

Yor s o r n on E ono Do ns

b a an a a a

The U.S. economy has slowed noticeably over the past year, and few economists expect much acceleration anytime soon. Surprising resilience in consumer spending has staved off recessionary pressures so far. But, the nation's economic growth in output of goods and services (real GDP), was up just 2.5% after inflation adjustment in the last three months of 2006, -- less than half the pace in the year's first quarter.¹ Gloomy new figures on the pivotal housing market have raised fresh concerns about the health not only of real estate and construction industries, but also of big sub-prime mortgage lenders and consumer finances. Sales of existing homes (85% of the housing market) plunged 8.4% in 2006, the worst decline in 17 years. And the downturn has been widespread, with falling home sales in four out of five states nationwide.

Working people did manage to finally win some positive gains in jobs and wages last year. Job growth nationwide was modest, but enough to trim the unemployment rate to 4.5% (seasonally adjusted) by year's end.² The rates of most racial and ethnic groups declined, though not for black teenagers: 20.2% were unemployed in December, nearly a percentage point higher than at the same time a year ago. Long-term unemployment (6 months or more) accounted for an unusually high 16.2% of all the unemployed in December. Normally, when the jobless rate has been in the 5% to 5.5% range, less than 11% are long-term unemployed. Given persistent labor market slackness, others may be too discouraged by the job shortage to continue looking for work. Labor Department estimates of the fraction "underemployed" -- the official unemployed plus labor force dropouts still available for jobs plus involuntary part-time workers -- fell over the past year, but only to a still-substantial 7.8%.

In the last four months of 2006, average hourly earnings of non-supervisory or production workers (four-fifths of all workers) rose enough to end the year 1.7% higher, after inflation adjustment, than at the same time a year earlier. Moderating prices of fuel and other goods in the autumn played an important role in this trend. But the annual average was still no higher than in 2002, the first post-recession year. And real weekly earnings have fallen for two consecutive months so far this year.

Far more impressive numbers have been racked up by corporate profits. For all of last year, profits leapt by 21.4%, much faster than the 12.5% pace of 2005. However, businesses did not take advantage of this to expand productive capacity: nonresidential investment in new plant and equipment actually declined (by -3.1%) in the fourth quarter last year. That may help explain why productivity (output per work hour) grew last year at the slowest pace since 1997.

In fact, in comparing the current recovery to all others since World War II, corporate profits are the only major indicator enjoying above-average growth. As Table 1 shows, the 2002-06 period lags a full percentage point behind the average annual postwar rate of output growth.³ Investment has been growing at one-half the average of earlier recoveries and job growth at one-fourth the average rate. In sharp contrast, corporate profits have jumped twice as fast of late as in comparable business cycles.

City and Suburbs

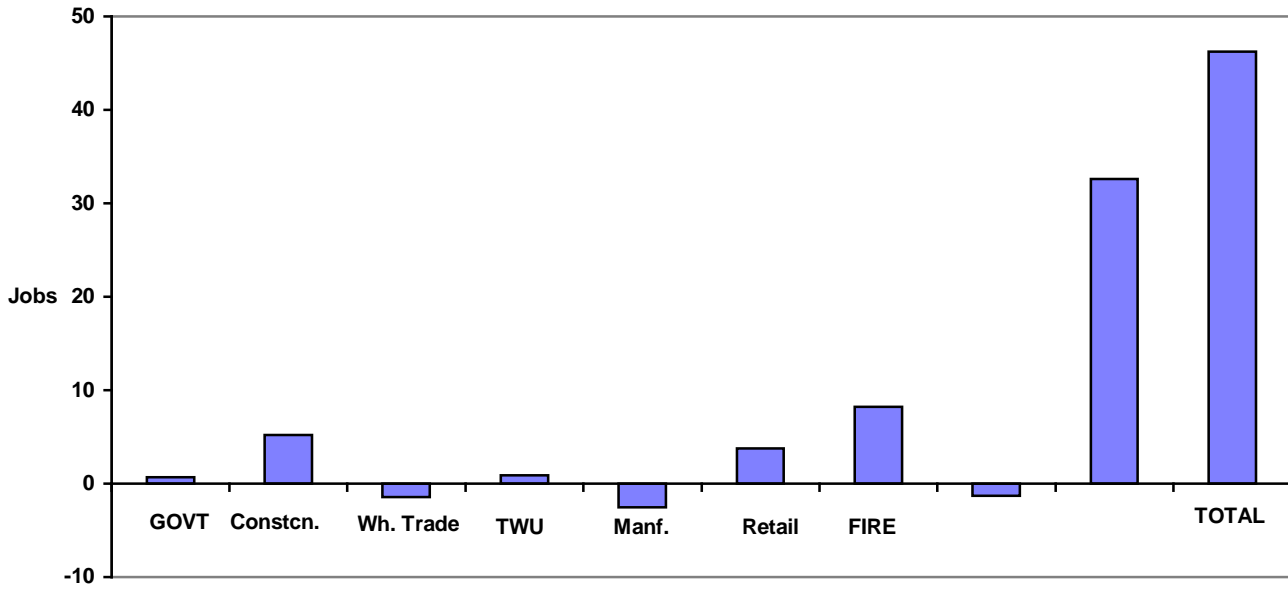
For the first time in nearly two decades, New York City's unemployment rate late last year dipped below the national average, falling to the second lowest level on record. This notable decline -- from 5.6 % in December 2005 to 4.0 % just 12 months later -- was partially responsible for the one percentage point drop in the statewide jobless rate over the same period to 4%, lowest on record. The achievement was triumphantly proclaimed and claimed by local government authorities.⁴ The economic recovery process in the city unfolded gradually over the last three and a half years, before intensifying considerably towards the end of last year. (See Table 3. Seasonally adjusted month-to-month figures for New York City, Long Island and the nation are presented in the following article.)

labor market. Payroll job data seem to tell us a somewhat different story for New York City than its unemployment rate (Table 2). For the entire December 2005 – December 2006 period, the city's payroll count rose to 3,744,700 – a net gain of 48,800 new jobs. This 1.3% annual growth rate was not far behind the national average (1.7%), but it still left the city with 1.8% fewer jobs than in 2000.

Which sectors accounted for job growth in this period? Figure 1 shows that over 70% of new jobs were concentrated in service industries. Within this diverse supersector, two subsectors created disproportionate shares of new positions: health care (39% of new service jobs) and leisure/hospitality (21.2%). Of the 12,700 new health care jobs, home health care, social assistance and hospitals were responsible for increases of 3% or more. Employment growth of 6,900 in leisure and hospitality was driven by hotels, motels, restaurants and bars. The record tourist influx of last year has slowed, but a relatively mild winter and weak U.S. dollar have continued to draw substantial retail trade, as well as hotel and entertainment spending by foreign visitors. The 3,800 net new retailing jobs came from robust hiring by clothing and food stores large enough to outweigh the weakness in department stores and sporting goods. Construction employment, up by 5,200 (4.5%), continued to benefit from the strong commercial market, as well as

underemployment persists underneath the surface of the low official unemployment statistics. When a new Times Square store advertised that it would accept applications on November 3rd for nearly 200 sales and related jobs at \$10.75 per hour, thousands of applicants began lining up as early as 1 a.m. Even though two-thirds of the

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 YC Job Growth by Industry D D 6
 in thousands of jobs and percent change



Annual Change (%)	Annual Change (%)	
	2006-2005	2005-2004
Real GDP	4.9	12.1%
Employment	3.7%	2.7
Unemployment	2.0	0.5
Inquit	5.8	2.3

Table 1 source: Bivens (2007).

	2006		2005		2000	
	Jobs	% Change 2000-2006	Jobs	% Change 2005-2006	Jobs	% Change 2000-2006
U.S.	137,959.0	3.5%	135,615.0	1.7%	133,308.0	3.5%
NY State	8,772.4	-0.7	8,706.0	0.8	8,830.9	-0.7
New York City	3,744.7	-1.8	3,695.9	1.3	3,814.2	-1.8
Long Island	1,277.9	1.9	1,268.3	0.8	1,254.5	1.9

Table 2 source: Establishment data (not seasonally adjusted) from US Dept. of Labor & NY State Dept. of Labor. Note: the data reflect regular revisions made by Dept. of Labor.

AREA	Labor Force		Employed		Unemployed		Unemp. Rate	
	Dec. 2006	Dec. 2005	Dec. 2006	Dec. 2005	Dec. 2006	Dec. 2005	Dec. 2006	Dec. 2005
U.S.	152571.0	149874.0	146081.0	142918.0	6491.0	6956.0	4.3%	4.6%
NYC	3724.0	3763.6	3574.6	3552.2	149.4	211.4	4.0	5.6
Brooklyn	1048.9	1060.7	1003.1	996.8	45.8	63.9	4.4	6.0
Bronx	500.6	507.2	473.4	470.4	27.2	36.8	5.4	7.3
Manhattan	874.4	882.8	843.9	838.6	30.5	44.2	3.5	5.0
Queens	1072.8	1083.4	1034.7	1028.2	38.1	55.2	3.6	5.1
Staten Island	227.3	229.3	219.5	218.1	7.8	11.2	3.4	4.9
Long Island	1486.2	1482.0	1438.5	1424.6	47.7	57.4	3.2	3.9
Nassau Co.	700.0	698.5	678.3	671.8	21.9	26.7	3.1	3.8
Suffolk Co.	786.1	783.6	760.2	752.8	25.9	30.8	3.3	3.9

Table 3 source: CPS household survey data from NY State Department of Labor, 2007. Note: the data reflect regular revisions made by Dept. of Labor.

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NOTES

- ¹ According to the Commerce Dept.'s final estimates for 2006, the year's annual growth rate (3.3%) was almost identical to 2005, but well below the 3.9% rate of 2004.
- ² U.S. Bureau of Labor Statistics. 2007. *Unemployment in the United States*. <www.bls.gov>
- ³ Bivens, L. Josh. 2007. "Current Recovery Great for Profits, Poor by Most Other Measures," *Journal of Labor Research*, Economic Policy Institute, April: <www.epinet.org>
- ⁴ In a January 18th press release, Mayor Bloomberg credited the low unemployment rates in the last four months of 2006 to "five years of innovation, accountability and fiscal responsibility." Office of the Mayor, New York City. 2007. "Mayor Bloomberg Announces City Achieved Lowest-Ever Annual Unemployment Rate in 2006," Press Release, January 18: <www.nyc.gov>
- ⁵ Schmitt, John and Dean Baker, "Missing Inaction: Evidence of Undercounting of New Workers in the C.P.S." *Journal of Labor Research*, Center for Economic and Policy Research (Jan. 2006): <www.cepr.org>
- ⁶ Levitan, Mark. 2007. "Unemployment and Joblessness in New York City, 2006: Recovery Bypasses Youth," *Journal of Labor Research* *Annals* <www.cssny.org>
- ⁷ See, for example, Mermin, et. al. 2006. "Why Do Boomers Plan to Work So Long?" *Journal of Labor Research* *Annals* #06-04 (December).
- ⁸ The City added 6,900 private sector jobs between November and December (not seasonally adjusted), well below its 10-year average gain of 17,300 during these months.
- ⁹ The gains were highest in professional and business services and educational and health services, while trade, transportation and utilities and manufacturing recorded a net decrease in the number of jobs in Long