William C Dudley: Job creation in the region

Remarks by Mr William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Quarterly Regional Economic Press Briefing, New York, 12 August 2011.

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Good morning and welcome once again to the New York Fed's Quarterly Regional Economic Press Briefing. I am pleased to have this opportunity to talk with the journalists covering our region – and through you, to the people in our District. This morning I will focus on regional economic conditions, with particular attention to job creation trends in the Second Federal Reserve District, which covers New York State; northern New Jersey; Fairfield County, Connecticut; Puerto Rico; and the U.S. Virgin Islands. Following my remarks, my colleagues will provide more details. As always, what I have to say reflects my own views and not necessarily those of the Federal Open Market Committee (FOMC) or the Federal Reserve System.

National economic conditions

The statement issued by the FOMC earlier this week presents a sober assessment of the state of the U.S. economy. Economic growth so far in 2011 has been quite a bit slower than we expected earlier in the year. While jobs growth picked up early in the year, in the last few months conditions in the labor market have deteriorated again and the unemployment rate edged up. Household spending has flattened out, and the housing sector is depressed. Business investment in equipment and software is expanding, but investment in corporate office and other commercial buildings is weak.

Some of the weakness in economic activity in the first half of the year was due to temporary factors such as the hit to household income from higher food and energy prices, and supply chain disruptions following the tragic earthquake in Japan. These restraining forces have abated and thus, we should see stronger growth in the second half. But it is clear that not all of the weakness was due to these one-time factors – and in light of this, I have revised down my expectations for the pace of recovery going forward.

On the inflation front, the committee noted that inflation has moderated recently as energy and commodity prices have declined from their peaks – having picked up earlier in the year, mainly reflecting higher prices for commodities and imported goods, as well as the supply disruptions from Japan. Longer-term inflation expectations remain stable, and the committee now expects inflation to settle over the coming quarters at levels at or below those consistent with our mandate to promote full employment and price stability.

In light of the current outlook, the FOMC in its statement noted that we now anticipate that we are likely to keep short-term interest rates exceptionally low at least through mid-2013. We also discussed the range of policy tools available to promote a stronger economic recovery in a context of price stability. Further details on the discussion at the meeting will be available when the minutes are published in three weeks time. I will not comment on monetary policy any further today.

Following the release of the FOMC's statement, market interest rates generally moved lower, which should help provide some additional support for economic activity and jobs. I would note, however, that conditions remain unsettled and the equity market in particular remains very volatile.

Regional economic conditions

Turning to our region, the economic recovery continues to be slow, although much of the region is performing reasonably well compared with the nation as a whole.

To frame our current situation, let me put this recession and recovery in the context of previous cycles. While this recession lasted longest, caused the deepest job losses, and has shown the slowest employment recovery of any post-war recession for the United States, it has not been the worst on record for the region.

New York State sustained fewer severe job losses than the nation during the recent recession – a reversal of historical patterns. Upstate New York, which has struggled with sluggish economic growth in recent decades, has proven particularly stable. In fact, while job losses were quite severe during previous recessions, that was not the case this time around. Similarly, New York City's job losses were more moderate than in previous recessions. New Jersey, on the other hand, saw steeper jobs losses than New York and a more tepid recovery. Puerto Rico endured a serious downturn lasting for over five years and is now just beginning to show signs of stabilization.

Why was the downturn in our region less severe than in many other parts of the country? Part of the reason is that the effects of the housing boom and bust on the region's economy were less consequential. Of course, we have seen declines in construction employment, losses of housing equity and people losing their homes. However, as in most mature regions, the housing market tends to be less influential here than it is in parts of the country where population growth has been more rapid. This is particularly true across much of Upstate New York, which experienced little in the way of a construction boom, home price growth or subprime mortgage penetration. While many areas in downstate New York and northern New Jersey did experience a more significant boom and bust, the changes there were not on the same scale as in hard-hit states, such as Nevada, Arizona or Florida.

Also, while the financial crisis was a key driving force behind the recession, employment in New York City was not affected nearly as much as some had predicted. Instead, it turned out that the finance sector held up better than expected.

The pace of recovery in our region, though somewhat stronger than at the national level, has nonetheless been disappointing. Growth has been weak and the unemployment rate has remained stubbornly high. This slow pace of recovery continued into the second quarter of 2011.

As attendees at previous regional press briefings may recall, the New York Fed produces economic activity indexes (CEIs) to help monitor the performance of the regional economy.

Based on these measures, activity continued to expand in both New York State and New York City through June, with growth decelerating only modestly in the second quarter. By contrast, the recovery in New Jersey's economy has been more sluggish, though the index for New Jersey did pick up in 2011, which is an encouraging development.

We monitor Puerto Rico using an index produced by the Government Development Bank for Puerto Rico. This index shows that the recession there, which started back in 2005 – well before the mainland's – continues to be a challenge. The sharp decline in activity that persisted well into 2010 appears to have subsided. However, for some time now the island's economy has experienced a series of fits and starts. As such, the recent improvements will need to be sustained for a period of time before we'll know that they are breaking out of the pattern of mixed signals.

The performance of regional housing markets continues to influence the pace of recovery for local economies. Many of the places hit hardest by the housing bust have had a particularly weak recovery. Although housing markets remain fragile, an encouraging development here is that home prices appear to be firming across much of our region.

Turning to jobs, data for the second quarter of 2011 indicate that businesses in the region, on balance, expanded employment at a more rapid pace than the nation. Still, the number of jobs being created each month is not enough to sustain a robust recovery.

Given the slow recovery of employment across much of the region, unemployment rates have edged up in most places. June's unemployment rate of 8.0 percent in New York State and 9.5 percent in New Jersey remain unacceptably high. While Puerto Rico's unemployment rate has fallen sharply in recent months, it is still particularly elevated at 14.9 percent.

One factor that remains a drag on overall employment growth in much of the region is the weakness of the public sector. As we have discussed at previous press briefings, our state and local governments continue to cut jobs more sharply than governments elsewhere. The recent exception to this trend is Puerto Rico. While the island sustained deep cuts in government jobs in 2009 and 2010, a recent increase in this sector was a key reason for Puerto Rico's relatively strong job growth in June. Overall, the weakness of the public sector continues to pose a risk to employment growth throughout our region going forward.

Another potentially troubling development for the region is the recent weakness in the financial sector. The finance industry, which had begun to recover late in the cycle, appeared to be showing signs of expansion when we last met. Since then, the industry has lost jobs in New York City and in New Jersey. This recent job loss has been particularly significant in the city's securities industry, which has shed nearly 4,000 jobs since April. More difficulties may lie ahead, as there have been many recent announcements of consolidations and layoffs in the region's banking sector.

Despite weak labor market conditions overall, some sectors are enjoying robust growth in the region. In particular, the professional and business services and education and health sectors have continued to add jobs. These are high-value-added services that the region can export to other parts of the country and overseas, and provide jobs that tend to be performed by highly skilled people. As such, these sectors help support the broader economy and are likely to provide a source of growth for the region going forward.

It is difficult to say when the pace of job growth will pick up. As such, we will continue to monitor our region's economy and job situation closely.

Job creation in the region

The fact that the recovery has been so sluggish might lead you to believe that no jobs are being created. However, this is not true. Beneath the high unemployment rate and overall slow job growth lies a considerable amount of job churning. Ongoing losses in some sectors are being offset by gains in other sectors. Today we look inside this churning for clues about how these changes are playing out in our region.

How do these changes in the labor market occur in the midst of a recession and recovery? First, many jobs are destroyed rapidly and few created as the economy weakens. This pattern is a defining characteristic of recessions. Afterward, during the recovery, employment rises as layoffs subside and firms begin to hire more. As this process plays out, some hiring will be in different industries from the layoffs. For example, some auto manufacturing jobs may never come back, while health care providers continue to add jobs.

Thus, employers are adding two sorts of jobs: new and old. Some jobs are in industries that continued to expand jobs throughout the recession and weak recovery, such as health care and education. We think of these as "new jobs." These shifts in jobs are transformational. They are part of how our region adjusts to the evolution of technology, trade patterns and consumer preferences. In addition, now that we are in recovery, a broad set of industries are beginning to add jobs to replace earlier layoffs, such as administrative support and wholesale and retail trade. We think of these as “old jobs” because they restore their industries’ share of jobs as economic activity picks up.

The two recessions before the current one saw an unusually high share of “new job” creation – in expanding industries, rather than rebounds of “old jobs” – compared with recessions in the 1970s and 1980s. Research done here at the New York Fed documents this for the nation and New York.[1] The preponderance of transformational “new job” creation may have reflected the fact that the recessions of 1990–91 and 2001 were relatively shallow.

In addition, employers may be more likely to use recessions as an opportunity to make their operations more efficient. For example, employers are less likely to use temporary layoffs when they reduce staff during downturns and more likely to use temporary service agencies or outsource part of their operations when they need to expand.

So far, the current recession does not follow the pattern of the last two downturns. In New York and New Jersey as well as the nation, job creation during the recovery has been fairly evenly balanced between new jobs and old jobs – instead of heavily weighted toward new jobs as in the past two recessions. If this pattern holds, the recovery process could have a higher share of unemployed workers returning to jobs similar to those they left during the downturn. That could be promising for the adjustment process when the recovery gathers strength. There is some variation within the region, though, and the areas with a higher preponderance of new jobs are undergoing more rapid transformations that could position them well for growth going forward. As a result, these areas could face a particularly strong need to retrain and educate their workers.

In order to prepare our region to be as competitive as possible, policy makers, firms and workers need to accurately gauge which industries and jobs will grow fastest.

Given the trend over the past few decades, it is no surprise that the new jobs being created across the region and nation are most likely to be in industries with a high share of workers with a college education. Thus, education and worker training is likely to continue to be very important in maintaining the economic vitality of our region going forward.

Conclusion

In summary, the recovery in our region continued at a slow pace during the second quarter of 2011. While overall job growth has been sluggish through the recovery, we find that there has been a great deal of job churning below the surface throughout our region. So far, this job churning is about evenly balanced between old and new job creation. The evidence to date is pretty clear that these new jobs, on balance, are in industries that employ workers with higher levels of skills and education.

I will now ask Jaison Abel to provide additional details on the regional economy.

[1] Groshen, Erica L. and Simon Potter. 2003. “***Has Structural Change Contributed to a Jobless Recovery***?” Federal Reserve Bank of New York Current Issues in Economics and Finance 9, no. 8.
Groshen, Erica L., Potter, Simon, and Rebecca J. Sale. 2004. “***Economic Restructuring in New York State***.” Federal Reserve Bank of New York Current Issues in Economics and Finance 10, no. 7.
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