

ECONOMIC NOTES

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SHRINKING AS WE GROW

The whole was **less** than the sum of its parts. (Apologies to Aristotle.)

The current recovery has frequently been described as “jobless.” That is inaccurate. Since the economy’s turnaround began mid-2009, real output has increased by about \$400 billion—but employment has declined by some 400,000 jobs.

Rather than **jobless**, that’s a **job-loss** recovery.

The headline numbers in the Bureau of Labor Statistics’ report on employment conditions in July confirmed the consensus forecast: total employment fell as temporary Census jobs expired, private sector employment rose tepidly, and unemployment slipped a tad.

In this instance, however, the headlines were “head fakes.” That is, the details were skimpier than the summary.

Begin with the broadest picture: the labor force (i.e., those holding or seeking a job) is smaller today than in December 2007, when the recession began. It is smaller in absolute numbers and as a proportion of the work-age population because long-term unemployment has discouraged jobseekers in record numbers. Counting the discouraged, the unemployment rate would have been 10.2%.

Like the labor force, employment continued to shrink after the recovery began. Private sector jobs bottomed in December and have increased steadily, but only slowly, since.

Public sector employment is also down since the recovery began. State and local jobs fell by more than 200,000 from a year ago; half of the decline came in the last three months. Federal employment, net of the temporary spike in Census jobs, is up slightly.

Mid-year 2010, the U.S. economy has restored its lost output, but not its lost jobs. In this recovery, the whole is less than the sum of its parts.

What, then, is the outlook for the second half of the year?

Private services spending, which most recently accounted for 47.2% of Gross Domestic Product and 68.9% of all jobs, continues to experience steady growth. But manufacturers have experienced a lull in new orders, while construction spending remains in the cellar. It is unsurprising, therefore, that business confidence has flattened.

These data suggest that hiring will remain flaccid and consumers will remain cautious going forward. As a consequence, look for the slow growth recovery to grow slower still.

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