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Jobs: More Slowly Created, More Slowly Destroyed

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Employment can swing widely during economic expansions and contractions. During the most recent recession, the total number of jobs fell by about 5.5 percent, a drop of roughly 7.6 million jobs.[1] The economy has improved substantially since the downturn, and in 2015 the total number of jobs has surpassed pre-recession levels.

At the industry level, the recovery from this recession has been far from balanced. Certain industries experienced strong recoveries, while others still remain below their pre-recession highs. In particular, the bulk of employment gains were concentrated in the professional business services, leisure and hospitality, and education and health services industries with increases of roughly 6, 10, and 15 percent, respectively. Numerous job losses occurred in the construction, manufacturing, and information industries with declines of 20, 12, and 9 percent, respectively.[2]

Reduced dynamism in the labor market is consistent not only with more stable, longer-lived jobs but also longer joblessness and less job switching.

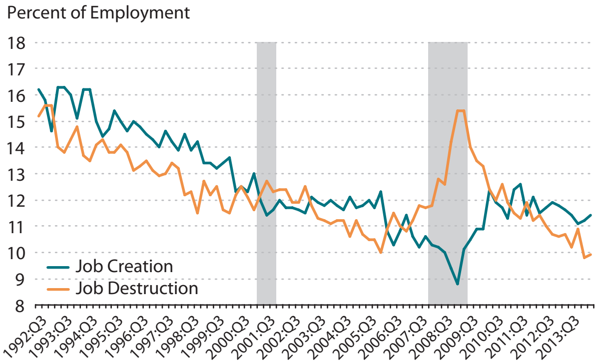
These rates reflect *net* employment changes for the different industries. However, more than 7 million jobs are created and almost as many are destroyed in the U.S. economy *every quarter*.[3] During recessions, fewer jobs are created and more are destroyed, leading to a net drop in total employment. During expansions, the opposite happens and more jobs are created than destroyed. The large magnitudes of job creation and destruction highlight the dynamism of the U.S. labor market and the pace at which resources are reallocated to alternative—presumably better—uses.

The accompanying figure shows the pace of job creation and destruction relative to employment for a selected group of industries with the largest net job gains and losses in the most recent downturn and subsequent recovery. The series are interpreted as the number of jobs created or destroyed in a quarter relative to the total number of jobs at the end of the quarter. For example, on average, 4.2 percent of manufacturing jobs are created and 4.6 percent are destroyed each quarter. With the exception of education and health services, all industries destroy more jobs than they create during recessions (denoted by the shaded bars in the graphs). Despite the large cyclical swings in net employment and *gross* job destruction and creation rates, most industries share a common feature: The rate of job creation and destruction has been falling. In other words, all the graphs exhibit a common downward trend. This reduced dynamism in the labor market is consistent with more stable and longer-lasting employment relationships, given that fewer jobs are being destroyed. However, it is also consistent with a longer duration of joblessness and less job switching, as fewer jobs are being created.

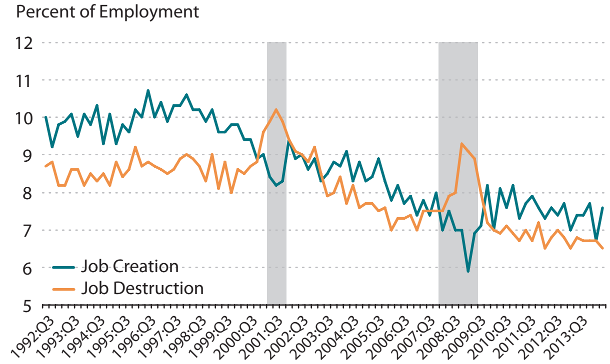
One explanation for the declining trend in the job creation and destruction rates is the declining number of young establishments. Young establishments have larger rates of job creation and destruction than old establishments.[4] Almost 41 percent of all establishments in 2000 had been in operation less than 5 years and accounted for 25 percent of all jobs. In contrast, only 34 percent of establishments in 2014 had been in operation less than 5 years and accounted for 14 percent of all jobs.[5] ■

Job Creation and Destruction Rates by Industry (1992:Q3–2013:Q3)

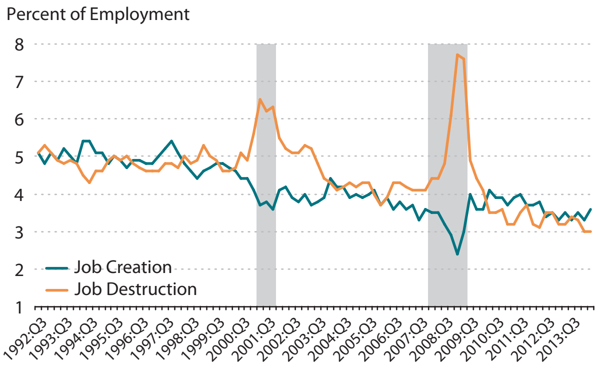
Construction



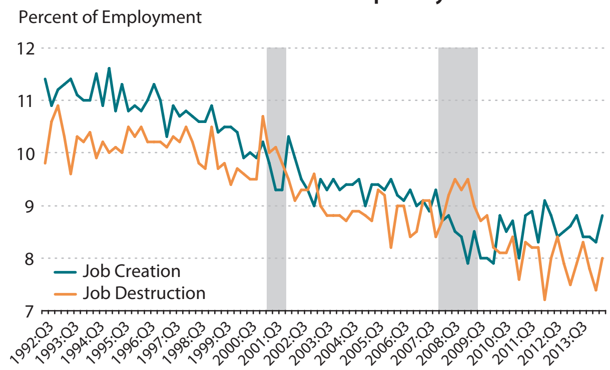
Professional and Business Services



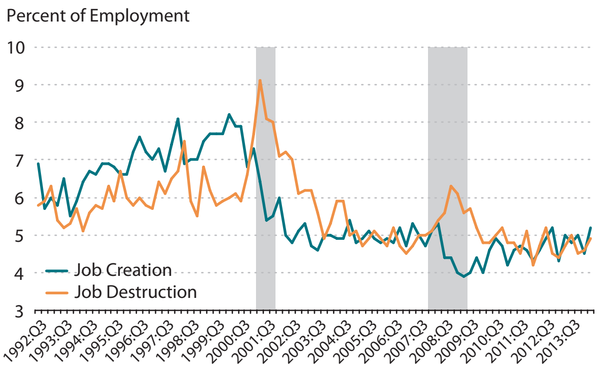
Manufacturing



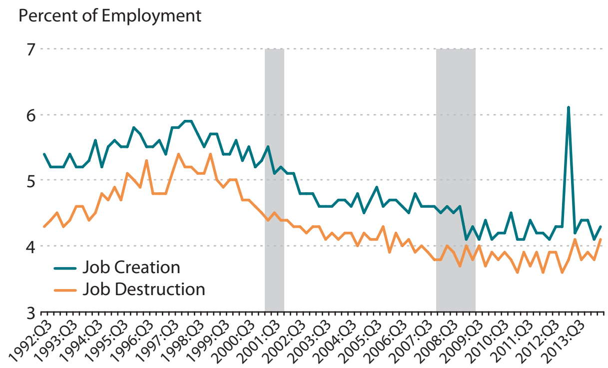
Leisure and Hospitality



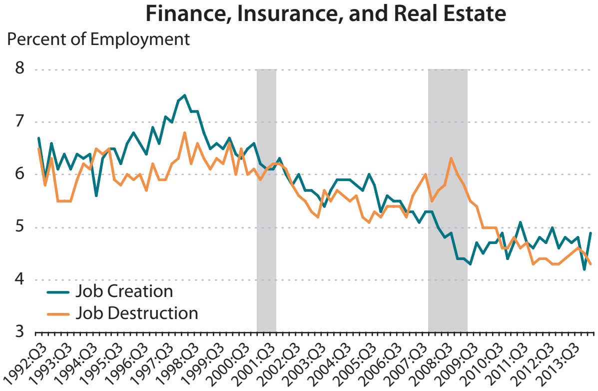
Information



Education and Health Services



Finance, Insurance, and Real Estate



NOTE: The shaded bars indicate recessions as determined by the National Bureau of Economic Research.
SOURCE: Author's calculations based on data from the Bureau of Labor Statistics, Business Employment Dynamics Database.

NOTES

[1] Employment figures are for total nonfarm payroll employment. The changes cover the July 2007–July 2010 period. The dates for these data do not align with the official recession dates (2007-09) determined by the National Bureau of Economic Research.

[2] These differences across industries are not unique to the most recent recession and are part of long-run changes in the composition of economic activity. Recessions seem to accelerate these changes. See Andolfatto and Williams (2012) and Garriga (2014).

[3] Data from the Bureau of Labor Statistics, Business Employment Dynamics database.

[4] See Haltiwanger, Jarmin, and Miranda (2013).

[5] Data from the Bureau of Labor Statistics, Business Employment Dynamics database.

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