

The economy added 315,000 jobs in August and deceleration trends continue



EDI Note on the Employment Situation September 2, 2022

Key findings

- Healthy gains in June were revised down by over 25%
- Labor force participation rate edges up, but is still a full percentage point below its Jan/Feb 2020 levels
- Expansionary momentum continues to slow and job-finding prospects ease
- Local government employment, especially in education, is well below pre-pandemic levels and decelerating

Today's BLS report showed net payroll gains of 315,000 in August. Though slowing down relative to the unprecedented pace of job growth over 2021, August's payroll growth is still quite high from a pre-pandemic perspective. These gains also helped make up for the downward revisions to June and July 2022 numbers. While payroll growth for July was only slightly revised downward, the 398,000 jobs initially reported for June were revised by over twenty-five percent to 293,000.

Both the unemployment rate and unemployment level increased in August, to 3.7% and six million respectively. When considered together with the employment gains, the rise in unemployment reflects a rise in the labor force participation rate. This is a welcome sign for many, as this measure has remained stubbornly below its pre-pandemic level. While it has been inching up slowly, reaching 62.4 percent in August, it is still a full percentage point lower than in the first months of 2020.

The employment recovery over the past year has varied across different sectors of the economy, as a consequence of shifting patterns in demand. While many goods producing industries have enjoyed robust and even accelerating job growth, the service sectors have not fared so well. In the Leisure & Hospitality sector for example (Figure 1), one of those most directly impacted by the pandemic, employment growth is flatlining at a level well below that of pre-pandemic times. A similar trend continues to describe government-sector employment (Figure 2).

Figure 1: Employment Levels: Leisure & Hospitality, 2007-2022

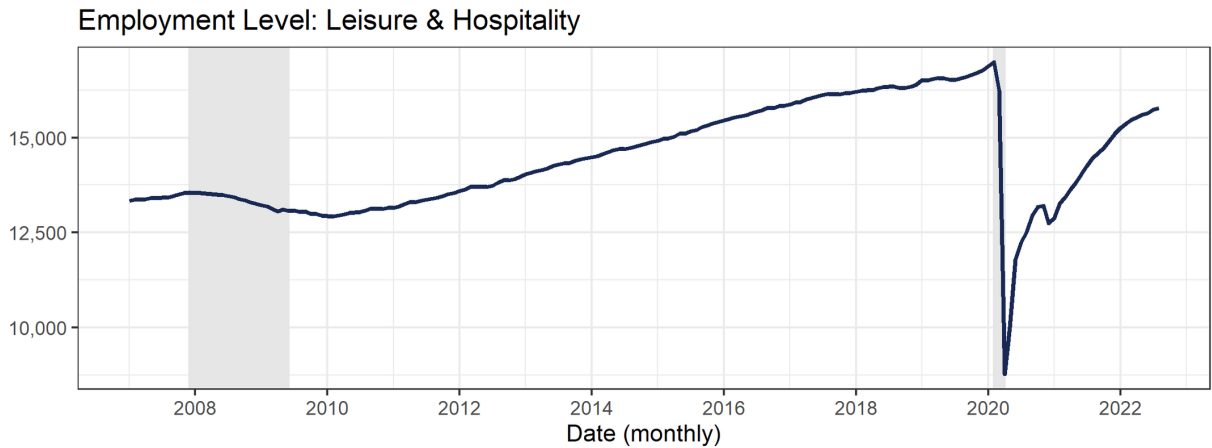
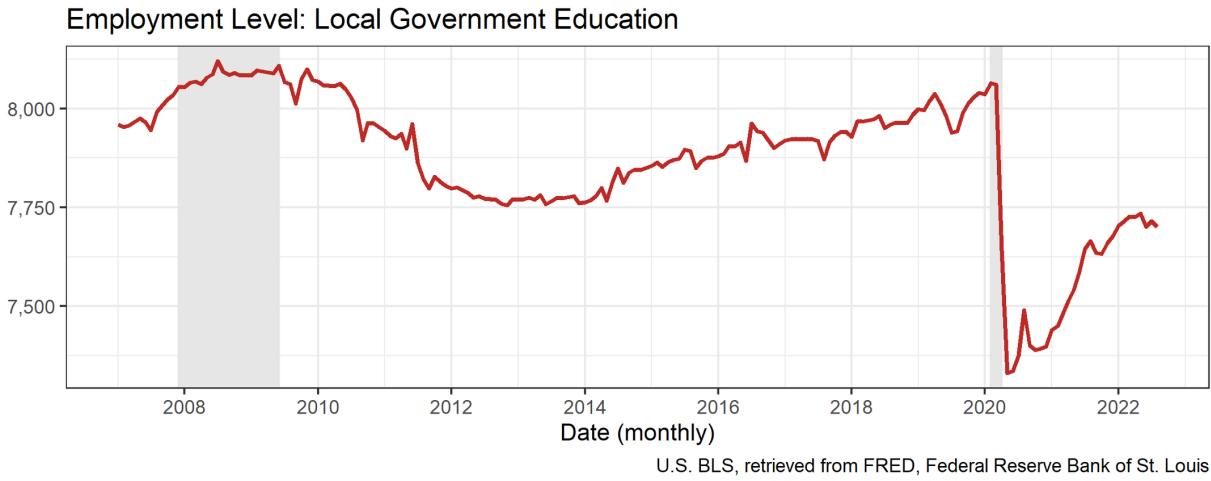


Figure 2: Employment Levels: All Government, 2007-2022



But even within these broader patterns, today's BLS release did contain a few surprises. The recovery in Public employment is anemic at best. Within the broader government-sector, local employment in education fell in August, unlike its 'normal' pattern of the past two years, where Aug 2020 and Aug 2021 showed a strong uptick in local education employment, at a time when the impact of the pandemic on education was most severe. As Figure 3 shows, the summer 2022 flatlining trend in the series points to the special challenges in public education at the moment. One can only hope that the recovery in local education employment does not peak at a count which less than a decade ago was the trough of the job losses in this crucial sector.

Figure 3: Employment Levels: Local Government Education, 2007-2022



Some of the additional labor force measures EDI has been monitoring, continued to show signs of a slowing expansionary momentum. One of these (Figure 4) is tracking the likelihood of workers entering unemployment or leaving the labor force altogether when they are no longer employed. In recent months, the share of employed workers leaving the labor force altogether upon ending their employment relative to those entering unemployment has stalled, and even dropped slightly.

This ratio generally rises during expansions (and was especially pronounced in the immediate employment-rebound following Spring 2020) and stalls or declines in slowdowns. *Although the behavior of this ratio recently doesn't signify an impending recession in itself, it is consistent with other data, including the rise in unemployment reported in August, of an easing in the rate of employment growth and job-finding prospects.*

Figure 4: Ratio of flows from employment to not-in-the-labor-force / flows from employment to unemployment, 2012-2022 (3 month average)



Today's BLS release is largely consistent with the patterns observed over the past months. The rate of employment growth continues to ease while labor force participation remains firmly stuck below pre-pandemic levels, despite the uptick in August. Employment recoveries have played out very differently across sectors however. With another school year underway, employment in local government education remains vexingly low relative to pre-pandemic staffing levels.