

John E. Silvia, Chief Economist  
[john.silvia@wachovia.com](mailto:john.silvia@wachovia.com) • 704-374-7034  
 Adam G. York, Economist  
[adam.york@wachovia.com](mailto:adam.york@wachovia.com) • 704-715-7034

## Contrary to Myth, Early Recoveries are Typically “Jobless”

***Jobless recoveries are not unusual, in fact, they are the norm. In addition, the decline in blue-collar jobs has been a secular theme since at least 1983. Finally, labor force growth has slowed over the last forty years.***

### Long-term Labor Market Trends: Hard Realities

Pro-cyclical fiscal and monetary policies face an uphill battle in overcoming secular trends to stimulate job growth in the years ahead. Our estimates are that job growth will resume in 2010, but the pace of gains, especially in the private sector, will likely be disappointing compared to prior recoveries and certainly voter expectations.

For example, in the top graph, we have plotted the difference in the growth rates of real gross domestic product and employment. What is immediately obvious is that economic growth outpaces employment gains in the early period of each recovery, making each recovery appear to be jobless. Commentators frequently suggest that this pattern emerged with the recovery that began in 2001, but actually job growth has lagged economic growth in each recovery since 1970.

### Blue Collar America: Secular Change in the Labor Force

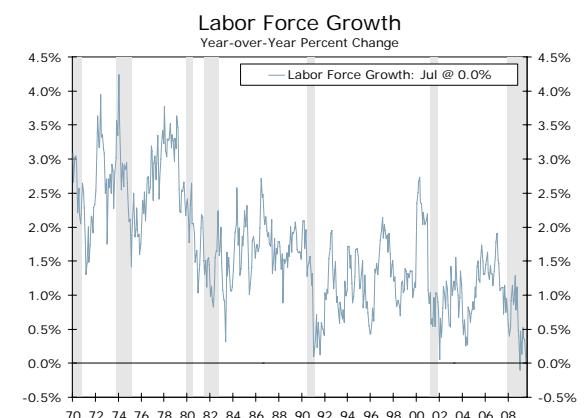
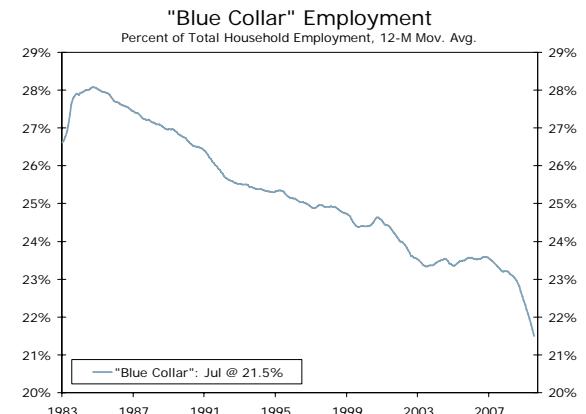
The blue collar composition of the American labor force continues a long-run decline (middle graph). Here, we follow the BLS definition of blue collar as: precision, production, craft, and repair occupations; machine operators, assemblers, and inspectors; transportation and material-moving occupations; and handlers, equipment cleaners, helpers, and laborers. This secular decline is the natural outgrowth of rising and continuing productivity gains in those same sectors. Continued improvements in the quality of capital and communications have generated output gains in manufacturing, for example, with fewer workers.

This secular pattern suggests that the American workforce is likely to become increasingly a service-oriented labor force with a strong bias toward rewards for greater education, computer literacy and a person-to-person service orientation.

### Labor Force Growth: Ominous Secular Slowdown

Over the last forty years, there has been an irregular but relentless deceleration in labor force growth. Unfortunately, such a slowdown hints at a decline in labor's input to society's production function. Overtime this deceleration suggests a slower pace of potential growth and thereby greater limits on a society's ability to produce the goods and services that its members desire.

In fact, this pattern may help explain why the American economy has also been characterized by trade deficits and greater credit leverage, with a parallel dependence on borrowing from abroad to support a standard of living that cannot be supported given the labor supply. All of this suggests that the current dissonance in the economy and economic policy may reflect deeper issues in the realities of change in the labor market.



## Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wachovia.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wachovia.com
Mark Vitner	Senior Economist	(704) 383-56355	mark.vitner@wachovia.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wachovia.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(612) 667- 0168	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Economist	(704) 383-7372	sam.bullard@wachovia.com
Anika Khan	Economist	(704) 715-0575	anika.khan@wachovia.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wachovia.com
Adam G. York	Economist	(704) 715-9660	adam.york@wachovia.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Tim Quinlan	Economic Analyst	(704) 374-4407	tim.quinlan@wachovia.com
Kim Whelan	Economic Analyst	(704) 715-8457	kim.whelan@wachovia.com
Yasmine Kamaruddin	Economic Analyst	(704) 374-2992	yasmine.kamaruddin@wachovia.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wachovia Bank N.A., Wells Fargo Bank N.A, Wells Fargo Advisors, LLC, and Wells Fargo Securities International Limited. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2009 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE