

January 30, 2009

Layoffs: The new problem?

Across the United States and Europe there was a wave of layoff announcements this week, with more than 70,000 job cuts announced on Monday alone. Another 11,500 job cuts were announced on Tuesday, bringing the total to a little more than 200,000 layoffs announced during the first month of the year ([announced layoffs January 2009](#)). Also, the U.S. Bureau of Labor Statistics (BLS) reported Wednesday that job losses in December 2008 associated with [mass layoff events](#) (those that involve at least 50 initial claims for unemployment insurance) were up 55 percent versus a year earlier. During January, layoffs have spread to more industries and to companies from Microsoft to Starbucks to the world's largest manufacturer of construction equipment, Caterpillar, all of whom announced layoffs this week.

While layoffs have received quite a bit of attention, they were only part of the story of labor market problems in 2008—which makes the accelerating layoff reports especially bad news.

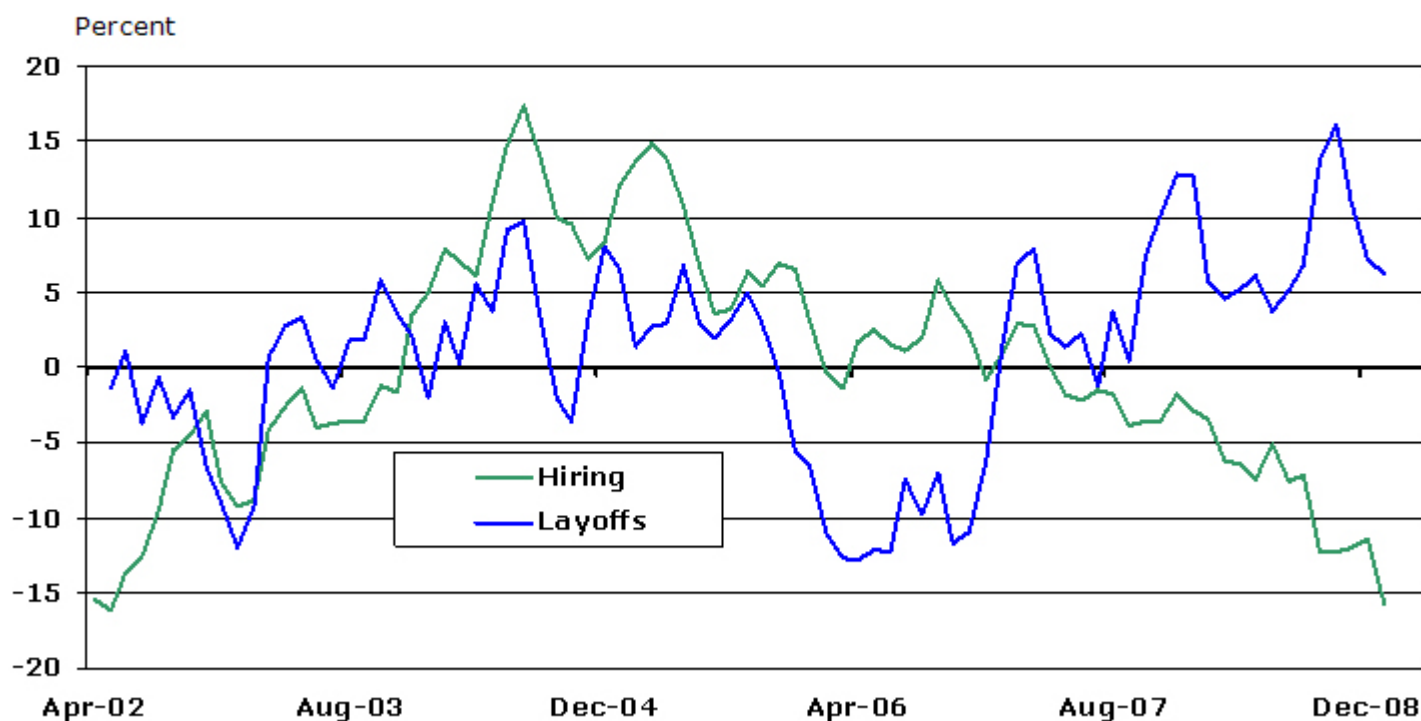
According to the latest data from the BLS [Job Openings and Labor Turnover Survey](#) (JOLTS), the layoff rate (as a percent of total employment) increased from 1.3 percent at the start of the recession in December 2007 to 1.6 percent in November 2008. Over the same period, the rate at which workers quit their jobs declined from 1.8 percent to 1.4 percent—likely a result of uncertain job prospects. On net, the overall rate of job separation toward the end of 2008 was similar to what it was at the beginning of the year. The total number of separations stood at about 4.3 million in November 2008, compared to 4.4 million in December 2007.

While the rate of total separations was relatively steady during 2008, a more notable change can be seen in the hiring rate (as a percent of total employment), which declined from 3.4 percent to 2.6 percent. The level of hiring is estimated to have been about 3.5 million in November 2008, compared with 4.7 million in December 2007.

The chart below highlights the rapid decline in hiring relative to layoffs.

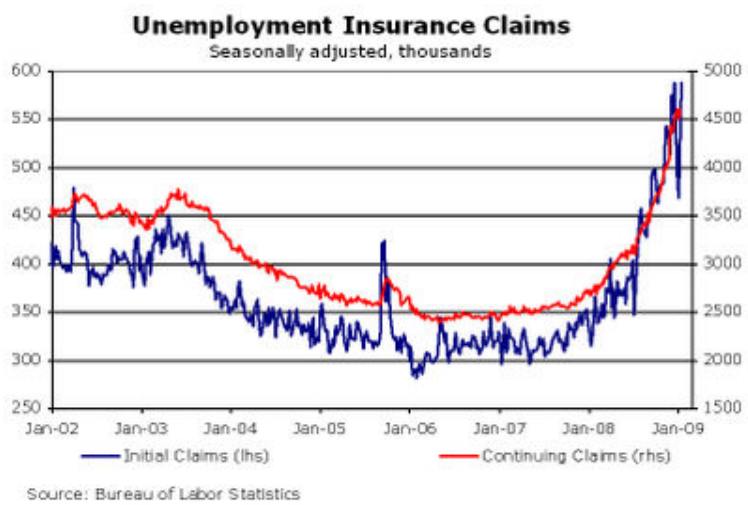
Y/Y Percentage Change in Total Private Hires and Layoffs

3-month moving average



Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (JOLTS)

Not only have firms been letting people go, they apparently have taken down the help wanted signs at an even faster rate. As a result, the unemployed have fewer employment options, and this development has exacerbated the duration of unemployment. From the BLS household survey, in December of 2008 the average duration of unemployment was 19.7 weeks, compared with 16.5 weeks in December of 2007. This lengthening in the duration of unemployment is also reflected in the Department of Labor [weekly claims data](#) released yesterday that showed the four-week average number of continuing claimants for unemployment insurance at 4.63 million during the week of January 16, compared to 2.65 million in mid-December 2007 (see the chart below).



Unfortunately, the growing indication is that "[furlough, wage reductions, hiring freezes and shorter hours simply did not do enough](#)" to deal with weak business conditions. Barring a pick-up in job creation—which is unlikely given the recent pattern of continuing claims for unemployment insurance—it is hard to paint a very positive portrait of the labor market in the near term.

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