TD Bank Financial Group

Observation

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TD Economics
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HIGHLIGHTS

- Exceptionally strong demand for temporary help in the final few months of 2009 telegraphs an imminent pick-up in demand for broader employment
- An ultra lean job market, a rise in hours worked and strong productivity growth offer more support that jobs are poised to rebound
- But, the anticipated creation of over 2 million jobs in 2010 does not equate to a low unemployment rate
- An unusually sharp contraction in the labor force during the recession combined with a low share of workers on temporary layoffs signal a slow descent in the unemployment rate

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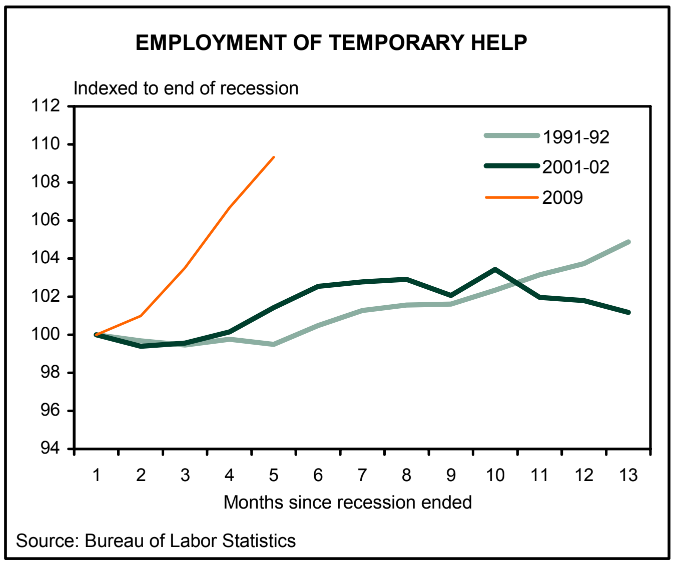
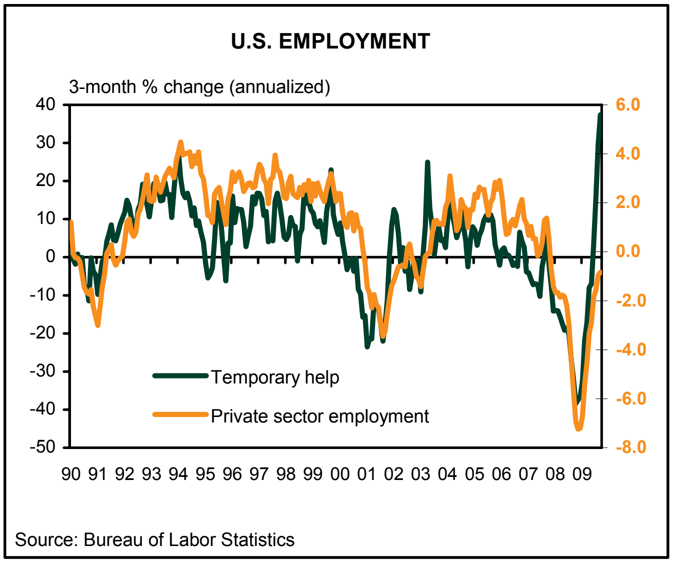
U.S. WON'T HAVE A JOBLESS RECOVERY

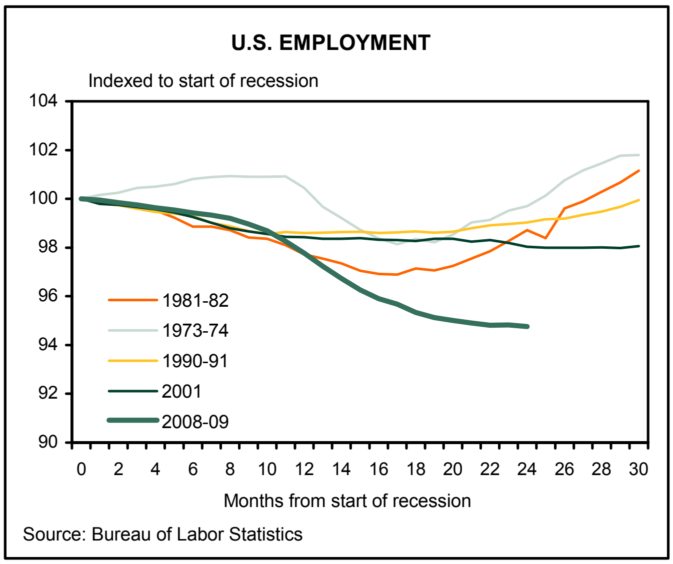
Far too often media and analysts have referred to the current U.S. economic recovery cycle as a jobless recovery. What exactly does that mean? I, for one, immediately flash back to the start of the decade, when for 21 months after the 2001 recession ended, U.S. firms continued to shed over one million jobs. Or, perhaps the concern is that the U.S. will replicate the 1991-92 recovery cycle in which a lifeless job market persisted for 18 months following the end of the recession. If we agree that these two periods characterize a jobless recovery, it does not appear that the current recovery cycle will replicate either of these experiences.

Resurrecting the 2009 notion of 'green shoots', there is reason to believe the 2010 job market will be sturdier than the experiences after the prior two recessions. Perhaps one of the most compelling green shoots to have appeared is the sharp increase in demand for temporary help. These workers are essentially the first line of response in the early stages of a recovery, as firms wade cautiously into the hiring pool amidst ongoing uncertainty over the outlook on profitability and the economy. Eventually, strong demand for these workers gives way to broad employment growth. While the history on the data only extends to 1990, one thing is clear from the graph on the following page – the 3-month trend with 37% growth is remarkably strong and should eventually coincide with employment growth in the 1-3% range. However, there is the possibility that the transition from reliance on temporary workers to hiring people on a "regular" basis might not be as fast or complete as in the past because there may be a trend shift going on in favour of temporary work. In this case, employment growth may be restrained to the lower end of that range. In case you're wondering, the hiring in temporary workers thus far is not related to the government census hiring that will take place during the spring months this year, which is anticipated to add more than one million workers to payrolls. These workers will show up in government payrolls, not the private sector.



The second green shoot reflects the pick-up in hours worked for service jobs in the private sector. On a 3-month trend, hours are rising at a 1.5% annualized pace. While this trend is outperforming the 2001 experience at the initial stage





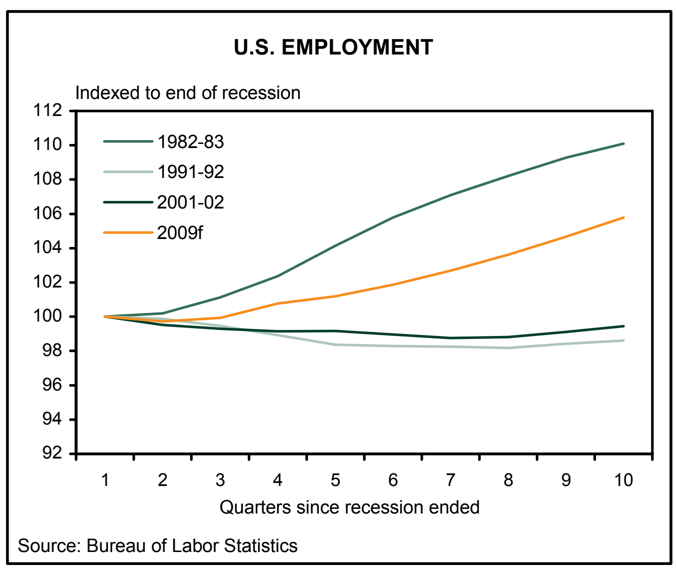
in the recovery, it's still too early to know whether the trend will be sustained or whether momentum will peter out, as was seen in the 1992 recovery experience. However, there is one compelling reason to believe the trend will be sustained. Jobs were slashed in this recession at a far greater rate than anything seen in the past 4 recessions. As such, an ultra lean workforce could mean that firms will not have as much latitude to push up hours and productivity before they are forced to dip into the available job pool. The current trend in productivity is already at levels that coincided with quarterly job creation of 1-2% (annualized) in the previous two post-recession cycles, and a much stronger pace of job creation during the 1980s and 1970s experiences.

The pieces of the puzzle support our view of job creation of almost 2% this year, which equates to about 2.3 million new jobs. However, this doesn't even recover half the jobs lost during the recession, which weighed in at more than 7 million. And the pace of recovery will still fall well short of the 1980s and 1970s experiences. So, rather than referring to this cycle as a 'jobless recovery', it seems the more appropriate term is a 'less-job recovery'.

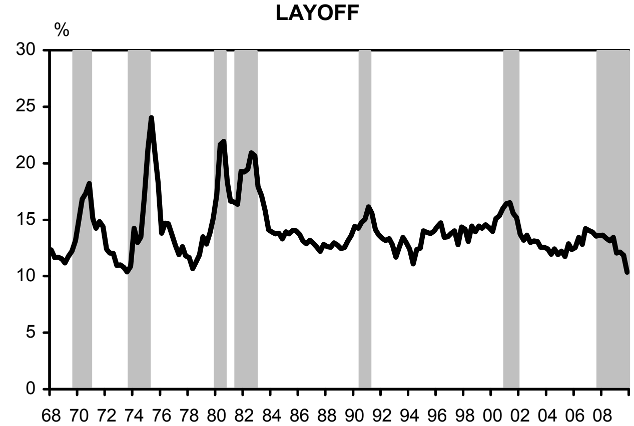
Semantics aside, the anticipated creation of over 2 million jobs in 2010 does not equate to a low unemployment rate. In fact, we expect the unemployment rate to hover at 10% throughout the year before edging back to only 8.8% by year-end 2011. The unemployment rate lags improvements in the job market because the labor force tends to swell when discouraged workers jump back in the job market as conditions improve. However, this influence may turn out to be more pronounced this time around because of two unique factors.

First, the labor force contracted by a 1% annual rate in this cycle, which hasn't occurred since 1962, and not of the magnitude witnessed in this cycle since 1952. In particular, there has been a sizeable downward adjustment in labor force participation rates of those aged 20-44, which is the prime working age group. The participation rates for those aged 20-24 is the lowest since the 1970s, while that for the 25-44 age bracket is back at levels seen in the 1980s. Thus, we may see a greater-than-usual swelling in the labor force as job market conditions improve, and this would counter downward pressure on the unemployment rate.

Second, in past recessions, the share of workers on temporary layoff rose steeply. Likewise, this share fell sharply during the early stages of the recovery as employers turn to this labor pool-in-waiting. However, the opposite occurred in this cycle, and far fewer workers were placed on temporary layoff. The changed pattern may be an indication

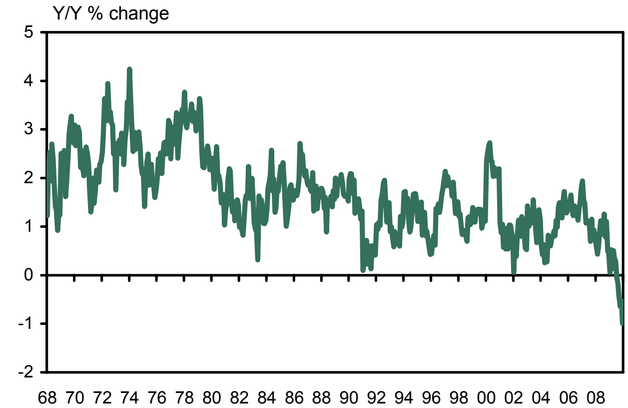


SHARE OF UNEMPLOYED ON TEMPORARY LAYOFF



Source: Bureau of Labor Statistics

LABOR FORCE



Source: Bureau of Labor Statistics

that hiring intentions will be delayed relative to past cycles. While this is consistent with our view that firms will remain cautious and hire back only a small potion of jobs this year in relation to those lost during the recession, it could also be a signal that the improvement in the unemployment rate will be forestalled.

Final thoughts

Putting it all together, we don't think this will be a jobless recovery as described by the 2002 and 1992 recovery experiences. However, surpassing the job creation experienced in those cycles places the bar at a pretty low level that does not require the skills of an Olympic athlete to leap over. We estimate it will still take more than two years to recover the jobs lost during the recession. However, this estimate just returns the job market to the pre-recession status quo, and does not take into consideration the ongoing expansion of the population and labor force that has occurred throughout the period. In the end, the U.S. job market will maintain a fair bit of slack, even amidst job creation at a 2-3% pace over the next two years. To this point, our estimates show that it will take four years for the unemployment rate to return to the equilibrium level of 5.5%.