SPEECHES

Business Feedback on Today's Labor Market

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Key Points

- The Atlanta Fed systematically **collects anecdotal information** and opinion on questions of **relevance to monetary policy** by leveraging its network of business contacts throughout the Southeast. Their business input **is useful** in fleshing out **a real-time assessment** of the economy and the labor market.
- Currently, when asked about their hiring intentions, businesses say they have capacity to **cover near-term sales growth with existing workers and express caution** about increasing their workforce in the near future. This caution apparently reflects the **uncertainty about future revenue** growth and the lack of clarity about the cost implications of various government policies.
- Many contacts confirm they **used the recession to achieve leaner staffing and to reorganize for greater productivity**. Although there are conflicting views on the permanency of downsizing, on balance, a return to a prerecession configuration of a firm's labor force appears unlikely. Also, **adjustments made by businesses** in the past few years have **put a premium on certain job skills, such as versatility**.
- It is very common to hear reports that businesses continue to pursue greater flexibility in their workforce arrangements in order to **make labor a variable versus a fixed cost**, which may be a lasting or transitory trend.

Good evening. I want to add my thanks to the presenters' and discussants' for your rigorous preparation for this conference.

This is the last formal event of your day. My task this evening is to make after-dinner remarks. Let me assure that I don't intend to compete with conclusions drawn from the excellent research presented here earlier today.

Rather, I will try to complement today's and tomorrow's presentations with observations from Main Street on the country's employment picture and the vexing problem of high unemployment. I must emphasize that the views I will express are my own and may not reflect the views of my colleagues on the Federal Open Market Committee (FOMC) or within the Federal Reserve.

In addition to doing formal analysis of data, we here at the Atlanta Fed talk to a lot of people in the Southeast to get their take on the economic questions of the moment. We classify this input as anecdotal, of course. Nonetheless, I give some weight to the anecdotal information we collect from across the region. As a policymaker, I find this information useful in fleshing out a real-time assessment of the economic situation. And what I hear often challenges our working assumptions. Tonight I will share some of these anecdotes to add a little yeast to today's and tomorrow's more studied assessments.

I will lay out for you what we've been asking recently and the responses we are hearing. I'll do so in three major categories—obstacles to hiring, job skill issues, and possible longer-term employer-employee trends.

Collection of anecdotal information
I should begin by explaining how we go about gathering this type of economic intelligence. All the regional Reserve Banks, including the Atlanta Fed, collect anecdotal information from their business contacts.

More than two years ago the Atlanta Fed expanded this effort, launching an initiative called the Regional Economic Information Network, or REIN, to more fully leverage the Atlanta Fed's large geographic footprint in order to widen the scope of our economic intelligence-gathering efforts.

We believe the scale and scope of our district justifies some extrapolation to the overall national economy. The six states of the Sixth Federal Reserve District together represent about 13 percent of the national economy, and the industrial and employment composition of this region generally resembles the total U.S. economy.

The bank's Atlanta-based staff—along with regional executives who operate out of our five branches: Birmingham, Jacksonville, Miami, Nashville, and New Orleans—systematically collect current information and opinion on questions of relevance to monetary policy. Among many different types of groups, our staff regularly meet with the top firms in the region to get their take on current business conditions and the outlook. Many of these firms have operations that are national and international in scope, so what they tell us often offers a national perspective.

Also included in our network are our six boards of directors (one for the District as a whole and one for each of our branches) and an equal number of industry-specific advisory councils. The industries include agriculture, trade and transportation, travel and tourism, real estate, energy, small and emerging business, and labor, education and health. In addition, over the past year, we have conducted surveys of smaller firms to learn more about credit demand and availability, for example, on the part of small businesses.

The input we've received from these regional sources has been particularly useful in shaping our Reserve Bank's view about the outlook for recovery over the past year. At a high level, our outlook has been one of slow slog versus rapid recovery. The anecdotal input helped us avoid overreacting to the false momentum of the spring and what we now interpret as a transitory slowdown over the summer.

Questions we ask; responses we get
As I said earlier, we ask a lot of questions, but we take care in framing the questions and work at being consistent in our questioning methodology in each cycle between

FOMC meetings. For example, since a key factor in hiring decisions at the firm level is the firm's top-line revenue prospects, we ask business executives questions like, What is your current outlook for business over the next six months, and how is this affecting your hiring plans?

The outlook can affect not only changes in employment levels but also the mix of skills and jobs a firm requires—especially when it works to reduce costs by increasing efficiency. To understand those dynamics we pose questions such as, How have you changed your staffing strategy with respect to the types of jobs and skills you require? We follow that with the question: Have you been able to improve the productivity of your workforce, and what does that mean for future staffing needs?

In the interval between FOMC meetings we are able to gather on average more than 500 responses to questions like these. Let me lay out for you what we've been asking recently and what we're hearing.

Obstacles to hiring
To start, we've been asking what you might call a fundamental question of interest to policymakers, and, that is, Are you hiring, or do you plan to be hiring in the near future? We are mostly getting "no's" to that question. But the more important question is the follow-up: If you are not planning to hire, why not?

Few business contacts in our region expect sales to improve significantly in the near term. Most firms indicate that their outlook is one of slow and somewhat uneven improvement in the economy. This view translates into an emphasis on closely managing costs, especially human resource costs. Most contacts, not surprisingly, are very cautious about increasing their workforce in the near term.

Furthermore, the majority of business contacts say that they have capacity to cover near-term sales growth with existing workers. The majority also note that, should sales outperform their forecast, they would first increase hours of their existing workforce, and many state they would then bring in part-time help or hire temporary workers.

Even firms that have experienced stronger sales seem to be approaching hiring very cautiously. Most say that uncertainty about future revenue growth is driving this caution, and they are not likely to increase payrolls until the sales growth appears more sustained. All these responses feel normal coming out of a recession.

Here's what doesn't feel normal. In addition to slow and uncertain revenue growth, contacts in this recovery are frequently citing a number of other factors that are impeding hiring. Prominent among these is the lack of clarity about the cost implications of the recent health care legislation. We've frequently heard strong comments to the effect of "my company won't hire a single additional worker until we know what health insurance costs are going to be."

More generally, our contacts cite a litany of uncertainties as reason for a wait-and-see posture toward expansion-related spending and hiring. These include the longer-term fiscal plan at the federal level, the extension of the Bush tax cuts, and the effect of various regulatory proposals. I know it's difficult to disentangle these concerns from mere frustration about weak demand. But the restraining effects of policy uncertainties are repeated frequently and with great vehemence. In my opinion, a first priority is that government authorities bring clarity to matters central to business planning.

Job skill issues
Another broad set of questions focuses on job skills.

Many contacts confirm that they used the recession to achieve leaner staffing and to reorganize for greater productivity. We hear that much of the relatively strong investment in equipment and software coming out of the recession has been either for deferred maintenance or labor substitution.

We hear conflicting views on the permanency of earlier downsizing. In one breath business leaders say their companies will continue to "do more with less." This stance sounds like a permanent shift in the way employers use their workforce. But we also hear that businesses recognize the limits of some efficiency gains—especially those gains that primarily involve making their existing staff work harder. On balance, a return to a prerecession configuration of a firm's labor force appears unlikely.

This observation brings us to the question of skills mix and skills mismatch. We hear across the board that there is strong demand for workers proficient in the use of information technology. This demand probably reflects a trend that has been under way for some time. We also hear of demands for skills that have increased as a result of adjustments made by businesses over the course of the recession and into the recovery. For example, changes in production processes have put a premium on versatility; employers want workers they can move among functions to balance shifting workloads.

At the moment, the majority of our contacts don't claim to have much difficulty finding hires with the skills they need since unemployment remains high across most occupations. Shortages have been limited mostly to certain occupations within industries such as health care, information technology, and trucking. I consider it an open question whether skill mismatches will prove to be a major obstacle to reducing unemployment as we move forward.

Let me turn to the question of how the duration of unemployment spells relates to unemployment forecasts. We've asked our contacts about their preference for hiring currently employed workers versus unemployed workers—especially those who have been unemployed for a long time. On this question we've received mixed reports. Some businesses have expressed concern about a job candidate's length of unemployment and what unemployment might signal about a candidate's personal productivity. Balancing that, other employers tell us that they understand we are in an unprecedented situation because the severity of the recession has caused a dramatic and broad-based increase in long-term unemployment. We've concluded that whether the distressing increase in long-term unemployment will end up feeding on itself is another open question.

Long-term trends in employment arrangements
When the opportunity presents itself, I also query business contacts on the bigger question of whether profound changes are in process in employment arrangements in the country's economy. Here I'm referring to trends in the direction of less permanent, less direct, or less structured employer-employee relationships.

Such trends might capture the greater use of temporary and part-time workers, continuing outsourcing (that is, outsourcing within the United States), hiring for project-oriented work, having more employees engaged as sole-contractors, and the like. On this question, I don't hear much evidence that the recession accelerated these trends, and as usual the feedback is mixed and industry-specific. But it is very common to hear reports that businesses continue to pursue greater flexibility in their workforce arrangements in order to make labor a variable versus a fixed cost. It would be interesting to see if these employer efforts to reduce labor market rigidities—a theme in this conference—will be lasting or transitory.

Combining anecdotes and analytics

I hope these comments based on anecdotal inputs provide useful glimpses of today's complicated employment landscape and potential longer-term changes. What is needed is an analytical approach that is rich enough to account for the varied features of the labor market we observe and is useful to policymakers. I am confident that conferences like this one will contribute significantly to that objective.

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