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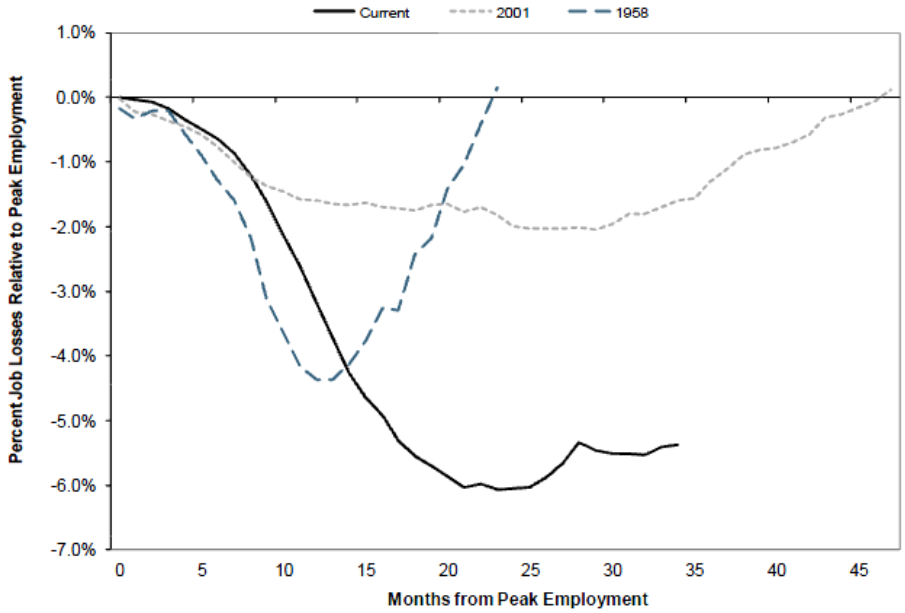
U.S. JOBS: LOST AND (Not Yet) FOUND
Are we doomed to a "jobless recovery"?

Historically, job losses often follow three types of patterns as Chart One shows.

Chart 1: Employment Changes during Selected Recessions and Recoveries



Source: Brookings, Bureau of Labor Statistics, Goldman Sachs Global Markets Institute

DEEP JOB LOSSES, BUT QUICK RECOVERY (1958). This is a typical cyclical pattern, most often caused by a normal recession and the resulting slowdown in spending. Layoffs occur and then the same jobs are resumed as the industry picks back up.

SHALLOW JOB LOSSES, BUT SLOW JOBS RECOVERY (2001). If a single industry experiences a fundamental shift or bubble, job losses may be shallow, but the recovery period is prolonged because new jobs must be created (2001). A good example of this was the technology/telecom boom and bust in 2000. New jobs had to be created, because there were too many companies competing in the same markets, many of them with unsustainable business models. The market value of companies and, in some cases, the companies themselves, evaporated in the market downturn. This pattern can also be observed in our current situation, but on a much grander scale!

DEEP JOB LOSSES, SLOW NEW JOB CREATION (CURRENT). The current situation indicates not only a cyclical downturn, but also a structural one. Real estate, financial institutions, mortgage brokers, construction and a host of other industries experienced a severe downturn as a result of overpriced real estate and unsustainable lending practices. The outcome? Severe job losses across multiple industries. Many of these jobs will need to be replaced by completely different jobs as we work through the bubble's excesses. No one knows exactly how much time it will take to recover and/or replace these jobs.

The composition of the unemployed worker pool sheds light on the situation that confronts us. According to the Bureau of Labor Statistics, three distinct employment gaps can be observed:

1. a gap in gender,
2. a gap by age groups, and
3. a gap by education.

The unemployment rate for males is 2% higher than for females. Additionally, the hardest hit age group is comprised of workers between 20 and 24 years of age. But, perhaps the most informative statistic is the education gap (Chart 2).

Chart 2: Unemployment Rates for Adults 25 Years and Older

Source: Bureau of Labor Statistics

The correlation between educational level and the unemployment rate is especially striking. The housing boom created an unsustainable level of relatively high-paying, stable jobs for those without higher education. As a result, a segment of our population neglected to pursue higher education. This situation is making it difficult for them to migrate to jobs in other industries. As economic growth resumes, our priority must be to make available additional job training and educational programs for those who must, of necessity, embark on new career paths.

Although hiring has been tentative in the early stages of the recovery, it will pick up momentum as businesses gain confidence. Time will heal the wounds caused by the real estate bubble and ensuing credit crisis. As growth picks up, new jobs will be created. Jobs lost will, in time, be found once again.

- Rachel Wakefield, CFA