

Economic Trends

May 2009: Supplemental (Covering May 5, 2009, to May 12, 2009)

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FEDERAL RESERVE BANK
of CLEVELAND

Involuntary Part-Time Workers and the Deficiencies of the Unemployment Rate

05.07.09

by Yoonsoo Lee and Beth Mowry

The Bureau of Labor Statistics' March employment report had very few positive things to say about the labor market. Employers slashed an additional 663,000 jobs, and the unemployment rate climbed 0.4 percentage point, from 8.1 percent to 8.5 percent, the highest rate since late 1983. As dismal as 8.5 percent sounds, the unemployment rate actually gives a rosier take on the labor market than alternative measures do. Now appears to be a time when this rate, the government's most publicized statistic on employment conditions, offers an incomplete view of the state of the labor market.

The unemployment rate is often criticized for leaving some people out of the count. The rate is defined as the percentage of those in the labor force who are unemployed, and to be in the labor force, one needs to be employed or actively seeking work. Not included are people who are willing and able to work but who have stopped searching.

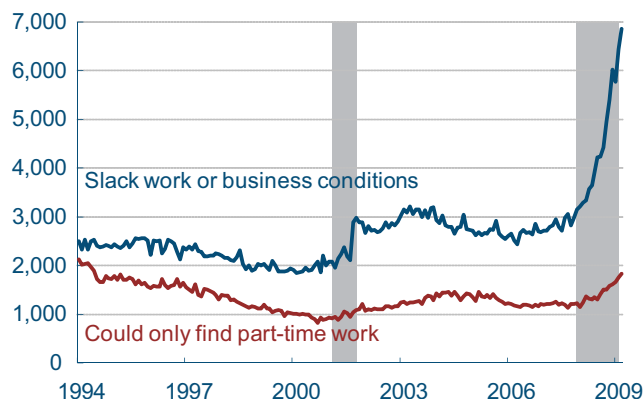
There are a variety of reasons these so-called marginally attached workers may have stopped looking for work. Discouraged workers are considered part of the marginally attached group, for instance, because they believe searching for a job would not be worthwhile. As gloomy economic conditions discourage workers from hunting for new jobs, the official unemployment rate may understate slack in the labor market during recessions.

Involuntary part-time workers are another group whose status is not captured entirely in the official unemployment rate. These underemployed workers would like to have full-time jobs but instead are working fewer than 35 hours a week, either because their hours have been reduced or because part-time work was all they could find.

The employment report showed that the number of people employed part-time for economic reasons (rather than by choice) increased by 423,000

Involuntary Part-Time Employment

Thousands of workers



Notes: Shaded bars represent recessions. Seasonally adjusted data.
Source: Bureau of Labor Statistics.

last month. This increase followed on the heels of a 787,000 increase in February, the second-largest monthly jump since records began in the 1950s (the largest was September 2001). The total number of involuntary part-timers is now the highest it has ever been, standing at 9 million—nearly double what it was just a year ago (4.9 million).

The BLS's Current Population Survey categorizes involuntary part-timers into those working part-time due to “slack work or business conditions” and those who “could only find a part-time job.” In other words, some workers had full-time jobs but went to part-time when their employers cut hours because business was falling off, while other workers had to start out in part-time jobs even though they were looking for full-time work, because that’s all that was available.

Average Job Openings and Labor Turnover by Industry

	April 2006		March 2009		Change	
	Total (thousands)	Percent	Total (thousands)	Percent	Total (thousands)	Percent
Total part-time for economic reasons	3908	100.0	9049	100.0	5141	100.0
Slack work or business conditions	2440	62.4	6857	75.8	4417	85.9
Could only work part-time	115	132	370	385	388	383
Manufacturing	232	282	340	352	457	367

Note: Data are seasonally-adjusted.

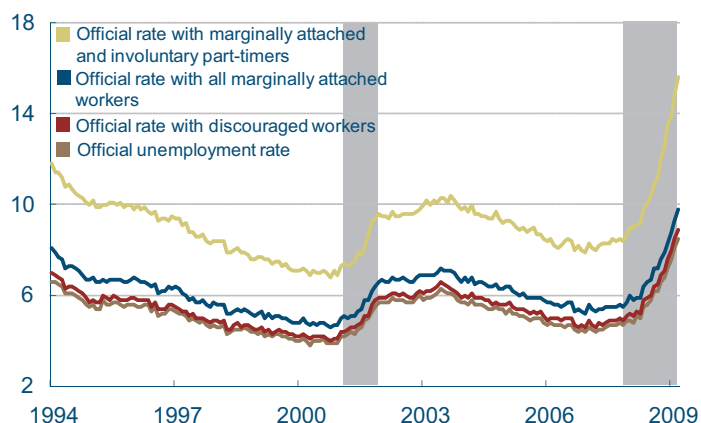
Sources: Bureau of Labor Statistics, Current Population Survey.

The 5.1 million rise in involuntary part-time employment from its recent low in April 2006 to the present was mainly due to an increase in workers whose hours were cut back because of slack work conditions. In fact, the number of those working part-time for this reason more than doubled since the beginning of the recession. They accounted for 62 percent of all economic part-timers in 2006, and now they constitute 76 percent of the group.

This large uptick is important to note because it fills in some of the gaps of the labor market story that the official unemployment rate leaves open. When marginally attached workers and involuntary part-time workers are added to the official unemployment rate, the unemployment rate nearly doubles, from 8.5 percent to 15.6 percent.

Alternative Measures of Unemployment Rate

Percent



Notes: Shaded bars indicate recessions. The official unemployment rate is the ratio of unemployed persons to the labor force. The other rates include the additional worker classifications in the numerator and denominator.

Source: Bureau of Labor Statistics.

More and more people appear to be working part-time jobs for economic reasons, rather than by choice. The unemployment measure that accounts for these people and other marginally attached workers has increased even more than the official unemployment rate over the past year.

The official unemployment rate rose from 4.9 percent at the start of the recession in December 2007 to its present 8.5 percent, an increase of 3.6 percentage points. The unemployment rate including marginally attached workers and the underemployed increased 6.9 percentage points in the

To read more on the Bureau of Labor Statistics' March employment report:

<http://www.bls.gov/news.release/empsit.nr0.htm>

The Employment Situation, April 2009

05.12.09

by Yoonsoo Lee and Beth Mowry

Nonfarm payroll employment declined by a less-than-expected 539,000 in April, boosted by federal government hiring and smaller-than-expected losses across many private industries. While still very large, the loss was the smallest since last October. Revisions to the data for the previous two months, however, continued to be on the downside, adding 66,000 additional losses to the earlier figures for February and March. Those months have now seen respective losses of 681,000 and 699,000, bringing total payroll losses since the start of the recession to 5.7 million.

The unemployment rate jumped from 8.5 percent to 8.9 percent in April, largely due to a labor force increase of 683,000 people, which pushed up the participation rate 0.3 percentage point to 65.8 percent. The employment-to-population ratio, often considered a more stable measure of labor market dynamics, remained at 59.9 percent.

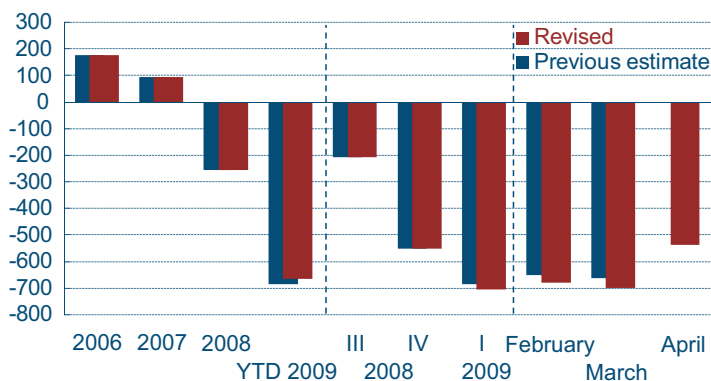
The diffusion index of employment change, which tracks the percentage of industries that are increasing their employment, saw its largest monthly increase since September 2007, jumping from 20.3 to 28.2. This reading is still well below the 50 threshold, which would indicate an equal balance between industries with increasing and decreasing employment.

Goods-producing payrolls decreased by 270,000 in April, compared to average monthly losses of 322,000 for year-to-date 2009. Manufacturing and construction losses (–149,000, –110,000) were both the smallest seen for any month this year. Durable goods (–127,000) continued to be a heavier drag on the manufacturing figure than nondurable goods (–22,000). Within durable goods, motor vehicles and parts manufacturers alone were responsible for 29,000 of the payroll losses.

The private service-providing sector shed 341,000 jobs in April, after larger drops in February (–393,000) and March (–375,000). Of all the ma-

Average Nonfarm Employment Change

Change, thousands of jobs



Source: Bureau of Labor Statistics.

for service industries, only information (–17,000) and leisure and hospitality (–44,000) fared slightly worse than they had in March. Other service industries shed fewer jobs last month: Trade, transportation, and utilities lost 126,000, financial activities lost 40,000, and professional and business services dropped 122,000. Payroll losses in temporary help services lessened slightly but are still elevated compared to most months over the course of the recession. As has been the case over the past year, education and healthcare is the only service industry to add to payrolls, with a net gain of 15,000. The government sector experienced its largest monthly gain since June 2001, due to the hiring of 140,000 federal employees in preparation for the 2010 Census.

Labor Market Conditions and Revisions

	Average monthly change (thousands of employees, NAICS)				
	February current	Revision to February	March current	Revision to March	April 2009
Payroll employment	–681	–30	–699	–36	–539
Goods-producing	–295	–10	–318	–13	–271
Construction	–113	–6	–135	–9	–110
Heavy and civil engineering	–7.6	–2	–12	–2	–17
Residential ^a	–51.1	2	–62	–3	–52
Nonresidential ^b	–54.1	–6	–61	–4	–41
Manufacturing	–172	–3	–167	–6	–149
Durable goods	–128	0	–127	–2	–127
Nondurable goods	–44	–3	–40	–4	–22
Service-providing	–386	–20	–381	–23	–269
Retail trade	–57	–6	–64	–16	–47
Financial activities ^c	–56	–12	–43	0	–40
PBS ^d	–176	2	–130	3	–122
Temporary help services	–73	4	–72	0	–63
Education and health services	19	–3	10	2	15
Leisure and hospitality	–32	–4	–42	–2	–44
Government	7	4	–6	–1	72
Local educational services	6	–4	–4	–4	4

a. Includes construction of residential buildings and residential specialty trade contractors.

b. Includes construction of nonresidential buildings and nonresidential specialty trade contractors.

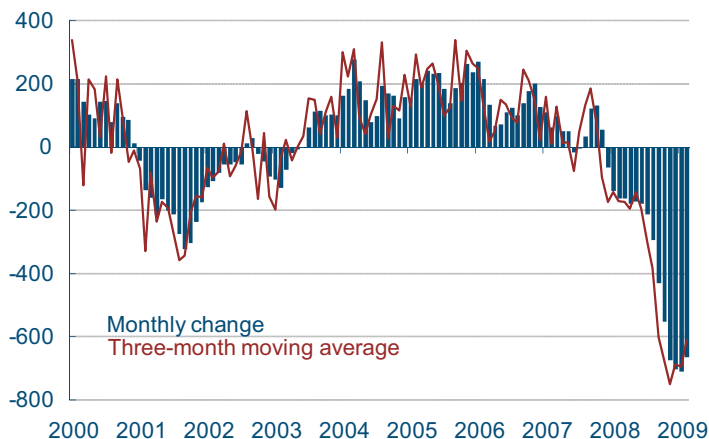
c. Includes the finance, insurance, and real estate sector and the rental and leasing sector.

d. PBS is professional business services (professional, scientific, and technical services, management of companies and enterprises, administrative and support, and waste management and remediation services).

Source: Bureau of Labor Statistics.

Private Sector Employment Growth

Thousands of jobs

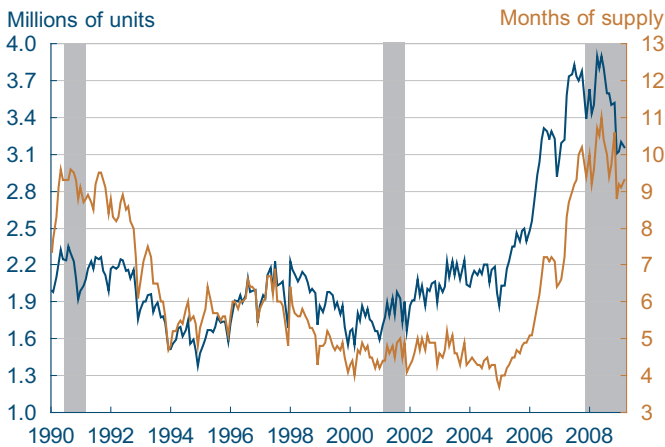


Source: Bureau of Labor Statistics.

Total private sector employment dropped by a milder 611,000 jobs last month, compared to March's loss of 693,000. Still, monthly private-sector losses this year have been considerably worse for several months running compared to past recessions. The only months in the series with comparable losses were December 1974 and October 1949, which saw respective private sector losses of 629,000 and 814,000.

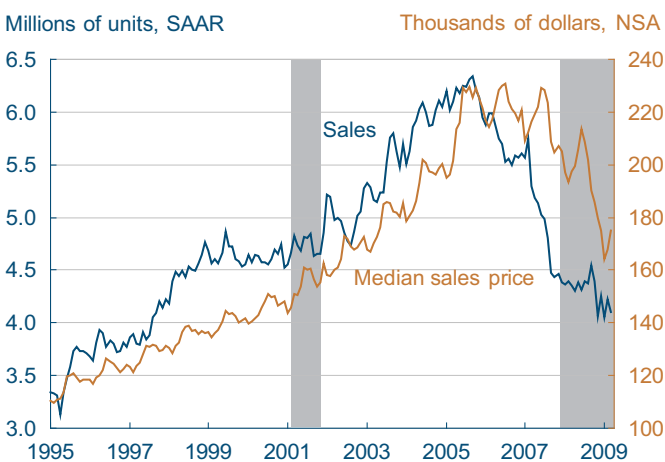
Is the Housing Bust Over?

Existing Single-Family Homes for Sale



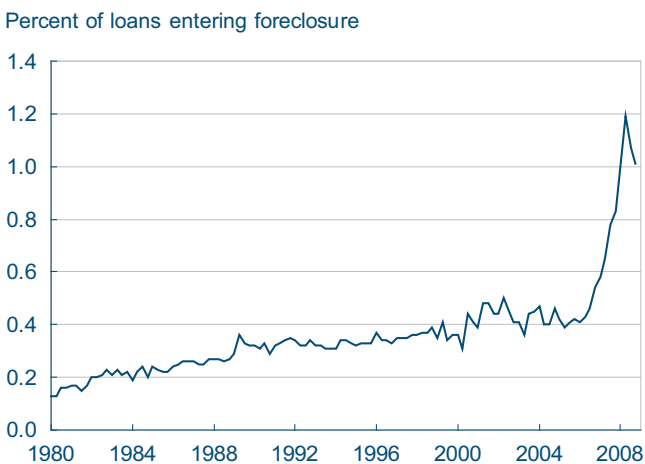
Source: National Association of Realtors.

Existing Single-Family Home Sales



Source: National Association of Realtors.

Foreclosure Starts



Source: Mortgage Bankers Association.

05.12.09

by Michael Shenk

It was early 2006 that housing markets did their abrupt turnaround, transitioning from a period of increasing prices and sales to one where both prices and sales were in a near freefall. The fallout of the housing market bust has been well documented, and the boom-bust cycle is often cited as a leading cause of the current recession.

It's been three years—is the housing market correction finally over? The short answer is probably no, but there are some encouraging signs of improvement.

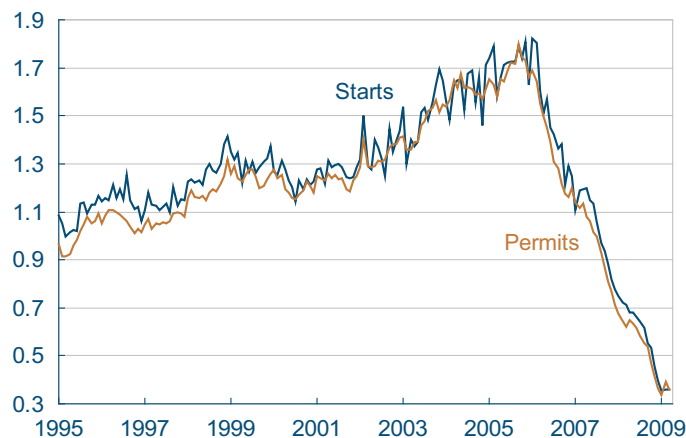
Existing single-family home sales, by far the largest segment of the housing market, have been relatively stable for the past five months. Prior to a steep drop off in November, sales had held steady for roughly 14 months. This stability has come at a cost though, as the median price of homes sold has fallen drastically over the past year and a half.

Part of the reason that existing home prices seem to be falling so rapidly is that an increasing percentage of homes being sold are distressed. In April, the National Association of Realtors reported that just over half of March's home sales were in this category. While this may not seem encouraging for homeowners, working off the bloated supply of foreclosures is an important step in the return to normalcy. So far, inventories of existing homes have yet to come down significantly, but with sales showing signs of stability, it appears that inventories may have turned a corner. In addition, the Mortgage Bankers Association reported that the percent of loans entering foreclosure fell in the second half of 2008.

New single-family home sales have also shown tentative signs of stabilizing over the past few months. However, since they began their decline in late 2005, new home sales have shown quite a few signs of stability over short periods, only to be followed by more declines. Of course, one might not expect new home sales to stabilize as rapidly

Housing Starts and Permits

Millions of units

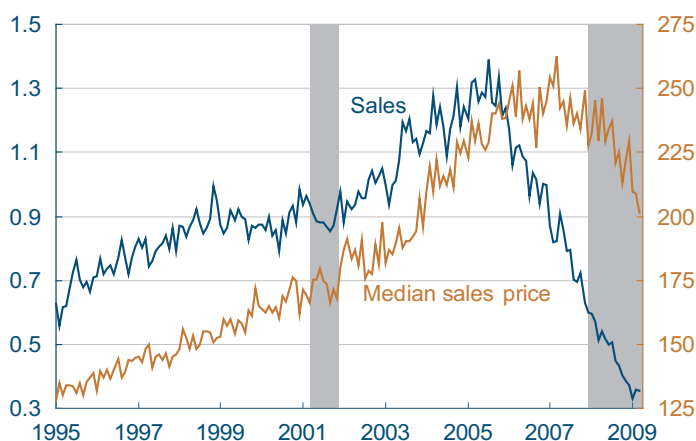


Source: Census Bureau.

New Single-Family Home Sales

Millions of units, SAAR

Thousands of dollars, NSA

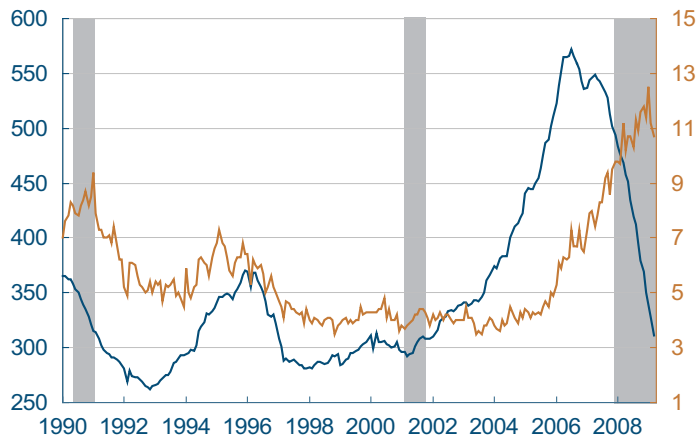


Source: Census Bureau.

New Single-Family Homes for Sale

Thousands of units

Months of supply



Source: Census Bureau.

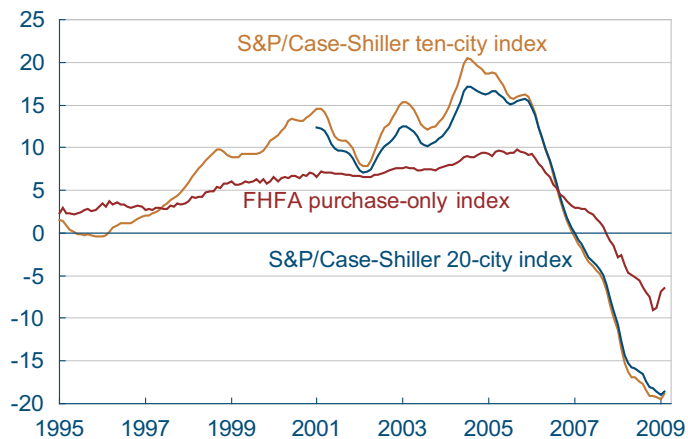
as existing home sales, since an excess supply of homes usually means homebuilders will be adding fewer homes to the market. With fewer new homes on the market, there should be fewer sales as well. Looking at housing starts and the level of inventory for new homes, it is pretty clear that builders are scaling back. In fact, the current level of inventory is roughly in line with the average seen from 1980 to 2000.

Perhaps the most positive sign for housing markets is that the home-price indexes are beginning to suggest that price declines may be slowing. Both the latest S&P/Case-Shiller indexes and the FHFA index indicate some stability in the 12-month growth rate of prices as of February. The FHFA index shows prices actually improving in February, while the Case-Shiller index, which is narrower than the FHFA index in terms of geographic coverage but also includes nonconforming loans which the FHFA index leaves out, simply has prices falling at a slower pace.

While there are some tentative signs that the housing market is stabilizing, it is important to note that things are still far from normal. Home prices, for example, are currently down 30.7 percent and 9.5 percent from their respective peaks in the Case-Shiller and FHFA indexes. Also, given the still-bloated inventories of unsold homes, it might be some time before things return to what we remember as normal. That being said, any positive signs in the market are certainly welcome after such a long period of dreary news.

Monthly Home Price Indexes

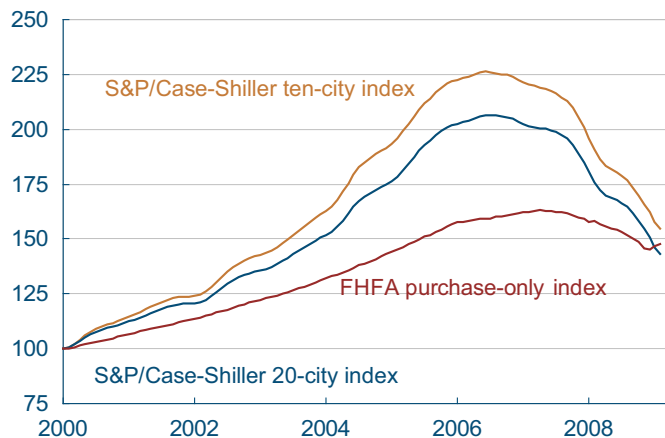
12-month percent change



Sources: S&P, Fiserv, and MacroMarkets LLC, Federal Housing Finance Agency.

Monthly Home Price Indexes

Index, January 2000=100



Sources: S&P, Fiserv, and MacroMarkets LLC, Federal Housing Finance Agency.

How Realistic Were the Economic Forecasts Used in the Stress Tests?

05.12.09

by Ken Beauchemin and Brent Meyer

The results of the “stress tests” came out last Thursday, and we can now see what three months of intense scrutiny of 19 of the countries’ largest bank holding companies has revealed about the amount of capital they are likely to need to withstand a worse-than-expected recession. Since the April 24 release of the Federal Reserve white paper describing the process, a number of observers have suggested that the economic forecasts used in the tests are not severe enough, and may result in insufficient capital requirements.

Regulators tested the banks against two sets of assumptions for GDP, unemployment, and housing prices. The “baseline” scenario averaged the February forecasts of real GDP and the unemployment rate from the Blue Chip Survey, Consensus Forecasts, and the Survey of Professional Forecasters. The assumptions for house prices followed a path implied by futures on the Case-Shiller Housing Price Index. The second, “more adverse” scenario represented a longer and deeper recession than the baseline scenario.

In the baseline case, real GDP falls by 2.0 percent in 2009 before rebounding to 2.1 percent in 2010; the unemployment rate averages 8.4 percent in 2009 and 8.8 percent in 2010. House prices decline 14.0 percent in 2009 and fall an additional 4.0 percent in 2010.

The more adverse (but not necessarily “worst-case” scenario) assumes a sharp 3.3 percent real GDP contraction in 2009 followed by scant 0.5 percent growth in 2010; the unemployment rate averages 8.9 percent in 2009 and 10.3 percent in 2010. House prices drop 22.0 percent in 2009 and 7.0 percent in 2010.

At the time the assumptions were determined, the advance estimate on fourth-quarter 2009 real GDP growth was –3.8 percent (annualized), and the February employment figures were not known. Subsequently, the Bureau of Economic Analysis slashed

the fourth-quarter growth estimate by a stunning 2.5 percentage points, to -6.3 percent. Given the large downward GDP revision, an exceptionally rapid deterioration in the labor market, and yet another large GDP decline (in the first quarter), it is, of course, natural to question the validity of the bank stress tests. It turns out, however, that the most recent forecasts remain in line with the two stress-test scenarios.

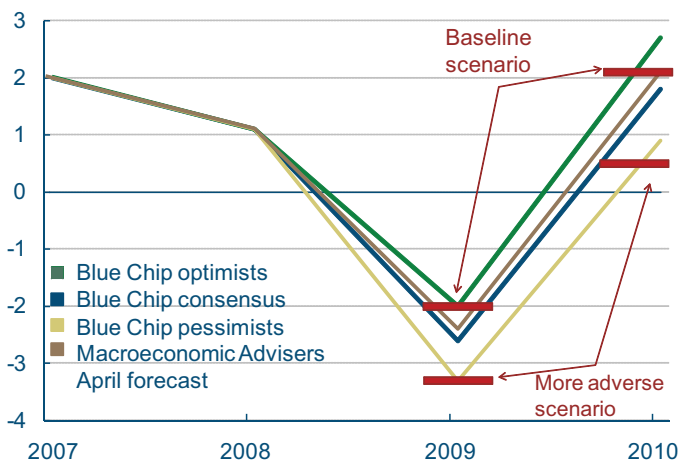
First, the most recent GDP growth forecasts still lie within the range covered by the stress-test scenarios. While both the Blue Chip consensus and Macroeconomic Advisers forecasts dip below the baseline-scenario projection for 2009 growth of -2.0 percent, they are quite close to the 2010 baseline and remain firmly within the range between the baseline and more adverse scenarios in both years. Furthermore, only the Blue Chip pessimists' forecast hits the lower bound of the stress-test scenarios in 2009, and it is 0.4 percentage point above the more adverse scenario for 2010.

Second, while rapid deterioration in the labor market has led to a near-term path for the unemployment rate that will most likely generate a 2009 average in excess of the 8.4 percent rate assumed by the baseline scenario, both the most recent Macroeconomic Advisers and Blue Chip forecasts predict an unemployment rate slightly lower than the 8.9 percent rate assumed by the more adverse scenario. The forecasts for 2010 are also less dire than assumed by the more adverse scenario. As the Federal Reserve noted in its April 24 white paper, "Although the likelihood that unemployment could average 10.3 percent in 2010 is now higher than had been anticipated when the scenarios were specified, that outcome still exceeds a more recent consensus projection by professional forecasters for an average unemployment rate of 9.3 percent in 2010."

Finally, recent forecasts for house prices remain consistent with those of the stress-test scenarios and even hold out some hope that house prices may rise faster than the baseline forecast. This result is particularly encouraging since further declines in house prices will be a leading cause of any additional losses. Home prices are an important indicator

Real GDP Growth Forecasts and Stress Test Scenarios

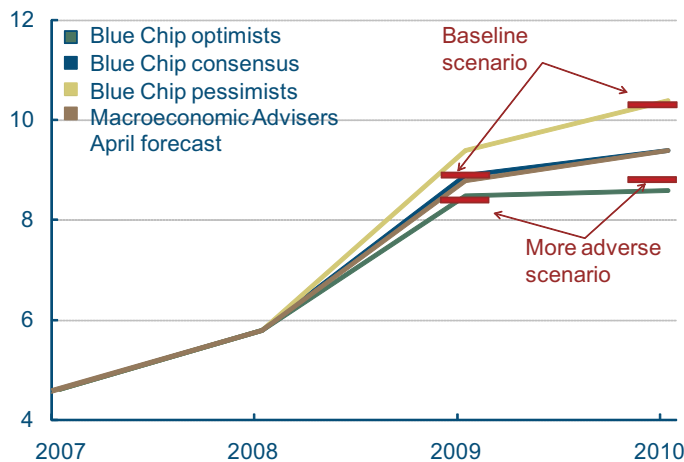
Annual average percent change



Sources: Blue Chip Newsletter, April 2009; Macroeconomic Advisers, April 2009; Bureau of Economic Analysis; Federal Reserve Board.

Unemployment Rate Forecasts and Stress Test Scenarios

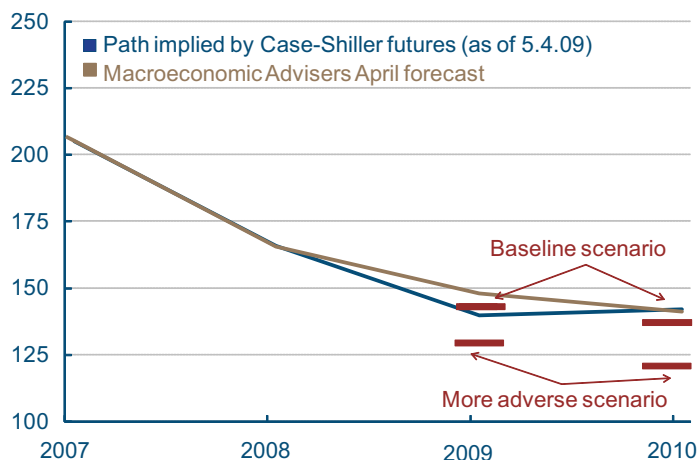
Percent, annual average



Sources: Blue Chip Newsletter, April 2009; Macroeconomic Advisers forecast, April 2009; Bureau of Labor Statistics; Federal Reserve Board.

House Price Forecasts and Stress Test Scenarios

Fourth-quarter levels (index, January 2000=100)



Sources: Macroeconomic Advisers forecast; Chicago Mercantile Exchange; S&P, Fiserv, & Macromarkets; Federal Reserve Board.

to consider because the troubled assets that could potentially threaten the 19 tested financial institutions are largely related to residential real estate. The ultimate performance of these assets is partly a function of what happens to home prices in the future.

In summary, notwithstanding further unexpected and dramatic declines in the economy, recent projections by professional forecasters indicate that the stress-test scenarios remain viable and relevant to the task of assessing the potential losses faced by nation's largest bank holding companies. While the adverse scenario may seem more likely than when it was first drawn up, it is only the near-term outlook for unemployment that has significantly strayed from baseline assumptions. Furthermore, the alternatively adverse scenario looks to be plenty adverse, and exposes the wisdom of planning for a more stressful outcome in the first place.

To read the April 24 release from the Federal Reserve:
<http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20090424a1.pdf>

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