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Can States Help Us Understand the National Employment Picture?

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Employment gains for May 2016 were disappointing. Only 38,000 additional jobs were added to U.S. payrolls that month, compared to a monthly average of 222,000 during the past 12 months. Although a rebound in June could occur, analysts are concerned about the slow decline in monthly job gains during 2016—233,000 in February, 186,000 in March, 123,000 in April, and 38,000 in May.

One explanation for the slow May employment gains is the strike by 37,000 Verizon employees, which undoubtedly affected the overall employment number for the month (the month-long strike ended June 1), another is the weakness in a few key industries, such as construction, utilities, and wholesale trade.

Instead of focusing on specific events or industries and viewing them in isolation, this brief article looks at regional differences in employment growth, specifically across states. Clearly, sectors within regional economies are closely related. What happens in manufacturing or energy extraction within a local economy, for example, spills over to retail and personal services as workers from export-based sectors purchase goods and services from other local sectors. Consequently, we may be able to detect some trends when we look at what’s happening at the state level.

Figure 1 shows the number of states with job gains superimposed against national employment gains. We consider year-over-year changes in order to eliminate the volatility inherent in monthly data (even when seasonally adjusted). In January 2008, when total nonfarm employment peaked, 45 states experienced employment growth—they accounted for 118 million of the 138 million payroll jobs in the 50 states and generated 1.2 million jobs (year over year) at the time. The five states that experienced employment losses at that time accounted for 19 million jobs and had lost 204,000 since the year before. From that time on, the employment picture

quickly deteriorated. Within 12 months, all but one state (Alabama) experienced year-over-year employment losses, and the nation was well within the grips of the Great Recession. However, it was another year before national employment levels hit bottom.

The number of states experiencing year-over-year employment declines tracks year-over-year national employment changes quite well. The correlation is 96 percent. The same strong relationship is found when monthly employment changes are used to define states with job losses and to account for national employment changes.

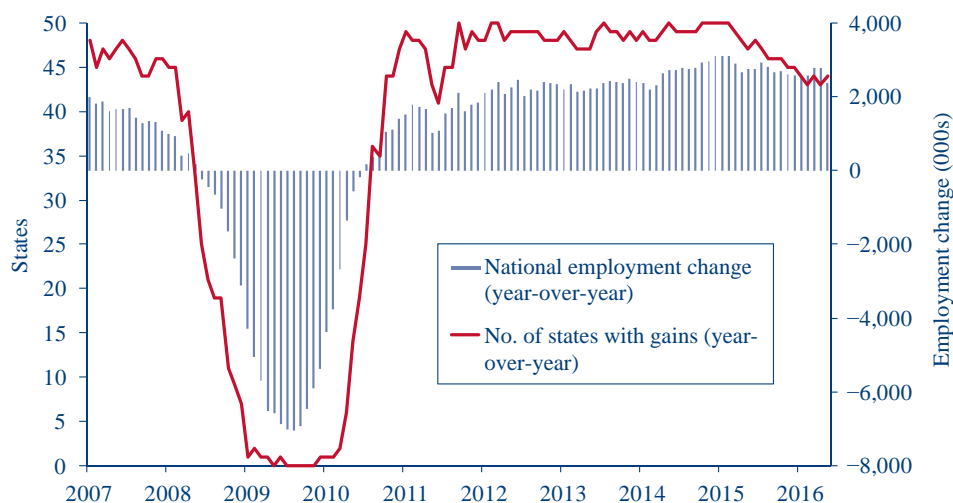
Does this regional view of the national economy lend any insights into future trends? As Figure 1 shows, the number of states with employment gains has declined since early 2015. For five consecutive months prior to March 2015, all 50 states enjoyed employment gains, but then one state began to experience job losses followed by a few others. By May 2016, six states were experiencing employment losses, all of which are heavily reliant on energy extraction. It is tempting to look

at the sheer numbers and note that when the nation was standing on the precipice of the Great Recession, five states were already shedding jobs. Returning to Figure 1, there is a noticeable increase in recent months in the number of states losing jobs. However, the seven states in employment decline account for only 5 percent of employment in the 50 states, whereas the five states that led the nation into the Great Recession accounted for 14 percent. And so far, employment change on a year-over-year basis is still above the 2 million level, and it hasn’t trended down in any serious way, except for May. Unless states with larger populations, such as Texas and California or even some of the industrial-belt states, begin to slide into negative territory, the current trend may be only a blip.

Clearly, the cumulative fate of state economies colors the national employment picture. The dramatic fall in oil prices and other commodity prices has taken a toll on local economies that depend heavily on these sectors, which is evident from looking at state data. Yet, other shocks continue to bombard the economy, most recently the United Kingdom vote to leave the European Union. It remains to be seen how much these events may affect employment.

Randall W. Eberts is the president of the W.E. Upjohn Institute for Employment Research.

Figure 1 Employment Change and States with Job Gains



SOURCE: Bureau of Labor Statistics, Current Employment Survey, monthly through May 2016.