
Employment, Wages, and Labor Costs

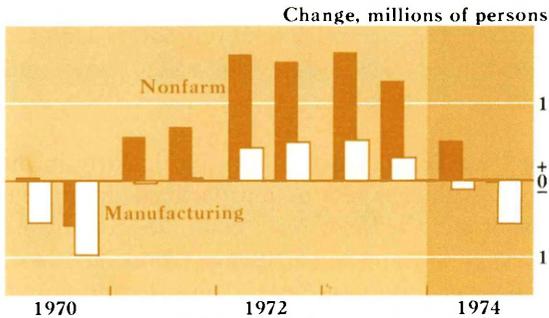
The demand for workers weakened during 1974, particularly in the latter months of the year. Although real output declined throughout the year, total employment and the labor force continued to advance moderately through the summer, and unemployment remained close to 5.2 per cent. In the fall, when general demand and output slumped, the unemployment rate began to climb rapidly; and by early 1975 it had reached a 34-year high of 8.2 per cent. Layoffs were widespread, affecting experienced workers as well as other groups in the labor force.

Most of the growth in the labor force in 1974 occurred in the late spring and summer as increasing numbers of adult women entered the labor market. Some of this growth reflected the availability of jobs—for employment was still increasing—and some the need to help maintain real family income in the face of sharply rising prices. However, labor force growth came to a halt late in the year when employment fell sharply. With jobs scarce, many unemployed workers became discouraged and left the labor market, and the number of new entrants also declined.

While total employment rose slowly and unevenly during the first three quarters of 1974, employment in goods-producing industries remained weak throughout the year. Manufacturing employment, which had shown a vigorous expansion in 1973 before slowing late in the year, declined by about 165,000 in the first 9 months of 1974. Meanwhile, total nonfarm payroll employment rose by 900,000, significantly less than in the same period of 1973 but a large gain for a period when real GNP was declining. Growth in employment was confined to service-producing industries. State and local government employment also expanded through the summer at a somewhat faster rate than in the preceding year, and Federal Government employment edged up modestly for the first time since 1970.

In the autumn factory jobs began to decline rapidly, especially in the auto and auto-related industries and in the heavy machinery,

EMPLOYMENT



NOTE.—Payroll employment, seasonally adjusted data from Dept. of Labor. Change is from preceding half-year.

textile, and apparel industries; at the year-end manufacturing employment was nearly 1.2 million below a year earlier. The factory workweek also declined significantly as overtime work was curtailed and many workers went on part-time schedules. Labor demand in the construction industry was weak, reflecting the depressed conditions of the housing market. Demand for workers in nonmanufacturing sectors also softened considerably, and total payroll employment fell by more than a million in the late fall.

The unemployment rate rose from 4.8 per cent at the end of 1973 to an average of about 5.2 per cent during the first half of 1974, largely because of job cuts in specific sectors directly affected by the energy crisis. In contrast, the rapid rise in unemployment in the fall of 1974 affected all categories of workers, particularly experienced workers in manufacturing industries. By December the unemployment rate for adult men had increased to 5.1 per cent from 3.0 per cent the previous year; women and teenagers had also experienced substantial increases in unemployment. Employment of minority groups declined over the year, and their unemployment rate—at 12.8 per cent at the end of 1974—remained double that of white workers, who had also experienced sharp increases in joblessness.

The increase in unemployment was one of the most rapid of the postwar era, and much of the rise was accounted for by experienced, full-time workers who had lost their jobs. In contrast, the

impact of layoffs of teenagers was moderated to some extent by their withdrawal from the labor force—a typical cyclical phenomenon. Adult women, however, have experienced a relatively larger increase in unemployment than in earlier cycles, probably because they had stronger labor force attachment than previously.

Table 3: LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Item or category	1971	1972 ¹	1973 ¹	1974
Change during year, thousands of persons				
Total labor force.....	1,191	1,568	2,543	1,844
Civilian labor force.....	1,544	1,830	2,687	1,917
Total civilian employment.....	1,350	2,305	3,041	148
Monthly average rate in Q4, per cent				
Unemployment rates—Total.....	5.9	5.3	4.7	6.5
Men, 20 years and over.....	4.3	3.6	3.0	4.7
Women, 20 years and over.....	5.7	5.2	4.7	6.5
Teenagers, 16–19 years.....	16.9	15.5	14.3	17.5
White.....	5.4	4.7	4.2	5.9
Negro and other.....	10.1	9.9	8.6	11.8
Blue collar.....	7.3	5.8	5.2	8.3
White collar.....	3.4	3.3	2.8	3.7
Heads of household.....	3.6	3.0	2.8	4.0
Full-time workers.....	5.6	4.7	4.3	6.2

¹ Data on changes from 1971 to 1973 are adjusted to allow for the introduction of new estimates for the population.

NOTE.—Basic data from Dept. of Labor.

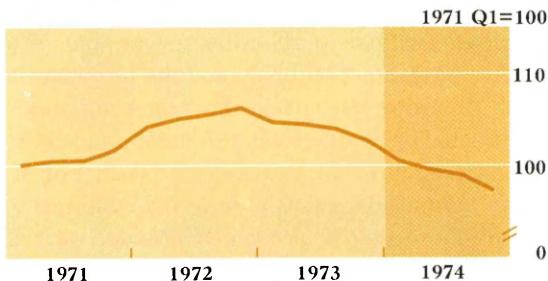
Wage increases accelerated sharply in 1974, mainly because workers were attempting to offset losses in purchasing power, but also because of a heavy collective bargaining schedule and the termination of wage controls on April 30. However, late in the year some moderation in wage increases seemed to be developing in many industries, probably reflecting the deterioration in the demand for labor. For all of 1974 the average hourly earnings index—the best available measure of wage rates—grew by more than 9 per cent compared with a 6.5 per cent increase in 1973; the increase in 1974 was led by larger-than-average gains in manufacturing and construction.

The continued erosion of purchasing power in 1974 was apparent in all measures of real income. Average real spendable earnings of a production worker with three dependents—the most widely used measure of take-home pay—continued to decline, and the reduction was the largest for any postwar year. At the year-end such earnings were more than 9 per cent below the peak in the fall of 1972. As a result, an increasing number of workers involved in contract negotiations demanded, and received, cost-of-living escalator clauses, which tied future wage increases to future price increases. In 1974 about 5.5 million workers were covered by collective bargaining contracts that included escalator clauses; this number, the highest on record, was about 600,000 more than in 1973.

The collective bargaining schedule in 1974 was heavy, and it included major contract settlements in the steel, aluminum, can and container, telephone, and mining industries. In their efforts to offset rapid price inflation, union bargainers obtained first-year pay raises of 11 per cent, up sharply from 6 per cent in 1973. Although wage catch-up pressures are likely to continue, the combination of slack labor markets and a relatively light collective bargaining schedule in 1975 may result in the moderation of wage pressures—especially if inflation slows.

Reflecting large increases in wages and fringe benefits, hourly compensation in the private nonfarm economy accelerated from the already rapid pace of 1973 to about a 9.5 per cent increase during

REAL WEEKLY EARNINGS

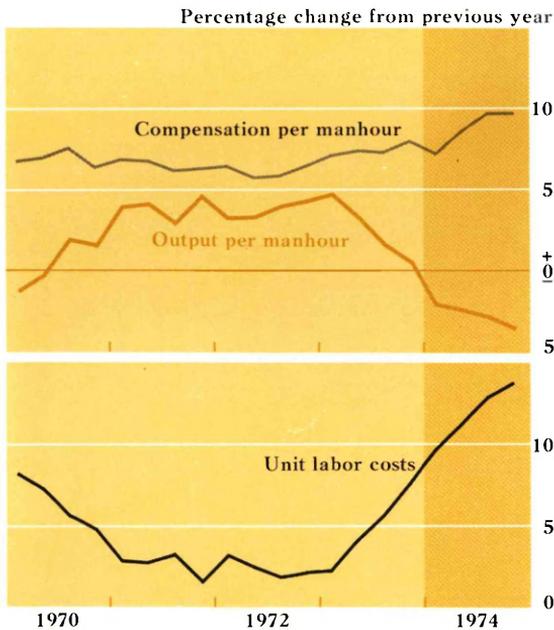


NOTE.—Index based on earnings in terms of 1967 dollars for worker with 3 dependents. Seasonally adjusted data from Dept. of Labor.

1974 although some slowing was evident in the final quarter of the year. Productivity declined throughout the year in one of the most pronounced and prolonged downturns of the postwar era. Nonfarm output per manhour had begun to drop after early 1973, and it has declined for seven consecutive quarters; between the final quarters of 1973 and 1974 nonfarm productivity was off a total of 3.6 per cent.

It is possible that data problems may have led to some overstatement of the erosion in productivity. Nevertheless, the unusually weak productivity performance in 1974 is consistent with the hesitancy on the part of businessmen to make cost-cutting adjustments in employment in the face of rising prices and profits at a time when the initial softening of demands was quite selective.

PRODUCTIVITY AND COSTS



NOTE.—Annual rates of change from corresponding quarter a year earlier for the private nonfarm economy; based on seasonally adjusted data from Dept. of Labor.

Although manufacturing productivity was not so weak as productivity in the nonfarm economy as a whole, there was little growth in the factory sector during 1974. Due to the combination of declines in productivity and of increases in hourly compensation, unit labor costs for the private nonfarm economy in the fourth quarter were about 14 per cent above their year-earlier levels. This too was a record increase for the postwar period. Rising unit labor costs tended increasingly to exert upward pressure on prices. □