

# ***PERSONALLY SPEAKING***

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## **ARE WE AT A TURNING POINT?**

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*Permission to quote is granted when the source is acknowledged.*

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Are we at a turning point in the US economy or are we mistaken? Some analysts and news anchors, reinforced by information from the February jobs reports, are taking an optimistic stance. A careful look inside those reports may help us confirm their optimism or reject it.

Unlike product and financial market information, labor market information is especially insightful because it gauges the performance of the economy in *human* terms, in terms of the persons who work or want to work.

The numbers from the establishment report, which indicate that employers between January and February added 236,000 workers to their payrolls, suggest optimistically that we are at a turning point. So too does the decline in the jobless rate to 7.7 percent from 7.9 percent. Both month-to-month changes are not just nominally better, they are statistically significant.

However, the increase in the number of persons employed reported from the household survey is not statistically significant. Additionally, the decrease in the number of persons unemployed barely reached the threshold of statistical significance. Because the unemployment rate is the product of the employment and unemployment estimates, there is some question as to whether the January-February change in joblessness really is statistically significant thereby suggesting pessimistically that we may be mistaken about a turning point.

In the following, we disaggregate data from the household report in search for an answer to the turning-point question.

These data from the household report are indicative of a turning point ...

- Since February 2012 the number of persons employed has climbed by 1,473,000.
- Over the past year, the number of persons unemployed for 27 weeks or more has dropped by 595,000.
- For both men and women who are married with spouse present February unemployment was below 5 percent.

- The jobless rate of persons who are 25 years of age and older and have earned at least a four-year college degree was below 4 percent.
- For all white persons the unemployment rate was 6.8 percent; in February 2012 it was 7.4 percent.
- The jobless rate for all blacks was 14.1 percent in February 2012. The current rate is 13.8 percent.
- Since February 2012, the duration of unemployment has fallen from 39.9 weeks on average to 36.9 weeks.

The following data from the same household report indicate that we may be mistaken about a turning point.

- An estimated 4,128,000 of those who were classified as unemployed in February have experienced a permanent job loss.
- Over the year, unemployment among black teens increased from 34.3 percent to 43.1 percent.
- Joblessness is much higher for full-time workers than part-time workers, for native-born American men than foreign-born men.
- One year ago, the number of persons not in the labor force who wanted a job at that time stood at 6,376,000. Today that number has grown to 6,842,000. This pool of unutilized workers is larger than the current pool of workers who have been jobless for 15 weeks or more.

A third dataset from the household report leaves us better informed about the US labor market but doesn't help answer the turning-point question.

- In February 2013, 4,619,000 persons of the total number out-of-work were not in the labor force prior to becoming unemployed. Why did they (re-)enter the labor force and will they remain permanently in the labor force or are they only marginally attached to it?
- At the same time, 956,000 persons classified as jobless in February were not terminated from their last job. They left voluntarily. Did they leave knowing that they had another job in hand? Or did they leave without such assurances?
- Among the entire pool of jobless workers, 1,078,000 were on temporary layoff. Will they be called back to their regular jobs? Will they find other jobs? Will they drop out of the labor force?

•There are nearly equal numbers of women and men – about 3.7 million each -- who are multiple jobholders. Will they continue to work a second job when economic conditions improve?

Quite apart from the difficulties interpreting data from the household survey, there are two problems regarding that survey that make it even more difficult to determine if we are at a turning point in the labor market.

First, the sample size has remained around 60,000 households for many years while the US population has grown substantially. The result is that the standard errors from the household survey are much larger today than in the past.

Second, the household survey does not identify undocumented immigrants living in America. Because they are likely to be hiding in the shadows, they may not be accurately reported when their households are included in the sample. Given the millions known to be living here, both employment and unemployment could be underestimated, having a significant but unknown impact on the jobless rate.

The extent of underground economic activity in America of which the so-called off-the-books portion has been estimated at \$400 billion a year suggests that the underreporting of employment on both the establishment and household reports could be quite significant. Further, anecdotal evidence regarding casual day-labor pools often observed on street corners and in front of large retail lawn and garden stores and building supply outlets points to the possible underestimating of unemployment.

Interpreting economic signs is a challenging business, especially when economic conditions are changing direction. Just three months before the official start of the Great Recession in December 2007, *The Economist* could not say with confidence that the US economy was headed for a recession, even though its reporters were aware of a slump in residential construction and problems in credit markets. Even in America, they reported, “recession is not a foregone conclusion.”

Are we at a turning point? A look back in economic history is instructive. Was it all that clear, for example, that the devastating slump of 1929-1933 would be followed by another in 1937-1938? And who knew beforehand that the 1960-1961 recession would follow so soon after the 1957-1958 recession?

Were it not for the Washington gridlock over spending, taxes, the deficit, and the debt ceiling, Mayo Research Institute might take the optimistic view. For the moment, at least, it is just too early to say with confidence that we are witnessing a turning point in economic conditions. Providentially, we will know more later.

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