Jobs: What a rebound will look like

Moira Herbst

Look for growth in business investment, temp hiring, and car and home sales. Here's what to watch for and why.

You know the economy is in trouble when 539,000 jobs lost in a month is cause for celebration. Muted optimism was in the air on May 8, as the U.S. Labor Dept. reported that job losses slowed for a third straight month, even as the unemployment rate rose to 8.9%. Investors took that and other relatively positive reports and pushed stock prices up 2% on Friday.

In fact, most economists expect the unemployment rate to keep climbing, with the more pessimistic ones heralding a peak of 11%. That's because unemployment is a lagging economic indicator, which means the jobs market won't change course until a broader economic recovery is well under way. So if slowing job losses aren't the right place to watch for signs of an employment rebound, what signs should we be examining? Economists use a range of leading indicators, whose message is still sobering: Don't expect substantial jobs growth for at least another year.

One of those leading indicators is business spending and investment; when businesses start adding capacity, they signal they're ready to start hiring. Nigel Gault, chief economist for forecasting firm IHS Global Insight, suggests looking for businesses to increase orders for capital equipment. These data are important because they indicate companies are able to start investing and have more confidence in the future business outlook.

Business investment is key

Rajeev Dhawan, director of Georgia State University's Robinson College of Business, says the government's durable orders statistics—out each month from the Commerce Dept.—don't offer an accurate picture of business spending. It's better, he says, to look at quarterly gross domestic product numbers because they include business purchases of both equipment and software. That picture has not been pretty in the last two quarters. "[Business] investment has been falling at a rate of 30% over the last six months," says Dhawan. "We can't even think about job growth until it starts to rise again."

Another sign that the unemployment rate is reversing course will be perhaps more visible to consumers: rising consumer spending. Dhawan says that if car sales—which are down to 9.1 million units per month—rise to 10 million units for each of three months and continue to rise, a recovery could be on its way. Another sign to look for is a sustained rise in new-home sales, which would indicate that consumers have both money to invest and confidence in the housing market. At 356,000, sales of new one-family houses in March 2009 were 0.6% below February's rate and 30.6% below the March 2008 rate, the Housing & Urban Development Dept. reported last month.

Even if unemployment is a lagging indicator, pieces of the Labor Dept.'s monthly jobs report can provide hints about the direction of the labor market, says Mark Zandi, chief economist and co-founder of Moody's Economy.com (MCO). He says it's important to look at hours worked per week, for example. (This and other April jobs data are contained in the Bureau of Labor Statistics' monthly Employment Situation report. It's a good sign when employers have raised the number of hours worked and a negative one if they've reduced them. Hours worked reached a record low in March, at 33.2 hours per week, and remained there in April—not a good sign. However, the manufacturing workweek increased by 0.2 hours, to 39.6, while factory overtime rose by 0.1 hours, to 2.7 hours.

Temp hiring will lead the way

Another place to look in the monthly jobs report is in the category of temporary work, because when employers start building capacity, they tend to hire temps first. In April there were 63,000 temp jobs lost, an improvement from monthly losses throughout the first quarter. Those numbers don't make a big difference in the aggregate, but they are small steps in the right direction, says Zandi. "It's a bad [jobs] report, but not as bad as expected," he explains. "It's the first time this year we're seeing any brighter hues."

But Gault and other economists point to worrying signs about consumer incomes: Hourly wages in the jobs report rose only 0.1% in April. "Combined with the heavy loss of jobs, [that] signals a continuing decline in overall wage and salary incomes, which is bad news for purchasing power," says Gault.

Long-term employment could also prove a drag on consumer spending, which in turn could delay the jobs recovery. In April, 27% of the unemployed were out of work for more than six months, surpassing the previous recession peak of 19.8%, in November 1982. The long-term unemployed could reach 30% of all jobless workers by 2010, according to a report released on May 6 by the National Employment Law Project and the Institute for Research on Labor & Employment.

Of course, while some economic indicators lead others, each feeds back into and affects others. "Consumer spending will come back only if jobs come back," says Dhawan. "I don't see any decent job growth until the end of 2010."

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