million jobs. At the end of 2013, almost five years after the recession's end, the nation's labor market was still roughly a million jobs shy of that peak.

The muted pace of the jobs recovery has not been the result of just a few underperforming sectors. Employment in private service-providing industries, for example, now exceeds the level it had reached before the Great Recession. But the increase in service-sector jobs is still 20 percentage points below the average improvement enjoyed in recent recoveries.

The labor market recovery has been even more constrained by weakness in other major sectors. A long-term decline in manufacturing employment accelerated during the recession. Factory job numbers ticked back up a bit last year. Still, as 2013 ended, manufacturing employment remained below its cyclical peak in 2007 and at a level roughly equal to that of 1940, according to the U.S. Bureau of Labor Statistics.

Construction employment fared even worse. The number of construction jobs declined 30 percent during the Great Recession. At the end of 2013, construction employment was still nearly 25 percent below the prerecession high.

Unlike the manufacturing and construction sectors, public-sector employment traditionally withstands downturns relatively well. During this cycle, however, governments at all levels slashed staffing as revenues tumbled. Local government, the biggest public-sector employer, cut the most jobs. Like the manufacturing and construction sectors, government employment was still below its prerecession level at the end of 2013.

LABOR MARKET RECOVERY TAKING LONGER WITH EACH RECESSION



10 MONTHS

to replace all jobs lost during the average of seven recessions between 1950 and 1989



23 MONTHS

to replace all jobs lost during the recession of 1990-91



38 MONTHS

to replace all jobs lost during the recession of 2001



54 MONTHS

since the end of the Great Recession of 2007-09, and we still have not replaced all jobs

Sources: Atlanta Fed research, U.S. Bureau of Labor Statistics

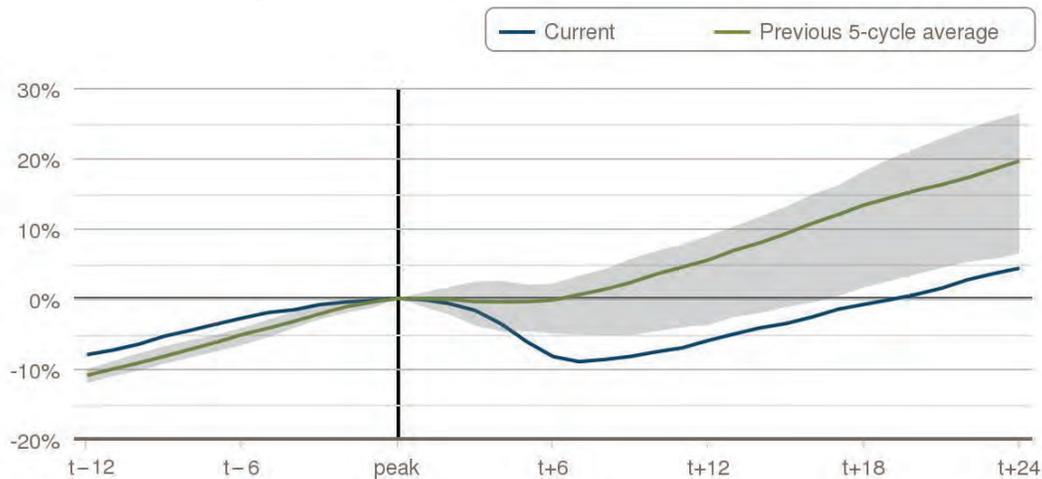
U.S. LABOR MARKET'S GRADUAL PROGRESS



Source: U.S. Bureau of Labor Statistics

U.S. PROFESSIONAL AND BUSINESS SERVICE EMPLOYMENT

Percent deviation from peak



Notes: The gray area indicates the range of the last five major recessions preceding the most recent one. Years of the previous recessions are 1970, 1974, 1981-82, 1990, and 2001. "Current cycle" measures the change in employment 12 quarters before the last recession's peak (Q42007) and the 24 quarters since the peak.

Source: U.S. Bureau of Labor Statistics

LOWER UNEMPLOYMENT DOESN'T TELL THE WHOLE STORY



Since peaking at 10 percent in October 2009, the U.S. unemployment rate has improved significantly. At the end of 2013, the jobless rate was 6.7 percent, its lowest point in five years. But that figure may overstate the actual level of utilization of the nation's labor resources for at least two reasons.

First, there is a thin line between being officially counted as unemployed and being counted as out of the labor force. This issue may be particularly severe among those who have been out of work for a long time. Consider, for example, that about 1 million more people are marginally attached to the labor force than before the recession, and much of that increase came from people who had previously been unemployed for more than half a year. If these additional marginally attached people were counted as unemployed, then the effective unemployment rate would be higher.

Second, since 2007, about 3 million more people say they are working fewer hours than they want to, either because of slack work conditions or the unavailability of full-time jobs. If this additional stock of involuntary part-time workers were counted as being at least partly unemployed, then the effective unemployment rate would be even higher. An upper bound on the possible distortion to the unemployment rate caused by these effects can be seen by comparing the official unemployment rate statistic known as U-3 with the alternative unemployment rate measure known as U-6.

Long-term unemployment

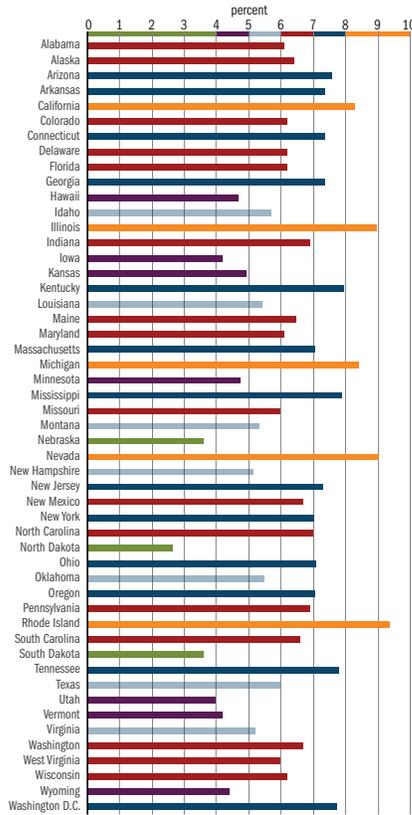
The Great Recession caused the largest surge in joblessness since the 1930s. About 3.4 million more people were unemployed at the end of 2013 than before the recession. In more normal times, jobs are created fast enough to absorb most people who are looking

for work within just a few months. In the years before the Great Recession, only about 20 percent of unemployed people had been searching for a job for more than six months. But this figure rose sharply after the recession, reaching 45 percent in 2010 and 37 percent at the end of 2013. Moreover, those out of work for more than six months are getting a job at a much lower rate than before the recession.

The economic and human costs of long-term unemployment are disturbing. A long spell of unemployment can create significant financial stress. People who endure long periods of unemployment tend to have a more difficult time reentering the workforce even after the economy improves. Long periods of unemployment can erode workers' skills, making it more difficult to find a comparable job. Once they do find a job, their wages are typically lower than before. A growing body of research, including a 2013 Urban Institute study, also points to potential negative effects on mental health and family stability.

THE STATE OF UNEMPLOYMENT

STATE-LEVEL UNEMPLOYMENT RATES
December 2013



CITIES WITH BIGGEST CHANGES IN UNEMPLOYMENT

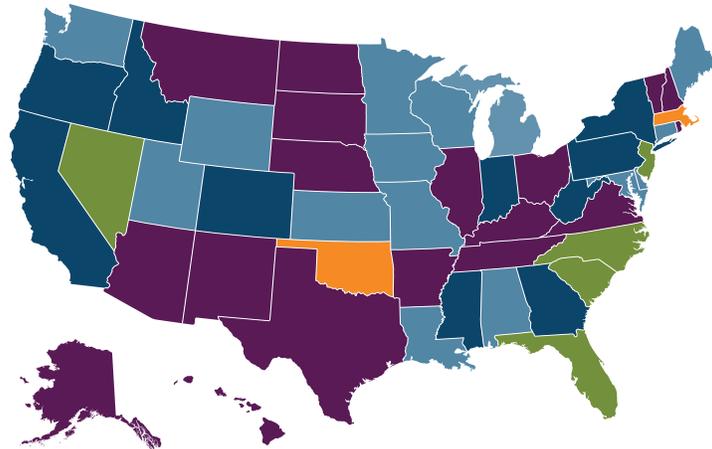


PERCENTAGE POINT CHANGE,
DECEMBER 2012 TO DECEMBER 2013

THERE WERE
10.4
MILLION PEOPLE UNEMPLOYED
AS OF DECEMBER 2013

CHANGE IN UNEMPLOYMENT RATE

Percentage point change, December 2012 to December 2013

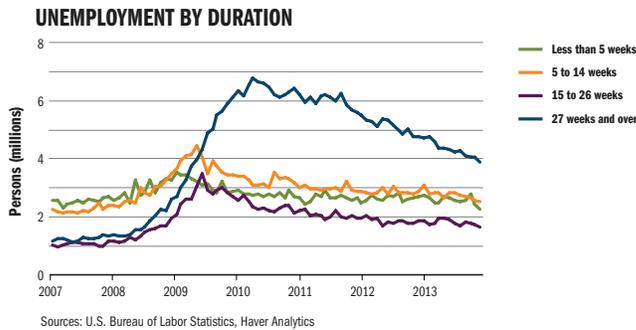


DATA FROM U.S. BUREAU OF LABOR STATISTICS

OTHER LABOR MARKET INDICATORS

“It's important to remember, however, that the official unemployment rate and the monthly payroll jobs growth number don't represent a complete picture of labor market conditions.”

—Dennis Lockhart, June 2013 speech

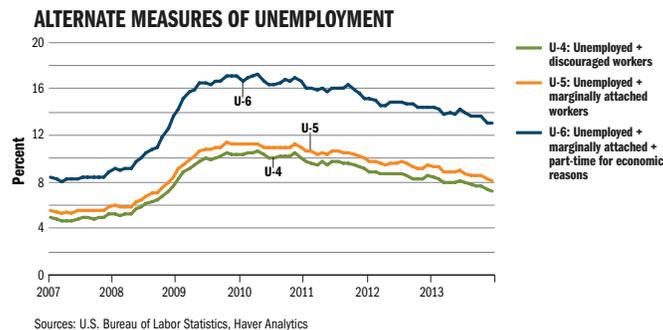


37.1 WEEKS
AVERAGE DURATION
OF UNEMPLOYMENT
IN DECEMBER 2013

16.6 WEEKS
AVERAGE DURATION
OF UNEMPLOYMENT
IN DECEMBER 2007

7.8 MILLION
PEOPLE WORKING PART-TIME
FOR ECONOMIC REASONS IN
DECEMBER 2013

**2.6 JOB SEEKERS
FOR EVERY
JOB OPENING**
December 2013





MILLIONS HAVE LEFT THE LABOR FORCE FOR VARIED AND COMPLEX REASONS



The unemployment rate not only reflects the number of people who say they looked for and couldn't find work, but also people's decision to look for work in the first place. Participation in the labor market has been declining in recent years for reasons that are not totally understood.

The labor force participation rate has been falling since the early 2000s, and that trend has accelerated since 2007. Between 2000 and 2007, the participation rate declined by about 1 percentage point. It dropped by another percentage point between 2007 and 2009, and by a further 2 percentage points since then. By the end of 2013, labor force participation reached the lowest level since the late 1970s.

The health of the labor market clearly affects individuals' decisions to enroll in school, apply for disability insurance, or stay home and take care of family. Discouragement over job prospects rose during the Great Recession, causing many unemployed people to drop out of the labor force. The rise in the number of marginally attached workers reflects this and can account for some of the decline in participation between 2007 and 2009.

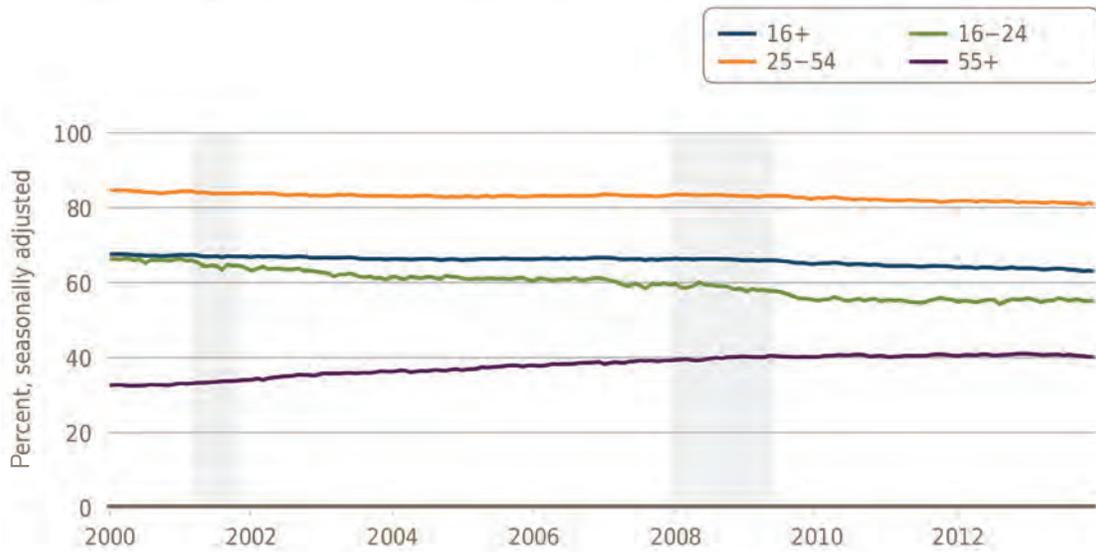
Discouragement may be a factor even when people say they don't currently want a job. The share of people aged 25–54 who said they didn't currently want a job remained relatively stable between 2002 and 2009, but has risen by almost 2 percentage points since then. It seems likely that some of the recent increase is associated with a rise in discouragement over job prospects.

However, the labor force participation rate can decline for other reasons. The most important of these is the aging population. For example, the share of the population aged 55 and older has risen by almost 4 percentage points since 2007. Because this age group also has a relatively low rate of labor force participation (because of higher levels of retirement and disability), the aging of the population is putting significant downward pressure on overall labor force participation.

Most research, including work done at the Atlanta Fed, suggests that about half of the decline in labor force participation since 2007 can be attributed to the ongoing compositional changes of the U.S. population. The rest is the result of declines in participation within demographic groups, especially by young people but also by men and women aged 25–54.

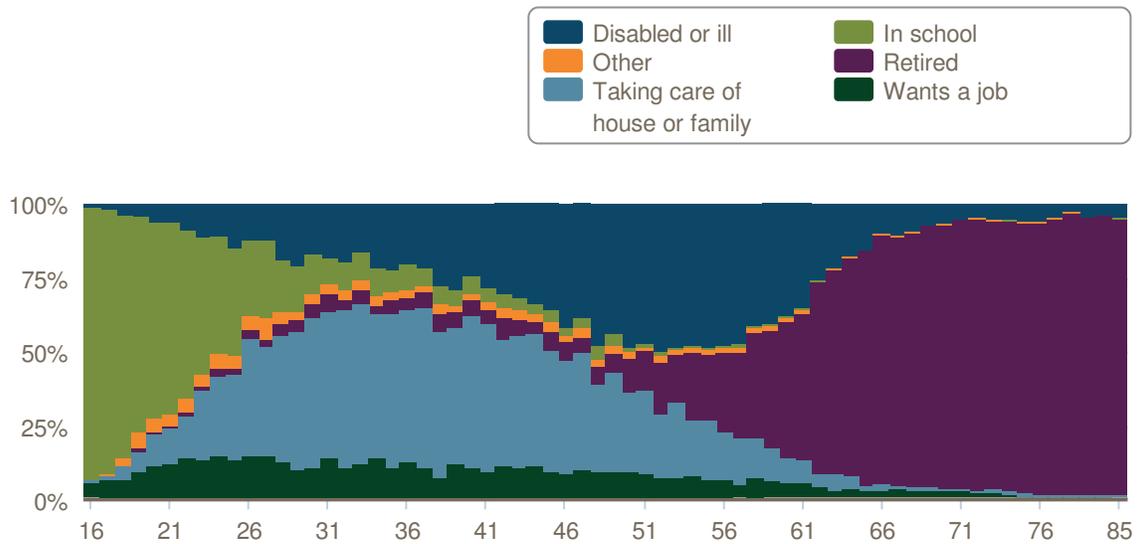
How much do these trends reflect changes over time, and how much can they be attributed to the recession and slow recovery? It's hard to say with certainty. For example, young people have been enrolling in school in larger numbers since the late 1980s, but enrollments accelerated somewhat after 2007. Some people will reenter the labor market as it strengthens. But for others, the prospect of not finding a satisfactory job will cause them to continue to stay out of the labor market. Overall, labor force participation is expected to edge down slightly more over the next few years. The effect of the ongoing aging of the population will dominate, only partially offset by upward pressure from improving employment prospects.

LABOR FORCE PARTICIPATION RATE, BY AGE



Source: U.S. Bureau of Labor Statistics

REASONS FOR BEING OUT OF THE LABOR FORCE, BY AGE



Sources: Current Population Survey, U.S. Census Bureau, and author's calculations

UNLIKE IN RECENT RECOVERIES, THE SOUTHEAST LAGS THE NATION



Employment in the Southeast declined more and recovered more slowly after the end of the Great Recession than in the nation as a whole. The second half of 2013 brought progress, as the region's two largest states—Florida and Georgia—led steady employment gains across the region.

Still, the Southeast ended the year with fewer jobs than it had before the recession. And the Southeast's labor market had more ground to make up than the national jobs market did. As 2014 began, the country had regained nearly 90 percent of lost jobs; the Southeast had reclaimed only 64 percent.

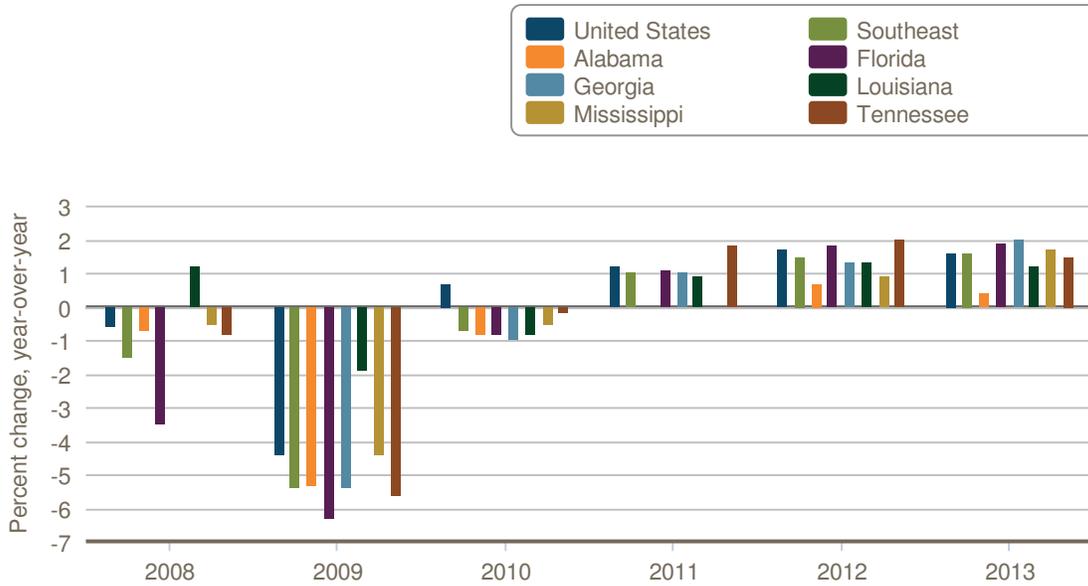
The region's labor market was weaker by other measures as well. At the end of 2013, the labor force participation rates in all six southeastern states were below the national rate of 63 percent. Broader measures of unemployment were also worse in most of the region. For example, only Alabama and Louisiana posted lower average U-6 unemployment rates than the country as a whole throughout 2013.

This recovery has been different. The Southeast weathered the downturns of the early 1990s and 2001 comparatively well, losing a smaller portion of jobs and recovering those jobs more quickly than the nation. Steady in-migration in the 1990s and early 2000s strengthened the southeastern economy and labor market. Population growth fueled housing construction, commercial real estate development, and related industries, generating large numbers of jobs.

But the Great Recession hit the Southeast's building sector especially hard. Florida alone lost more than half of its construction jobs, and a vast majority of those losses have not been recouped. Manufacturing was another sector in which the Southeast suffered severe employment declines. In fact, job losses in the construction and manufacturing sectors accounted for nearly the entire gap between the Southeast's nonfarm employment at the end of 2013 and the prerecession peak during 2007.

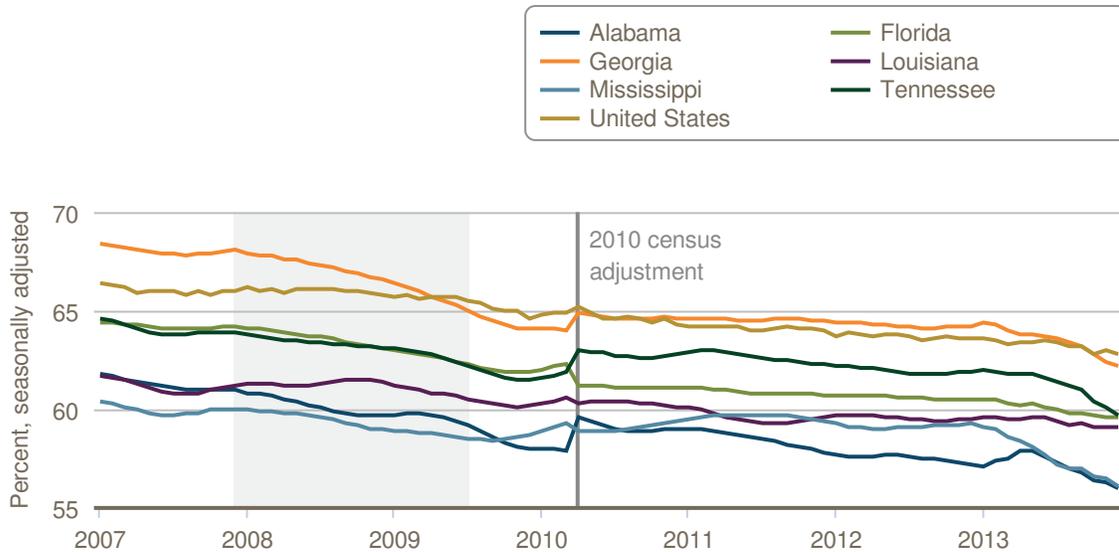
Those two sectors added jobs during 2013. Among the major economic sectors, only government did not add jobs last year. Meanwhile, the aggregate unemployment rate for the region ended the year at 6.7 percent, down from 7.8 percent a year earlier and well below the peak of 10.5 percent in January 2010.

EMPLOYMENT IN THE SOUTHEAST



Source: U.S. Bureau of Labor Statistics

SOUTHEASTERN LABOR FORCE PARTICIPATION



Source: U.S. Bureau of Labor Statistics