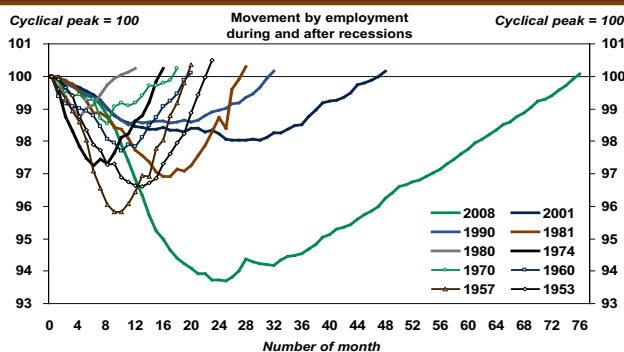


## The U.S. job market's long trek back

The U.S. job market has finally recouped all of the jobs lost during the recession, good news that reflects the economy's stronger performance. There are still dark patches in the picture however, as the sectors did not all do equally well during the recovery. This *Economic Viewpoint* paints a portrait of employment's disappointing progress since the recession ended. This unusual behavior from the labour market will force the Federal Reserve to remain overly cautious.

Good news in and of itself, May's 217,000 hires also constitute a major step for the U.S. economy. This gain mops up April's 119,000-job gap, taking the number of workers to its previous cyclical peak, which dates back to January 2008. During the recession, the economy lost 8,710,000 jobs, hitting its lowest point in February 2010. From February 2010 to May 2014, there were 8,808,000 net hires, over a period of 76 months. This is a much longer recovery period than seen in previous recessions (graph 1). In terms of slowest recoveries, second place goes to the 2001 recession, where it took 48 months—February 2001 to February 2005—to recoup the lost jobs.

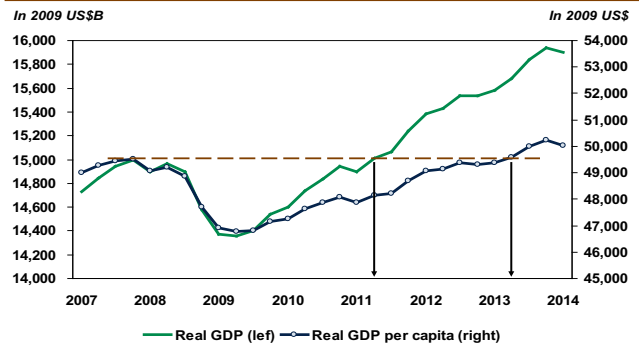
**Graph 1 – For the job market, a long road back to its high point**



Sources: Bureau of Labor Statistics, National Bureau of Economic Research and Desjardins, Economic Studies

The time elapsed since the 2008 cyclical peak also seems very lengthy when compared with other U.S. economic indicators. For example, it took 42 months (14 quarters) for real GDP to beat the cyclical peak reached in the fall of 2007 (graph 2). It took even longer—66 months—if we look at real GDP per capita, which is still 10 months less

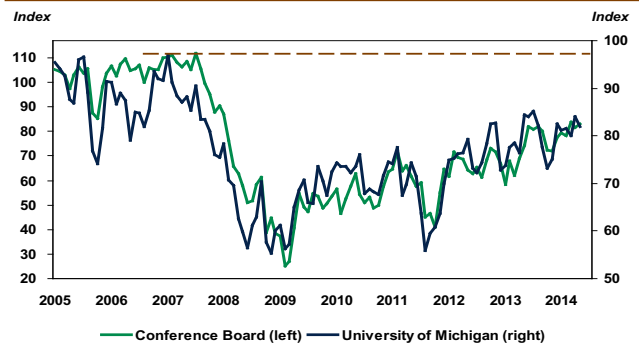
**Graph 2 – Real GDP was quicker to beat its peak**



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

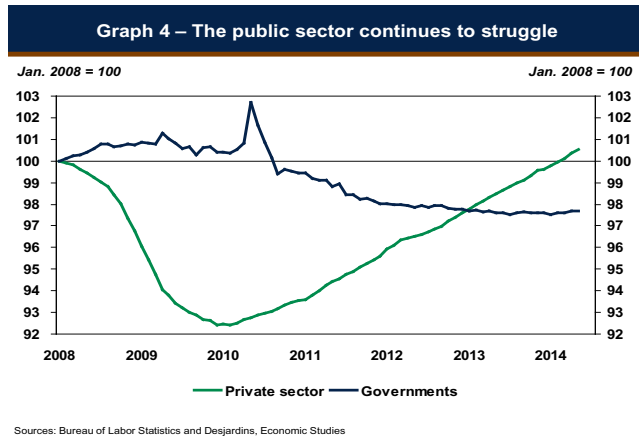
than it took for employment to reach its previous peak. Clearly, other metrics are still in deficit position, such as manufacturing production, housing starts, sales and home prices. The primary consumer confidence indexes are still nowhere near where they were prior to the crisis (graph 3).

**Graph 3 – Although better, U.S. consumer confidence is still well below pre-crisis levels**

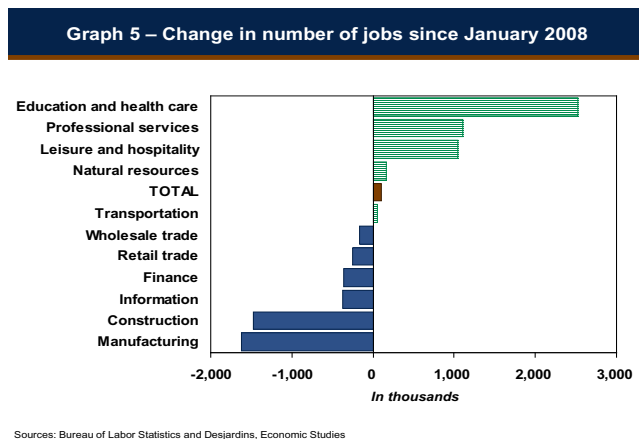


Sources: Conference Board, University of Michigan and Desjardins, Economic Studies

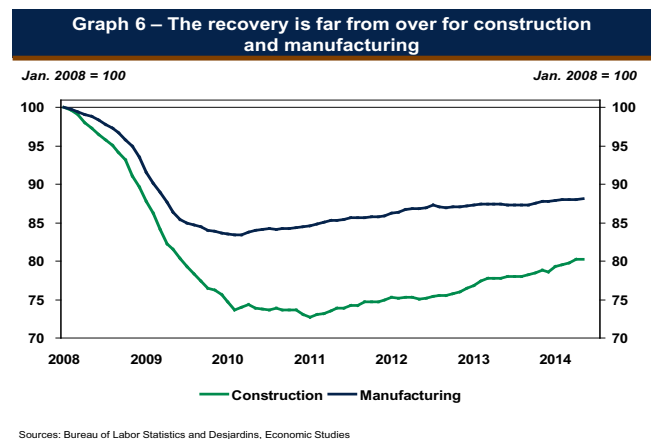
In the United States, the job market's comeback was not identical in all sectors. The huge contrast between the private and public sectors is easy to spot (graph 4). The private sector had caught up last March. In May, the government sectors were still 519,000 jobs short of their January 2008 level. Austerity hit the public sector later, but an upswing is also late in coming.



Within the private sector itself, there are also winners and losers. Graph 5 depicts the performance of each of the major sectors since January 2008. Although the general economy has won back the ground lost, this victory is primarily owed to a few sectors, chiefly the education and health care sector, which created more than 2.5 million jobs since the start of 2008. In fact, the financial crisis left this sector relatively unscathed—employment there has only posted four one-month contractions since 1998. Professional services and leisure and hospitality have seen sizable comebacks. Proportionally speaking, the natural resource sector has also recovered well: in May, employment was 21% higher than it was in January 2008.

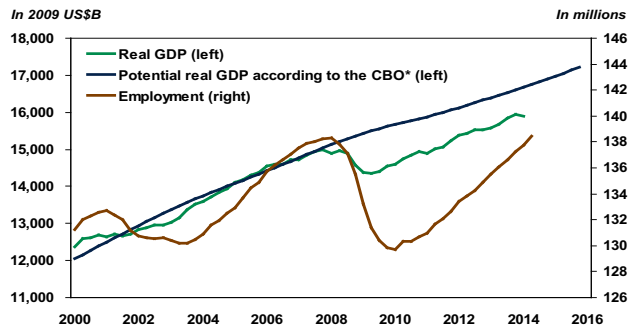


Sectors that were hardest hit by the financial crisis are, of course, among the sectors that are still struggling. Construction and manufacturing still have a long way to go to make up the many jobs lost during the recession (graph 6). For construction, the shortfall is still equivalent to a drop of 20% from January 2008 levels, reflecting the relative weakness of housing starts and most other housing market indicators. It is a pipe dream to think we can quickly return to those levels of activity that had been inflated by a huge bubble. However, we can expect to reach normal levels for construction and sales, which will bring back some of the jobs lost during the crisis. As for manufacturing, it had been going downhill for a long time. The slope steepened sharply with the recession, magnifying problems and triggering some painful but much needed housekeeping, as is very evident in the auto sector. The fact that industrial output is now just 2.2% below its December 2007 peak, with an 11.8% deficit in terms of the numbers of workers, speaks clearly to the productivity gains the sector has made.



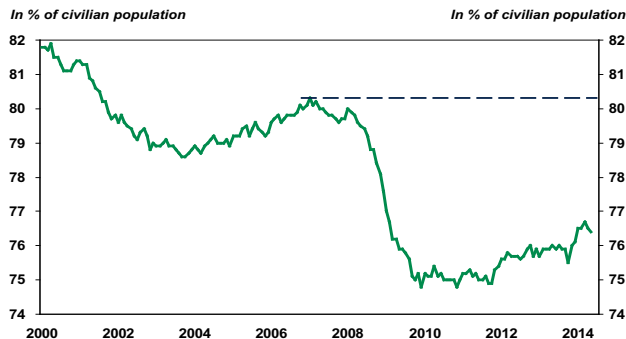
The simple fact that employment has reached pre-recession levels is not enough. As with real GDP, the job market has some potential that is largely unmet (graph 7 on page 3). Where would the job market be now if the massive contraction that started in January 2008 had not occurred? Assuming monthly gains of 100,000 jobs (less than the average for the last 25 years, which is 117,000, including recessions), there would now be about 7,500,000 more jobs in the U.S. labour market (graph 8 on page 3). That's where the real shortfall lies. However, it would be wishful thinking to assume that these jobs can be won back fairly quickly. The weak labour force and population ageing will even make the last year's fairly fast gains (around

**Graph 7 – Like real GDP, employment also has to close the gap with potential**



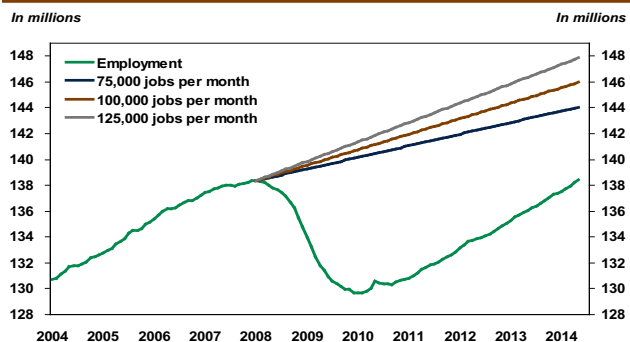
\* Congressional Budget Office.  
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Congressional Budget Office and Desjardins, Economic Studies

**Graph 9 – Among 25 to 54 year olds, the employment ratio is very low**



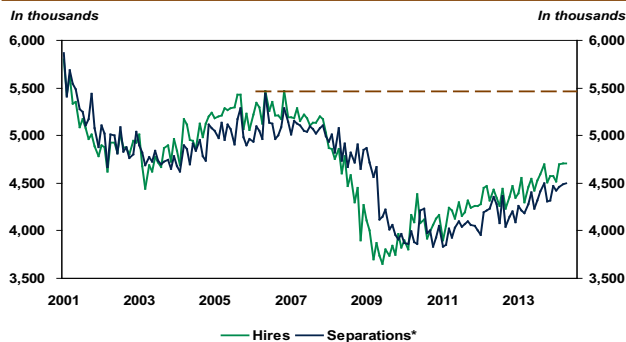
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

**Graph 8 – A long way to go to make up for the job creation potential lost**



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

**Graph 10 – Employment has risen, but the market is still lacklustre**



\* Layoffs, quits, retirements and other.  
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

200,000 jobs a month) somewhat unsustainable.<sup>1</sup> A trend toward a more sustainable 100,000 hires a month should slowly materialize.

There are other ways to depict the ongoing challenges in the job market and the overall U.S. economy. Although it got a hand from the pullback by the participation rate, the jobless rate—at 6.3% in May—is still well below its 2007 average, 4.6%. Among the workers that are usually most active in the job market, the 25–54 age group, the employment ratio remains extremely low (graph 9). The job market is also short on vitality, with job openings, hires and departures relatively soft (graph 10). Other statistics, such as involuntary part-time work, long-term unemployment and weak wage growth also indicate that the situation is far from perfect.

Recouping the jobs lost during the recession is a major step, but not an end in itself. The U.S. economy will continue to recover and further jobs will be created in the months to come. It will still take quite some time to mop up the damage caused by the financial crisis, one good reason that key interest rates are still near 0% almost five years after the recession officially ended, with the Federal Reserve in no rush to raise them.

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Senior Economist

<sup>1</sup> Desjardins, Economic Studies, *Economic Viewpoint*, “Where are the participation and unemployment rates heading in the United States?”, February 24, 2014, [www.desjardins.com/ressources/pdf/pv140224-e.pdf?resVer=1393347363000](http://www.desjardins.com/ressources/pdf/pv140224-e.pdf?resVer=1393347363000).