Employment gains slow in the first half of 1989

Slower job growth was particularly evident in construction and manufacturing; the unemployment rate edged up slightly in the second quarter

Steven E. Haugen

Employment growth moderated in the first half of 1989, as the economy moved into its seventh year of expansion from the 1981–82 recession. While unemployment showed continued improvement early in the year, it edged back up in the second quarter. This left both the number of unemployed persons, at 6.5 million, and the civilian unemployment rate, at 5.3 percent, about the same as in the fourth quarter of 1988.

The slackening job growth was most evident in the goods-producing sector. Both manufacturing, which had posted substantial employment growth in 1987–88, and construction, which had also made healthy employment gains, registered a slowdown in job growth during the first half of 1989. For the most part, the service-producing sector continued its pattern of strong employment growth, although several industries in the sector, particularly those closely tied to the goods-producing industries, also experienced a reduction in employment gains.

In the first quarter of 1989, there were already some signs that the brisk pace of economic growth that characterized 1987 and 1988 might be slowing. Interest rates had been trending upward throughout most of 1988, and as rates continued to rise in early 1989, the demand for interest-sensitive products began to wane. Construction activity slowed, owing largely to a decline in the demand for new homes. Consumer spending for durable goods, such as new cars, also softened. The effect of the slowdown in consumption was quickly felt in the Nation's factories: new orders for durable goods dropped in January and February, and industrial production leveled off in the first quarter after rising throughout 1988.

Early in the second quarter, some of these yardsticks of economic performance recovered a bit. The uptrend in interest rates leveled off in April, and rates then began to edge down. Also in April, the number of permits for new housing edged up, and consumer spending increased. Nevertheless, homebuilding generally remained weaker than in 1988, as did sales of such big-ticket durables as new cars. In addition, the sharply rising value of the dollar midway through the second quarter did not augur well for those U.S. manufacturers who had been benefiting from robust export growth in recent years.

Employment

Developments in the labor market also pointed to slower economic growth in the first half of 1989.[1] While nonagricultural payroll employment, as measured by the survey of business establishments, grew by 1.5 million between the fourth quarter of 1988 and the second quarter of 1989, much of the job gain occurred early in the year. (See table 1.) Boosted by a large increase in January, nonagricultural employment expanded by approximately 880,000 in the first quarter, but slowed in the second quarter,

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when only about 620,000 jobs were added.[2] This was the smallest quarterly gain since the third quarter of 1986. The slowing of employment growth within the first half of the year is shown clearly in chart 1, which presents seasonally adjusted monthly changes in nonagricultural employment.

Civilian employment, as measured by the household survey, also showed weaker growth in the second quarter. About three-fourths of the 1.4-million increase in the first half of 1989 occurred in the first quarter. (See table 2.) Overall, the payroll and household surveys indicated about the same volume of employment growth in the first half of 1989. During most of 1987 and 1988, however, the payroll series showed much faster growth than the household series. (For further information on the differences in employment growth between the establishment and household surveys, see the article in this issue entitled "How many new jobs since 1982? Data from two surveys differ.")

Nonagricultural employment exhibited the smallest quarterly gain since the third quarter of 1986.

Goods-producing industries. Several barometers of economic activity indicated weakness in the construction and manufacturing industries during the first half of the year. In construction, declines in the number of building permits, housing starts, and new home sales in the first quarter suggested that the rise in mortgage interest rates, which began during the second half of 1988 and continued into 1989, had contributed to a softening of demand for new housing. Although interest rates eased in May, homebuilding continued at a more tepid pace than in 1988. (See table 3.)

Reflecting these developments, employment growth in the construction industry slowed markedly during the first half of 1989. In the second quarter, payroll employment in construction stood at 5.3 million, the same as in the first quarter and up only 85,000 over the level of the fourth quarter of 1988. The weakness in the industry was most apparent in the general building and special trades contractors divisions, which are highly involved in residential construction. Employment among heavy construction contractors held fairly steady. During the first 6 years of the current recovery, employment in this industry advanced little, while both general building and special trades contractors showed marked employment growth. In particular, job growth in the special trades division accounted for more than two-thirds of the total employment increase in construction.

Rising interest rates may also have affected the manufacturing industry in early 1989. Retail sales softened in the first quarter, particularly the sales of such interest-rate-sensitive items as new cars. Reflecting the slowdown in consumer spending, new orders for durable goods declined slightly from late-1988 levels. Additionally, export growth, which had accounted for much of the strength in manufacturing over the 1987–88 period, eased a little as the value of the dollar stopped declining in 1988 and began to increase in the first half of 1989. The declining dollar had been helping some manufacturers by making U.S. exports less expensive.

Trends in manufacturing employment confirmed some slowing in the industry. Job gains in manufacturing, which had been rising at a rapid clip during much of 1987–88, slowed abruptly during the first quarter of 1989, and employment was essentially unchanged in the second quarter at 19.7 million; this left the job count up only 100,000 from fourth-quarter 1988 levels, about half the growth posted in the second half of 1988. The weakness was most apparent in the durable goods industries, notably in the machinery and electrical equipment components, industries which had been benefiting from the rapid growth in exports. There was also little or no job growth in the lumber industry and in stone, clay, and glass products, reflecting the slowdown in construction. Employment in auto manufacturing declined slightly, as car makers backed away from aggressive production schedules in the face of large inventory-sales imbalances. Employment growth in nondurable manufacturing also slowed in the first half of 1989. Smaller job gains were particularly evident in the paper products and printing and publishing industries.

Despite the slowdown in employment growth, the factory workweek remained at a very high level, as did overtime hours. Employees on manufacturing payrolls continued to average about 41 hours per week during the first 6 months of 1989, roughly as much as in 1987 and 1988. Similarly, manufacturing overtime, at 3.9 hours in the first half, remained at very high levels by historical standards.

After allowing for the effects of labor-management disputes which occurred in June, mining employment rose slightly in the first half of 1989. About half of the increase occurred in oil and gas extraction. Employment gains in this industry are directly related to the price of oil, and it may be that the rise in oil prices since mid-1988 provided an employment boost for the industry. At 715,000 in the second quarter, however, mining employment was still below its level one year earlier.

Service-producing industries. Job growth in the service-producing sector remained healthy

Table 1. Employees on nonagricultural payrolls by industry, seasonally adjusted quarterly averages, 1982–89

[In thousands]

Industry	1982	1984	1988				1989	
	IV	IV	I	II	III	IV	I	II[p]
Total	88,717	95,869	104,355	105,184	105,976	106,799	107,680	108,299
Total private	72,893	79,711	87,111	87,851	88,577	89,288	90,104	90,624
Goods-producing	22,980	24,936	25,022	25,202	25,313	25,452	25,634	25,647
Mining	1,029	956	722	725	723	713	712	717
Oil and gas extraction	651	609	409	411	407	397	395	399
Construction	3,837	4,501	5,028	5,116	5,155	5,189	5,263	5,276
General building contractors	959	1,188	1,354	1,372	1,373	1,373	1,394	1,383
Manufacturing	18,115	19,479	19,271	19,360	19,435	19,550	19,659	19,654
Durable goods	10,484	11,630	11,336	11,404	11,467	11,540	11,601	11,584
Lumber and wood products	596	703	760	763	762	775	780	769
Furniture and fixtures	425	492	528	529	530	532	534	534
Stone, clay, and glass products	558	593	595	599	601	605	607	606
Primary metal industries	824	843	763	770	778	784	787	788
Blast furnaces and basic steel products	344	317	277	278	277	277	276	275
Fabricated metal products	1,349	1,483	1,416	1,426	1,436	1,445	1,458	1,451
Machinery, except electrical	2,051	2,235	2,046	2,068	2,095	2,119	2,138	2,148
Electrical and electronic equipment	1,953	2,247	2,068	2,069	2,072	2,072	2,062	2,051
Transportation equipment	1,662	1,931	2,042	2,053	2,051	2,059	2,072	2,068
Motor vehicles and equipment	659	877	844	855	860	866	874	871
Instruments and related products	699	721	734	744	754	762	773	778
Miscellaneous manufacturing	367	382	384	385	387	387	390	391
Nondurable goods	7,631	7,850	7,935	7,956	7,968	8,011	8,058	8,070
Food and kindred products	1,628	1,608	1,636	1,634	1,628	1,646	1,652	1,656
Tobacco manufactures	68	64	57	56	55	56	56	53
Textile mill products	729	726	734	731	726	725	728	728
Apparel and other textile products	1,139	1,156	1,101	1,095	1,087	1,087	1,096	1,095
Paper and allied products	654	682	689	692	694	695	696	696
Printing and publishing	1,271	1,404	1,540	1,555	1,568	1,582	1,597	1,604
Chemicals and allied products	1,055	1,055	1,050	1,061	1,070	1,076	1,086	1,092
Petroleum and coal products	200	187	161	161	162	162	161	162
Rubber and miscellaneous plastics products	679	792	820	826	833	838	842	842
Leather and leather products	209	176	146	145	144	143	144	142
Service-producing	65,737	70,933	79,333	79,983	80,663	81,346	82,047	82,652
Transportation and public utilities	5,023	5,200	5,481	5,523	5,570	5,615	5,662	5,701
Transportation	2,735	2,963	3,270	3,309	3,353	3,401	3,448	3,486
Communication and public utilities	2,288	2,237	2,211	2,214	2,217	2,214	2,214	2,215
Wholesale trade	5,213	5,644	5,952	6,004	6,053	6,105	6,171	6,219
Durable goods	3,034	3,336	3,508	3,545	3,579	3,612	3,657	3,683
Nondurable goods	2,179	2,308	2,444	2,460	2,474	2,493	2,514	2,536
Retail trade	15,189	16,921	18,943	19,042	19,170	19,280	19,452	19,513
General merchandise stores	2,141	2,317	2,476	2,460	2,454	2,453	2,481	2,488
Food stores	2,510	2,685	3,039	3,073	3,115	3,165	3,212	3,242
Automotive dealers and service stations	1,634	1,833	2,047	2,074	2,106	2,130	2,149	2,156
Eating and drinking places	4,872	5,525	6,240	6,270	6,294	6,321	6,326	6,349
Finance, insurance, and real estate	5,356	5,779	6,635	6,658	6,686	6,727	6,761	6,789
Finance	2,664	2,890	3,291	3,285	3,286	3,300	3,312	3,315
Insurance	1,715	1,784	2,061	2,075	2,088	2,103	2,114	2,123
Real estate	977	1,105	1,283	1,297	1,313	1,324	1,335	1,350
Services	19,131	21,231	25,079	25,422	25,785	26,109	26,424	26,755
Business services	3,289	4,196	5,438	5,532	5,621	5,688	5,724	5,780
Health services	5,892	6,177	6,989	7,085	7,189	7,313	7,442	7,568
Government	15,824	16,159	17,244	17,333	17,399	17,511	17,576	17,675
Federal	2,745	2,830	2,969	2,961	2,970	2,983	2,981	2,993
State	3,641	3,772	4,030	4,057	4,079	4,084	4,094	4,121
Local	9,438	9,557	10,245	10,315	10,350	10,444	10,502	10,561

p = preliminary.

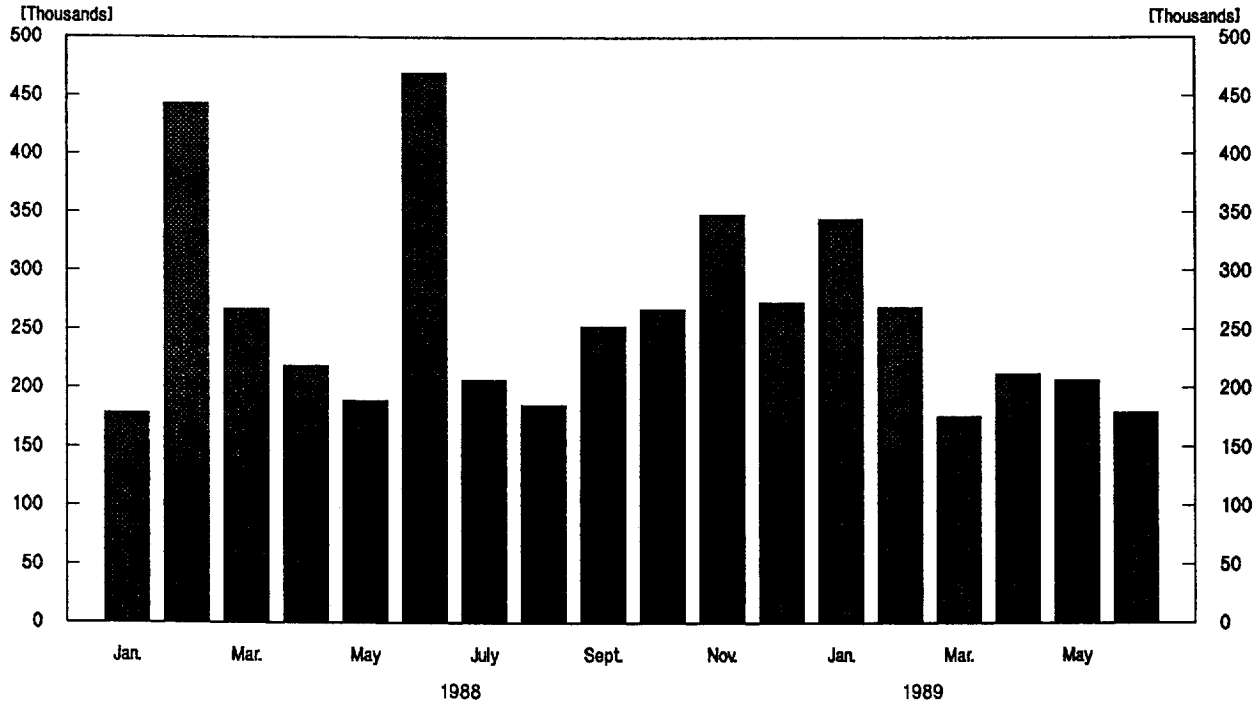
Table 2. **Employment status by sex, age, race, and Hispanic origin, seasonally adjusted quarterly averages, 1982–89**

[In thousands]

Characteristic	1982	1984	1988				1989	
	IV	IV	I	II	III	IV	I	II
Total								
Civilian labor force	110,959	114,257	121,045	121,352	121,881	122,388	123,291	123,790
Percent of population	64.1	64.5	65.8	65.8	65.9	66.1	66.4	66.5
Employed	99,120	105,944	114,152	114,688	115,202	115,843	116,900	117,289
Agriculture	3,471	3,324	3,212	3,139	3,126	3,223	3,243	3,104
Nonagriculture	95,649	102,620	110,940	111,549	112,076	112,620	113,657	114,185
Employment-population ratio	57.3	59.8	62.1	62.2	62.3	62.5	62.9	63.0
Unemployed	11,839	8,312	6,893	6,664	6,678	6,545	6,391	6,501
Unemployment rate	10.7	7.3	5.7	5.5	5.5	5.3	5.2	5.3
Men, 20 years and over								
Civilian labor force	58,375	68,020	62,522	62,721	62,843	62,971	63,468	63,681
Percent of population	78.8	78.3	78.0	78.0	77.9	77.8	78.1	78.1
Employed	52,553	56,257	59,448	59,756	59,905	60,017	60,642	60,883
Employment-population ratio	70.9	73.4	74.1	74.3	74.3	74.2	74.6	74.7
Unemployed	5,822	3,764	3,074	2,965	2,938	2,953	2,827	2,798
Unemployment rate	10.0	6.3	4.9	4.7	4.7	4.7	4.5	4.4
Women, 20 years and over								
Civilian labor force	44,112	46,357	50,501	50,604	50,919	51,449	51,890	52,131
Percent of population	52.9	54.0	56.6	56.6	56.8	57.2	57.6	57.7
Employed	40,127	43,256	47,963	48,122	48,423	49,022	49,514	49,632
Employment-population ratio	48.1	50.4	53.8	53.8	54.0	54.5	54.9	54.9
Unemployed	3,985	3,101	2,538	2,483	2,496	2,427	2,376	2,499
Unemployment rate	9.0	6.7	5.0	4.9	4.9	4.7	4.6	4.8
Both sexes, 16 to 19 years								
Civilian labor force	8,472	7,880	8,022	8,026	8,119	7,969	7,933	7,978
Percent of population	54.3	54.1	55.0	55.1	56.0	55.2	55.2	56.0
Employed	6,440	6,432	6,742	6,810	6,874	6,804	6,745	6,774
Employment-population ratio	41.3	44.1	46.2	46.7	47.4	47.1	46.9	47.6
Unemployed	2,032	1,448	1,281	1,216	1,244	1,165	1,188	1,203
Unemployment rate	24.0	18.4	16.0	15.2	15.3	14.6	15.0	15.1
White								
Civilian labor force	96,623	98,811	104,255	104,555	104,900	105,286	105,964	106,310
Percent of population	64.4	64.7	66.1	66.2	66.2	66.4	66.7	66.8
Employed	87,452	92,616	99,204	99,691	99,909	100,436	101,338	101,539
Employment-population ratio	58.3	60.7	62.9	63.1	63.1	63.3	63.8	63.8
Unemployed	9,171	6,195	5,050	4,864	4,991	4,849	4,626	4,772
Unemployment rate	9.5	6.3	4.8	4.7	4.8	4.6	4.4	4.5
Black								
Civilian labor force	11,503	12,252	13,137	13,090	13,240	13,342	13,459	13,444
Percent of population	61.5	62.9	63.9	63.4	63.8	64.1	64.4	64.1
Employed	9,155	10,393	11,512	11,530	11,751	11,831	11,898	11,932
Employment-population ratio	48.9	53.3	56.0	55.8	56.7	56.8	56.9	56.9
Unemployed	2,348	1,859	1,626	1,559	1,489	1,510	1,561	1,512
Unemployment rate	20.4	15.2	12.4	11.9	11.2	11.3	11.6	11.2
Hispanic origin								
Civilian labor force	6,826	7,614	8,889	8,914	9,007	9,119	9,212	9,321
Percent of population	63.5	65.4	67.6	67.2	67.3	67.6	67.7	67.9
Employed	5,783	6,819	8,176	8,127	8,286	8,409	8,546	8,568
Employment-population ratio	53.8	58.6	62.2	61.3	61.9	62.3	62.8	62.4
Unemployed	1,043	795	713	787	721	709	666	752
Unemployment rate	15.3	10.4	8.0	8.8	8.0	7.8	7.2	8.1

NOTE: Detail for race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups.

Chart 1. **Monthly changes in nonagricultural employment, seasonally adjusted, January 1988–June 1989**



NOTE: Data for the most recent 2 months are preliminary.

in the first half of the year. However, the pace of the increase was a little slower relative to the rapid rate of job growth achieved during 1988. Slower growth was particularly evident in industries, such as wholesale and retail trade, that were most affected by the slowdown in the demand for new construction and durable goods. Nevertheless, the service-producing sector grew by 1.3 million, accounting for nearly 9 out of every 10 jobs added.

Employment growth in wholesale trade slowed a bit during the first half. Job gains in durable goods distribution, which had been quite buoyant in 1988 due to strong export demand, slowed somewhat, while growth in nondurable goods distribution held steady. Overall, wholesale trade added 115,000 jobs in the first half of 1989. Employment increases in retail trade also tapered off somewhat in the second quarter, after surging in the first quarter of the year. Smaller job gains occurred in food stores and auto dealers—the latter probably reflecting slower car sales. In finance, insurance, and real estate, employment continued to show moderate growth.

Several service-producing industries continued to exhibit strong employment growth throughout the first half of 1989. Employment in transportation and public utilities continued to make sizable gains, with an increase of about 85,000 (despite the labor-management dispute at Eastern Airlines). Most of the growth occurred in transportation, reflecting in part the ongoing expansion of airlines in order to meet the growing demand for air travel and further growth in trucking. The services industry continued its pattern of strong job growth, adding nearly 650,000 jobs. As has been the case in recent years, the sharpest growth was in health services, while net job additions in business services slowed somewhat. Government employment continued to grow in the first half of the year, driven mostly by increases in the local government area.

Despite slower growth, the service-producing sector accounted for nearly 9 out of every 10 new jobs.

Unemployment

Unemployment continued to improve early in 1989, but then edged up in the second quarter. In the first quarter, both the number of unemployed persons and the civilian unemployment rate inched down. In March, these figures reached post-recession lows of 6.1 million and 5.0 percent. Subsequently, unemployment rose a bit, consistent with the slowing of employment growth. At 6.5 million and 5.3 percent,

slowdown also occurred during 1986, only to be followed by more than 2 years of very robust job growth. Thus, it remains to be seen whether the moderation in growth in the first half of this year is a harbinger of further weakness, or merely a temporary lull in the pattern of strong labor market performance that has characterized most of the current expansion. □

Footnotes

[1] The employment and labor force data used in this article are taken from two sources: The Current Employment Statistics program, a monthly survey of more than 300,000 business establishments nationwide conducted by the Bureau of Labor Statistics (BLS) in cooperation with State Employment Security Agencies, and the Current Population-Survey, a monthly survey of about 56,000 households nationwide conducted for BLS by the Bureau of the Census. For further information on these surveys, see *Handbook of Methods*, Bulletin 2285 (Bureau of Labor Statistics, 1988).

[2] Unless otherwise noted, estimates of employment change in this article refer to differences in seasonally adjusted quarterly averages.

The effects of unions on wages

Relatively centralized bargaining structures are only one of the institutional arrangements that insulate European employers from fear of union wage increases. Unionized competitors tend to face the same wage rates, and laws requiring an extension of negotiated wages to the unorganized sector in some countries require the nonunion sector to adopt the negotiated wage level. Labor policies therefore tend to reduce the competitive threat presented by union wage increases.

Unions in the United States also secure relatively high fringe benefits for their members, which increases the competitive threat from the nonunion sector. In addition, decentralized bargaining may result in differences in fringe benefit costs within the unionized sector. In Europe, most fringe benefits are established by law and hence apply with relatively equal force to most employers. International differences in the division of responsibilities between legislation and collective bargaining therefore influence the competitive threat associated with unions.

—Robert J. Flanagan
Labor Relations and the Litigation Explosion
(Washington, The Brookings Institution, 1987),
pp. 98–99.