

Economic Watch

US

Houston, May 8, 2012
Economic Analysis

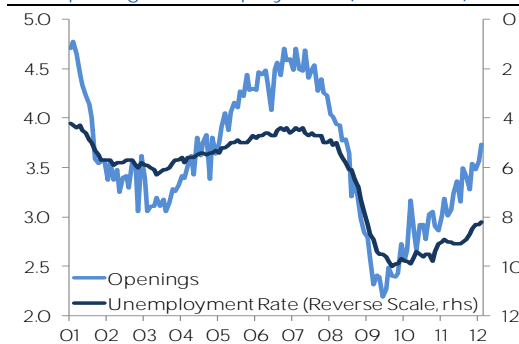
US
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Job Openings and Labor Turnover Enduring Demand and Supply Shortages in the Job Market

- Job vacancies increased in March, reflecting growing demand, but weak hiring points to various employee supply issues
- Employment conditions in construction have deteriorated over the year, while pent-up auto demand likely boosted manufacturing
- The abnormal labor market cycle suggests future structural unemployment if problems are not resolved in the near term

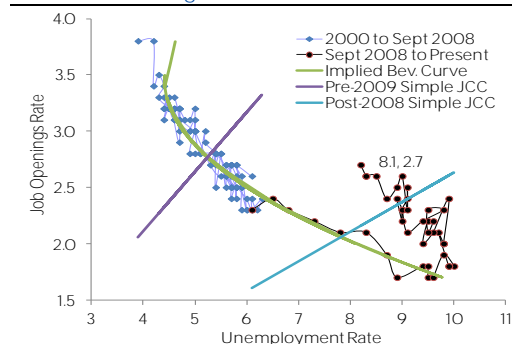
JOLTS data released for March support the latest slowdown in employment gains. Job openings increased to 3737K from 3565K in February, gaining 5.6% since the end of 2011. However, the number of hires slowed to 4356K for the second time in four months. Despite strength in construction and manufacturing vacancies, hiring in these sectors declined in March. In fact, the construction hiring rate dropped to 5.1%, the lowest since August 2009. Throughout the past 12 months, the number of hires in construction has declined 71K while total hires have increased 63K. This trend supports the sector's weakness in nonfarm payrolls, which remain near recovery lows as the real estate market continues to struggle. On the contrary, total separations in construction declined significantly in March compared to a total increase across all sectors, mostly reflecting a slight uptick in quits and a drop in layoffs and discharges. Given that we do not expect significant improvement in real estate activity throughout the year, construction employment will contribute little to job market gains. The overall increase in separations may be indicative of the recent declines in the labor force, and with the latest drop in hiring, net employment gains are decelerating. According to the experimental JOLTS estimates by establishment size, employment gains appear strongest among the small (10-49 employees) and mid-size (250-999 employees) companies. The Beveridge Curve appears to have shifted out, yet various Federal Reserve presidents have argued that there is no strong evidence of higher structural unemployment given the shortage in employer demand, not employee supply. The persistent upward trend in job openings suggests that business demand is growing gradually, so why aren't the number of hires following suit? There are a multitude of possible explanations related to the abnormal churn in the labor market, including a subdued number of quits and layoffs, low wages, increasing long-term unemployment, and growing disability that will ultimately lead to structural unemployment if not addressed.

Chart 1
Job Openings & Unemployment (Millions, %)



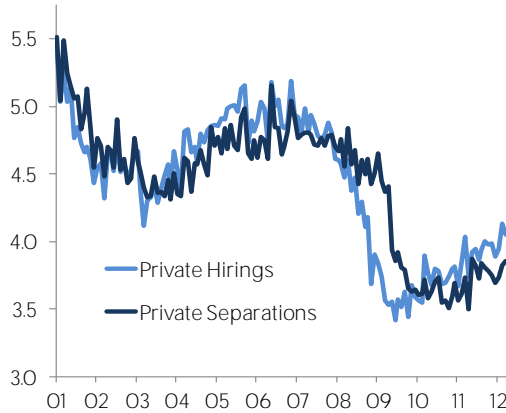
Source: Bureau of Labor Statistics and BBVA Research

Chart 2
National Beveridge Curve



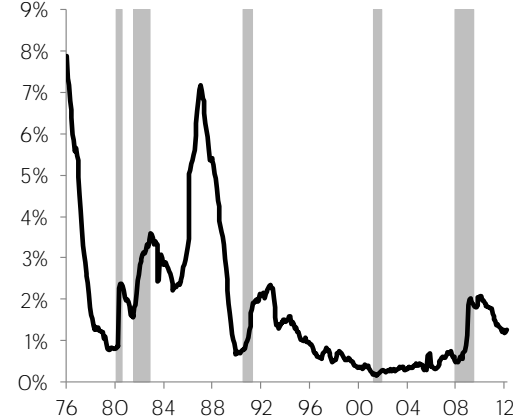
Source: Bureau of Labor Statistics and BBVA Research

Chart 3
Private Hirings & Separations (Millions)



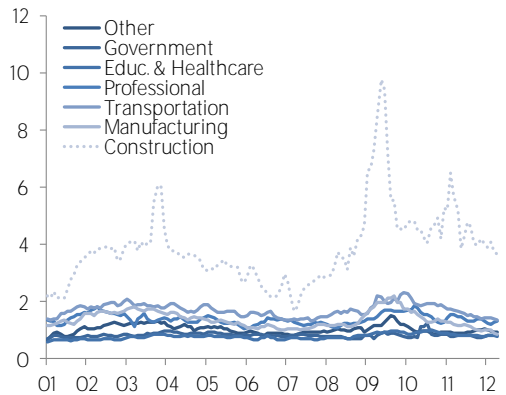
Source: Bureau of Labor Statistics and BBVA Research

Chart 4
Regional Relative Unemployment Variance



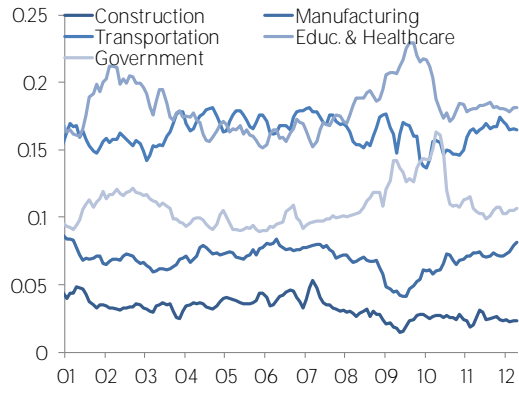
Source: Bureau of Labor Statistics and BBVA Research

Chart 5
Vacancy Yield by Industry (3MMA)



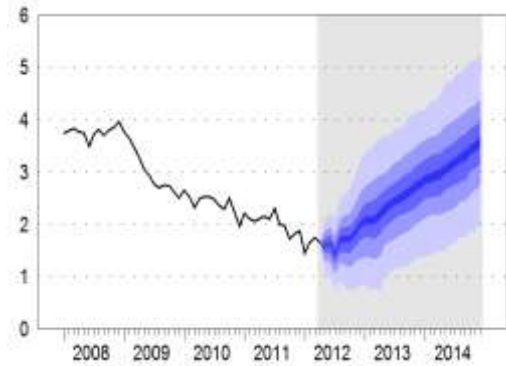
Source: Bureau of Labor Statistics and BBVA Research

Chart 6
Share of Vacancies by Industry (3MMA)



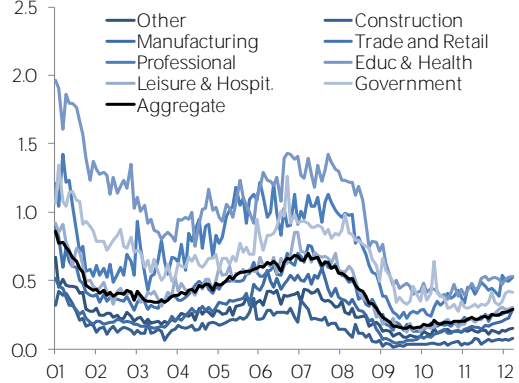
Source: Bureau of Labor Statistics and BBVA Research

Chart 7
Nominal Average Hourly Earnings (YoY %)



Source: BBVA Research

Chart 8
Labor Tightness by Industry (higher=tight)



Source: Bureau of Labor Statistics and BBVA Research

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