

# Weekly Economic Commentary

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## John Canally, CFA

Economist  
LPL Financial

### Highlights

We take a close look at the inner workings of the job market in this report.

The professional and business services industry has the most open jobs currently.

Small firms are doing the most hiring.

Highly skilled workers for small to medium-sized businesses are needed in the South.

## Jobs Looking for People

A number of key reports due out this week will tell market participants how many jobs were added in March 2012, in what industries the jobs were added, how much workers were paid, and why workers were unemployed. If the consensus is correct, the private sector economy will add more than 200,000 jobs for the fourth consecutive month, and the nation's unemployment rate will stay at 8.3%. Each month, financial markets and the media turn the monthly jobs report into the most closely watched economic indicator on the calendar. A few days later, the same government agency—The Bureau of Labor Statistics within the Department of Labor—will release a report called the job openings and labor turnover (JOLTS) report with little fanfare from the financial markets or the financial media.

The JOLTS report does not get a lot of attention, mainly because it is dated (the next report due is for February), and by then, the market already has plenty of information on the labor market in March, including a reading on initial claims for unemployment insurance—a closely watched weekly metric on the labor market—for the week ending April 7. However, the JOLTS data provides more insight into the inner workings of the labor market than the monthly

### 1 Sectors With the Most Open Jobs Include Professional and Business Services & Education and Health Care

	Open Jobs As Of January 2012	Open Jobs At Start of Recovery in June 2009	Increase in Open Jobs	Hourly Earnings
<b>Total</b>	<b>3.1 Million</b>	<b>2.1 Million</b>	<b>1 Million</b>	<b>\$20/hr</b>
Construction	82,000	57,000	25,000	\$24/hr
Manufacturing	285,000	100,000	185,000	\$19/hr
Retail Trade	317,000	272,000	45,000	\$14/hr
Professional and Business Services	729,000	367,000	362,000	\$23/hr
Education and Health Care	611,000	519,000	92,000	\$21/hr
Leisure and Hospitality	437,000	260,000	177,000	\$12/hr
Federal Government	50,000	58,000	-8,000	N/A
State and Local Government	302,000	256,000	46,000	N/A

Source: Bureau of Labor Statistics 03/30/12



## LPL Financial Research Weekly Calendar

	<b>U.S. Data</b> 	<b>Fed</b> 	<b>Global Notables</b> 
2012			
2 Apr	<ul style="list-style-type: none"> <li>■ ISM Manufacturing (Mar)</li> <li>■ Construction Spending (Feb)</li> </ul>	<ul style="list-style-type: none"> <li>🦅 Bullard</li> <li>🕊️ Pinalto</li> </ul>	<ul style="list-style-type: none"> <li>■ Japan: Tankan (Mar)</li> <li>■ <b>China ISM (Mar)</b></li> <li>■ Eurozone ISM (Mar)</li> </ul>
3 Apr	<ul style="list-style-type: none"> <li>■ Factory Orders (Feb)</li> <li>■ Domestic Light Vehicle Sales (Mar)</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>FOMC Minutes</b></li> <li>🕊️ Williams</li> </ul>	<ul style="list-style-type: none"> <li>■ Reserve Bank of Australia Meeting</li> </ul>
4 Apr	<ul style="list-style-type: none"> <li>■ ADP Employment Change (Mar)</li> <li>■ <b>ISM –Service Sector (Mar)</b></li> </ul>	<ul style="list-style-type: none"> <li>🕊️ Williams</li> </ul>	<ul style="list-style-type: none"> <li>■ Spain: Bond auction</li> </ul>
5 Apr	<ul style="list-style-type: none"> <li>■ Initial Claims (3/31)</li> <li>■ Challenger Layoff Announcements (Mar)</li> <li>■ Chain Store Sales (Mar)</li> </ul>	<ul style="list-style-type: none"> <li>🦅 Bullard</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>ECB Meeting</b></li> <li>■ <b>BOE Meeting</b></li> <li>■ France; Bond Auction</li> <li>■ Brazil; Inflation (Mar)</li> </ul>
6 Apr	<ul style="list-style-type: none"> <li>■ <b>Nonfarm Payrolls (Mar)</b></li> <li>■ Unemployment Rate (Mar)</li> <li>■ Consumer Credit (Mar)</li> </ul>		

🦅 Hawks: Fed officials who favor the low inflation side of the Fed's dual mandate of low inflation and full employment

🕊️ Doves: Fed officials who favor the full employment side of the Fed's dual mandate

employment report does. One key takeaway from the JOLTS data is that small and medium-sized businesses in the South are looking for highly skilled workers.

JOLTS provides data on:

- The number of job openings economy-wide, by firm size, and by region,
- The number of new hires in a given month, and
- Job separations.

On the surface, the data reveals just how dynamic the U.S. labor market is, demonstrating how the economy creates (and destroys) tens of millions of jobs a year. It can also help us answer questions we receive quite often in the LPL Financial Research Department like: Where are all the jobs coming from? What do those jobs pay? What kind of companies are hiring, and where are the jobs located?

At the end of January 2012 (the latest data available), there were 3.1 million job openings, up from 2.1 million open jobs at the start of the economic recovery in June 2009 [Table 1]. However, the 3.1 million open jobs at the end of January 2012 was more than a million fewer than at the end of the 2001–2007 recovery. Thus, the JOLTS data tells a familiar story: The labor market is healing, but it still has a long way to go to get back to normal.



## Where Are the Jobs?

The industry group that has seen the biggest percentage change (nearly 100%) in the number of open jobs since the start of the recovery is the professional and business services area, where there are currently 729,000 open jobs, nearly double the amount in June of 2009. Note that jobs in this category pay on average 15% more (\$23 per hour versus \$20 per hour) than the average job. Jobs in this category include:

- Legal services,
- Accounting and bookkeeping,
- Architectural and engineering services,
- Computer systems design,
- Management and technical consulting services, and
- Temporary help services.

With the exception of temporary help services, which are a catch-all for temporary employment agencies, the vast majority of the jobs in the professional and business services area appear to be in professions that demand advanced education or training. Indeed, in recent Beige Books—qualitative assessments of banking and business conditions compiled for the Federal Reserve (Fed) by private sector business owners and bankers prior to each of the eight Federal Open Market Committee (FOMC) meetings a year—there have been scattered reports of labor shortages in certain industries. In addition, in recent public appearances, Fed Chairman Ben Bernanke has noted that a mismatch exists between skills and open jobs.

## How Much Do They Pay?

Job openings have surged in the relatively low paying (\$12 per hour on average) leisure and hospitality area (by 68%) and by 36% in retail (\$14 per hour) [Table 1]. But large increases in job openings since the beginning of the recovery have not been limited to low paying jobs. Manufacturing (by 54%) and construction (by 44%), which are among the highest paid jobs, have seen sizable increases in the number of open jobs. There has only been an 18% increase in open jobs in the health care and education area, as these sectors didn't see many job cuts during the recession. Government job openings have increased by just 12%, with a decent gain in state and local openings almost entirely offset by a drop in job openings at the Federal level.

## What Kinds of Companies Are Hiring?

Table 2 looks at job openings by firm size. Since the early 1990s, small businesses have created two-thirds of the jobs in the United States. The Bureau of Labor Statistics collects this data, but it lags the other data mentioned in this commentary, and the most recent report is from the middle of 2011. However, some private sector firms collect data on hiring by firm size, most notably, in the ADP employment report, which is also due out this week. The data shows that small businesses (under 499 employees) have

### 2 Smaller Firms Have 75% of Open Jobs

	Open Jobs as of Q4 2012	Open Jobs as of Q2 2009
1 to 9 Employees	391,000	237,000
10 to 49	679,000	643,000
50 to 249	968,000	656,000
250 to 999	498,000	319,000
1000 to 4999	226,000	192,000
5000+	57,000	44,000

Source: Bureau of Labor Statistics 03/30/12



Since the early 1990s, small businesses have created two-thirds of the jobs in the United States.

done virtually all of the hiring in the last two years. Recent surveys do show an uptick in small business optimism, albeit from very low levels, helping to corroborate the hiring data. But returning to the JOLTS data, we find that the entire increase in open jobs since the start of the recovery (1 million from Table 1) can be accounted for by firms between 1 and 249 employees. While larger firms have seen increases in open jobs, the vast majority of the increase in job openings over the past two-and-a-half years has come from small businesses. As of the fourth quarter of 2011, 75% of the job openings were at firms with less than 250 employees. This suggests that confidence and certainty in fiscal and monetary policy and in overall leadership in Washington will be keys to sustaining the gains made in the job market in recent months.

### 3 Energy Sector May Be Driving Job Openings in the South

	Open Jobs as of January 2012	Open Jobs as of June 2009	Increase in Open Jobs
Northeast	591,000	578,000	13,000
South	1,434,000	834,000	600,000
Midwest	745,000	436,000	309,000
West	689,000	543,000	146,000

NORTHEAST: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont.

SOUTH: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

MIDWEST: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

WEST: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

Source: Bureau of Labor Statistics 03/30/12

### What Regions Have the Most Job Openings?

Table 3 breaks down job openings by region. The region with the most openings (1.43 million) and the biggest increase in job openings since June 2009 is the South. On the other hand, the Northeast has seen the smallest increase in job openings in the past two-and-a-half years and also has the fewest open jobs right now. The Western region has fared a bit better than the Northeast, but still has seen the second-smallest increase in job openings and has the second lowest number of open jobs. One explanation for the lagging performance in these two regions is that both were hurt by: 1) the collapse in the real estate bubble (fewer construction jobs); and 2) the Northeast was also hurt by the collapse in the financial services sector due to the bursting of the real estate bubble. Looking around the country at open jobs by industry, firm size, and pay, it seems like a good time to be a highly skilled worker in the South looking for work in a small to medium-sized business.

In a speech to a group of business economists in late March, Bernanke noted that in order for the unemployment rate to drop further from here (it has moved down by nearly a full point since last summer to 8.3%), the economy needs to pick up steam. Our view remains that the labor market continues to heal at a modest pace. The economy has added 3.9 million private sector jobs since February 2010, after shedding 8.8 million jobs between early 2008 and early 2010. At 8.3% the unemployment rate is well below the recent peak (10.0% in late 2009), but nearly double the rate seen (4.4%) prior to the Great Recession. The broadest measure of unemployment, which includes those working part time, and those who have given up looking for work, stood at 14.9% in February, down from 15.1% in January and a recent peak of 17.2% in late 2009. This measure of slack in the labor force is still nearly double what it was (7.9%) prior to the onset of the Great Recession. ■

#### LPL Financial Research 2012 Forecasts

- GDP 2%\*
- Federal Funds Rate 0%^
- Private Payrolls +200K/mo.†

Please see our *2012 Outlook* for more details on LPL Financial Research forecasts.



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\* Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

^ Federal Funds Rate is the interest rate at which depository institutions actively trade balances held at the Federal Reserve, called federal funds, with each other, usually overnight, on an uncollateralized basis.

† Private Sector – the total nonfarm payroll accounts for approximately 80% of the workers who produce the entire gross domestic product of the United States. The nonfarm payroll statistic is reported monthly, on the first Friday of the month, and is used to assist government policy makers and economists determine the current state of the economy and predict future levels of economic activity. It doesn't include:

- general government employees
- private household employees
- employees of nonprofit organizations that provide assistance to individuals
- farm employees

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