United States Senate
Republican Policy Committee
Jon Kyl, Chairman
347 Russell Senate Office Building
Washington, DC 20510
202-224-2946
http://rpc.senate.gov

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Dep't of Labor Report Shows America's Resilient Economy

Dynamic Labor Market Brings New Employment Patterns

Key Data from Chapter 3 of Department of Labor Report: "America's Dynamic Workforce: 2006"

- Last month, the U.S. Department of Labor (DOL) updated its publication, "America's Dynamic Workforce: 2006." This RPC paper reproduces Chapter 3 of the publication, "Dynamic Labor Market Structure." This is the third and final RPC paper in this series. The full publication with additional chapters can be found on the DOL website.

- A notable feature of the U.S. labor market is its constant activity as people freely move in and out of the labor market. High turnover in the U.S. – as evidenced by high levels of both separations and hires – particularly reflects broad changes over time in the economy's industry and occupation pattern.

- Over the past half-century (1955 to 2005), payroll employment increased from 50.7 million to 133.5 million as our growing population found new jobs in a growing economy. The total number of jobs has doubled since 1967, and over the most recent 15 years (1990 to 2005), total payrolls increased by 22 percent.

- Two major industries stand out for their job growth since 1990: professional and business services, and private education and health care and social assistance services. Together, the two industries represented just 10.9 percent of nonfarm payroll employment in 1940. They represented nearly one in five jobs by 1990, and over one-quarter by 2005. By 2014, they are projected to account for nearly three out of ten nonfarm payroll jobs.

- The health care sector includes some of the largest and fastest-growing private industries in terms of employment. With 12.3 million payroll employees in 2005, the private health care industry comprised 9.2 percent of all payroll jobs. Overall health care sector employment grew by 4.1 million between 1990 and 2005 – a 50-percent increase.

- Employment is projected to grow by 18.9 million jobs between 2004 and 2014. In addition to job growth, net replacement for retirees and others leaving the labor force is expected to provide another 35.8 million job openings. Together, growth plus net replacement will yield 54.7 million cumulative job openings by 2014.

Background

According to data from the Bureau of Labor Statistics (BLS), the U.S economy created 128,000 new jobs in August 2006, more than 1.7 million jobs over the past 12 months – and more than 5.7 million jobs since August 2003. Our economy has added jobs for 36 straight months. And yet, despite the data, liberals in Congress and the media choose to criticize. According to Minority Leader Harry Reid, "Our economy is not in good shape."[1] The *New York Times* notes that "workers perceive a long-term downward trend in their economic status."[2]

Secretary of Labor Elaine Chao offers this assessment: "The American economy is strong and growing. It is a good time for American workers: Job opportunities are increasing, unemployment is low, and compensation is rising. During the past five years, through recession, terrorism and natural disaster, the American economy has proven itself to be resilient."[3]

The U.S. Department of Labor (DOL) has compiled statistical information in a new publication, "America's Dynamic Workforce: 2006." The data in the publication reflect annual average data through 2005, the most recent year available. The publication also contains some monthly data as current as June 2006. The publication reflects the resiliency of the U.S. economy, and highlights its ability to overcome adversity to become "the envy of other major industrialized nations."[4]

Earlier papers in this RPC series focused on the *facts* that highlight the successful record of the U.S. across a broad range of labor market indicators and over an extended period of time. Chapter One shows that the U.S. economy is growing jobs, output, and earnings. Chapter Two presents diverse economic indicators to highlight the strength of the U.S. economy. This paper includes the contents of Chapter Three of the DOL publication. Its focus is on the fact that while robust employment growth is the norm, over time, new employment patterns emerge.

Chapter Three discusses how "employment growth rates have varied widely among industries as changing demand, technology and global competition have reshaped the labor market."[5] Over the long term, total employment has grown in both the goods-producing and service-producing sectors, with the overwhelming majority of net new jobs having been in the service sector.[6] Figure 3-1 highlights the shift dating back to 1940. This shift is expected to continue as growth-related job openings over the next ten years will be greatest in professional and related occupations, and in service occupations.

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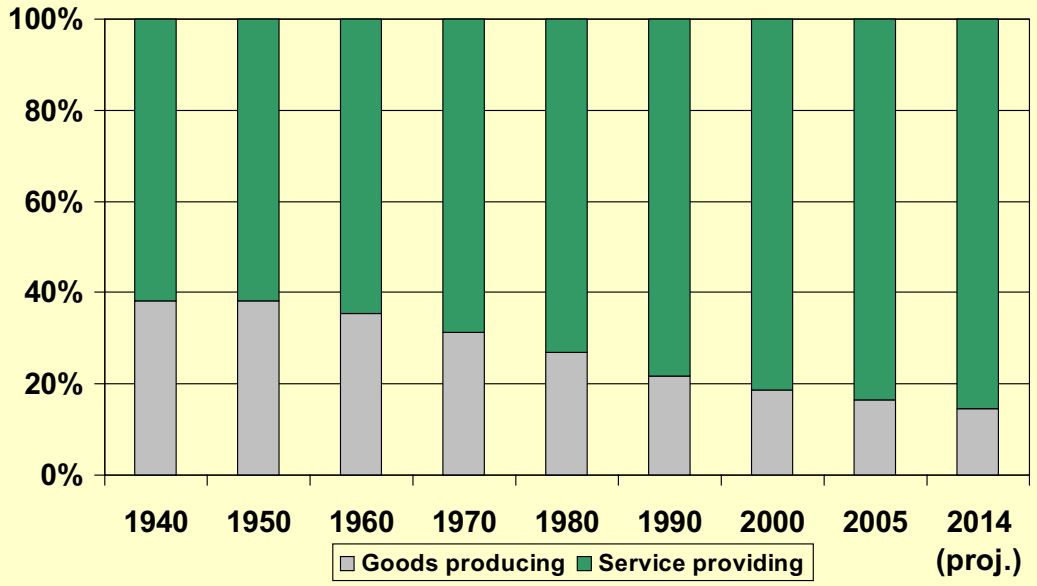
[1] Senator Harry Reid, *Congressional Record*, July 11, 2006, S7290.
[2] *The New York Times*, editorial, "The Big Disconnect," September 1, 2006.
[3] U.S. Department of Labor, "America's Dynamic Workforce: 2006," August 2006. [http://www.dol.gov/asp/media/reports/workforce2006]
[4] America's Dynamic Workforce: 2006.
[5] America's Dynamic Workforce: 2006
[6] America's Dynamic Workforce: 2006

3 Dynamic Labor Market Structure

A notable feature of the U.S. labor market is its constant activity as people freely move in and out of the labor market, as total jobs grow, and as workers change jobs. High turnover in the United States – as evidenced by high levels of both separations and hires – partially reflects broad changes over time in the economy's industry and occupation patterns. As the historical employment shift away from the goods-producing sector continues, new employment patterns emerge.

Robust employment growth is the norm. Over the past half-century (1955 to 2005) payroll employment increased from 50.7 million to 133.5 million as our growing population found new jobs in a growing economy. The total number of jobs has doubled since 1967, and over the most recent 15 years (1990 to 2005) total payrolls increased by 22 percent. However, robust total job growth has masked significant changes in the industrial and occupational structure of the labor market. Employment growth rates have varied widely among industries as changing demand, technology and global competition have reshaped the labor market.

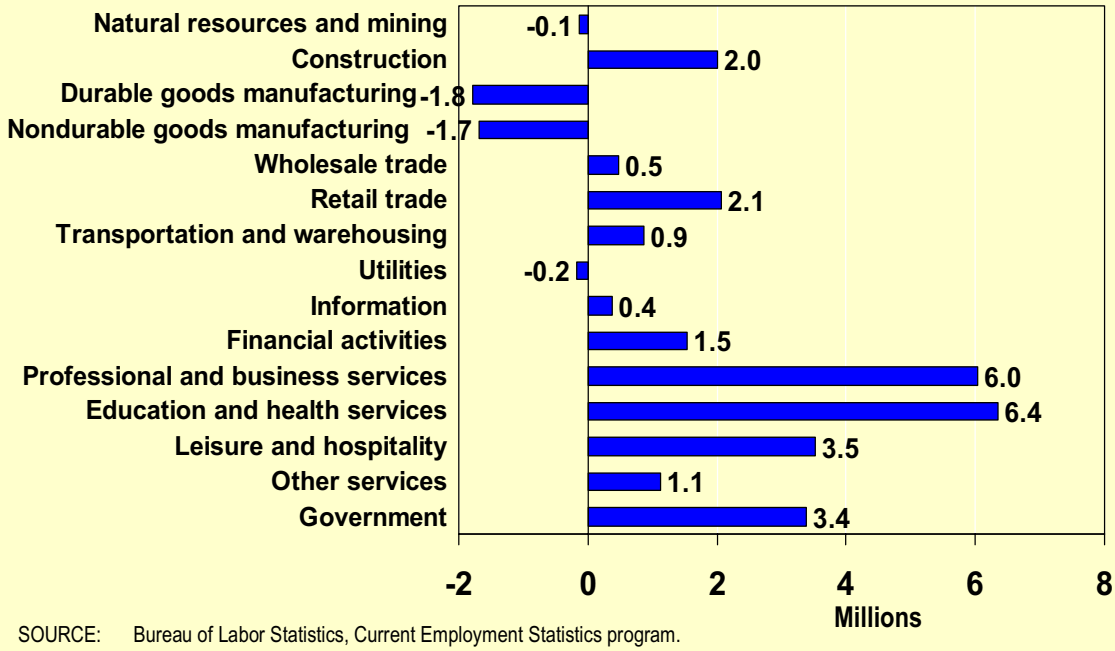
Figure 3-1. Goods-Producing and Service-Providing Industry Employment Shares



SOURCE: Bureau of Labor Statistics, Current Employment Statistics and Employment Projections programs.

- The service sector accounted for 62 percent of nonfarm payroll employment in 1940, and that share rose to 83 percent in 2005. The service sector share of payroll employment is projected to rise to nearly 86 percent by 2014.
- From 1940 to 2005, total employment grew in both the goods-producing and service-providing sectors, but the overwhelming majority of net new jobs have been in the service sector. From 1940 to 2005, 9.8 million net new jobs were created in the goods- producing sector, and 91.3 million net new jobs were created in the service-providing sector.

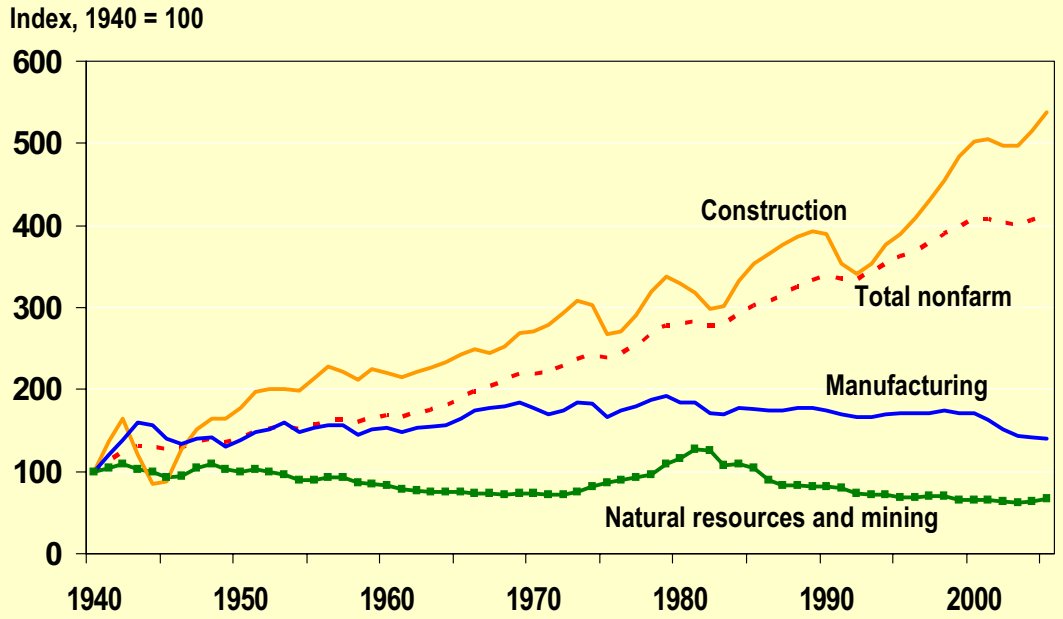
Figure 3-2. Employment Change Between 1990 and 2005, Major Industry Sectors



SOURCE: Bureau of Labor Statistics, Current Employment Statistics program.

- The on-going shift of the industrial structure of employment is evident even during the 1990-2005 period. The 6.0 million increase in employment for the professional and business services industry sector and the 6.4 million increase in employment for the education and health services sector stand in contrast to net job losses for manufacturing. Those two sectors accounted for over half (51.7 percent) of net nonfarm payroll employment growth over the past 15 years.
- In 2005, the 17.3 million jobs in the private education and health industries sector accounted for 13 percent of all payroll jobs and comprised the second largest of the major sectors.

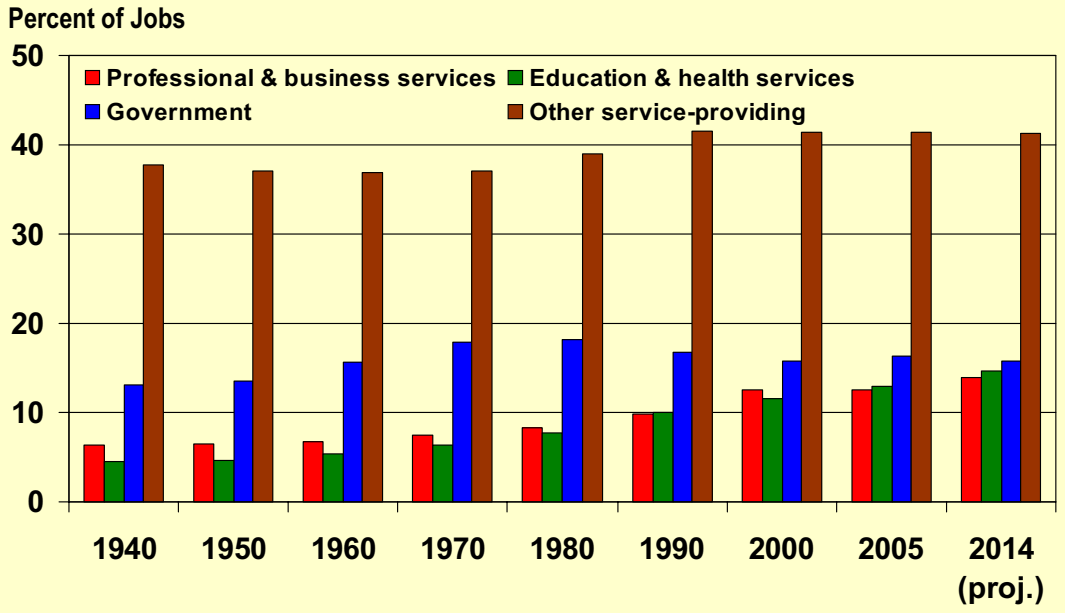
Figure 3-3. Indexed Total Nonfarm and Goods-Producing Employment, 1940 to 2005



SOURCE: Bureau of Labor Statistics, Current Employment Statistics program.

- Construction job growth generally has kept pace with total nonfarm employment, with the exception of brief cyclical downturns offset by quick recoveries. The rate of growth following the 1990-91 recession held steady through most of the decade. Only minor job losses came in the period surrounding the 2001 recession, and rapid job growth soon resumed.
- In 2005, construction industry employment was more than 5 times greater than the level in 1940. By comparison, manufacturing employment was 41 percent higher than in 1940 and significantly below its all-time high in 1979. At 14.2 million in 2005, manufacturing employment reflected a steady decline over the past quarter century of nearly 27 percent.

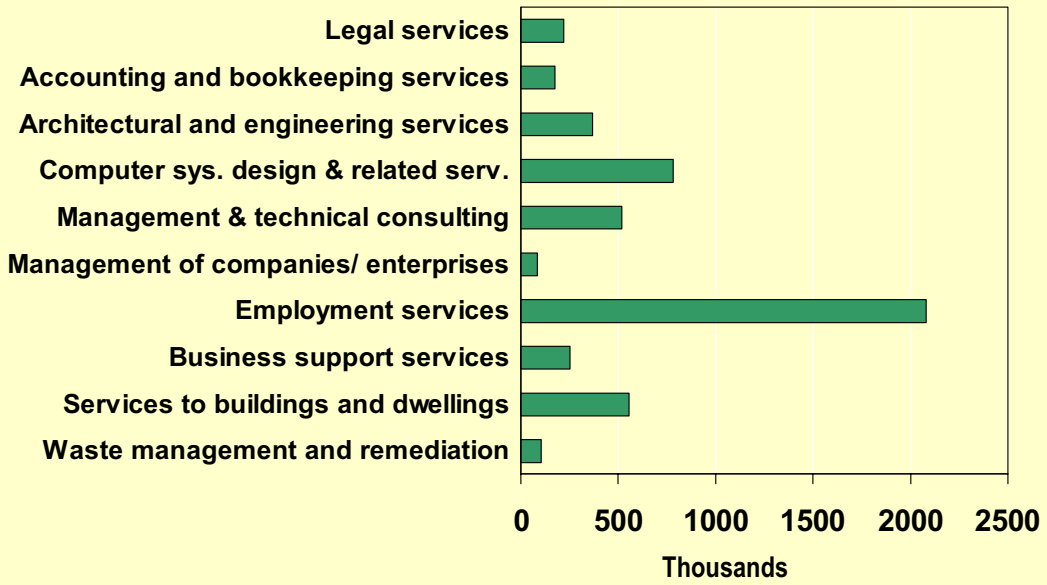
Figure 3-4. Growing Service-Providing Industry Employment, 1940–2005 and Projected 2014



SOURCE: Bureau of Labor Statistics, Current Employment Statistics and Employment Projections programs.

- Among the service-providing industries, two major industries stand out for their job growth since 1990. Professional and business services, and private education and health care and social assistance services together represented just 10.9 percent of nonfarm payroll employment in 1940. They represented nearly one in five jobs by 1990 and over one-quarter by 2005.
- By 2014, they are projected to account for nearly three out of ten nonfarm payroll jobs. The growth of these two sectors has notably exceeded the growth of government (the leading services sector in terms of employment) and all other private service industries.

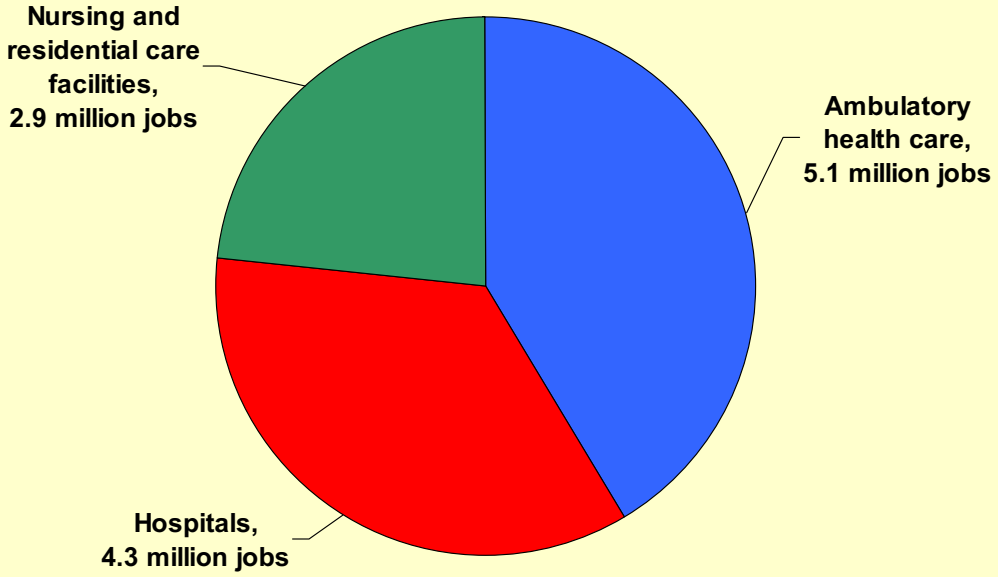
Figure 3-5. Employment Change, Selected Professional and Business Services, 1990-2005



SOURCE: Bureau of Labor Statistics, Current Employment Statistics program.

- Payroll employment throughout professional and business services has expanded notably over the past decade and a half.[11] Within the sector, only travel arrangement services lost jobs, with all the declines coming since 1998.
- Gains were especially notable in three industries: employment services; computer systems design and related services; and management, scientific, and technical consulting. These three industries accounted for just one-fifth of professional and business services employment in 1990 but over half the job gains between 1990 and 2005. This pattern is expected to continue to 2014.

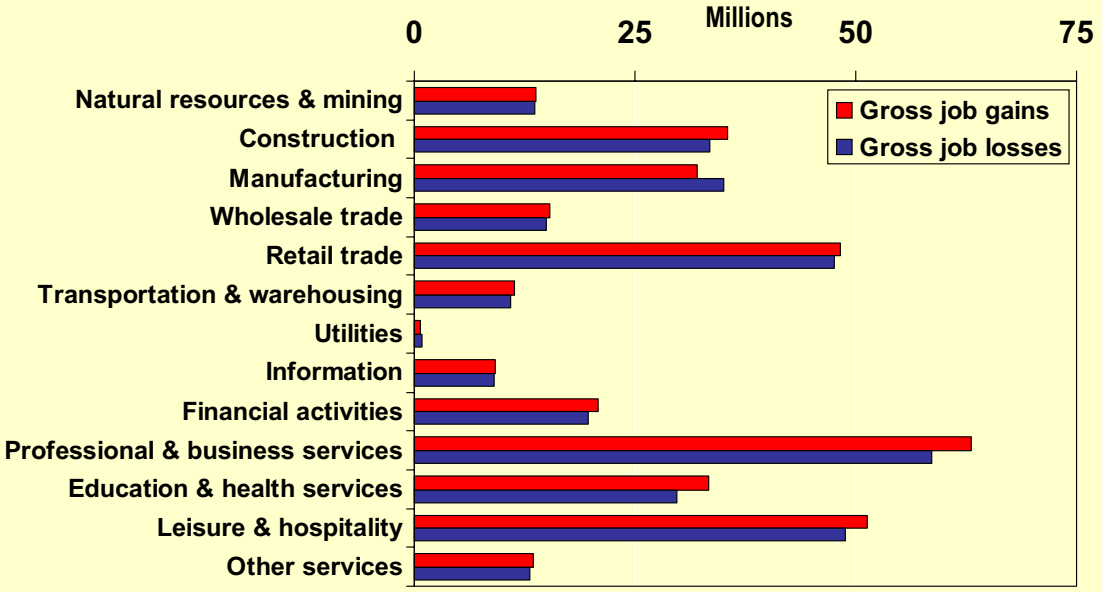
Figure 3-6. Distribution of Health Care Industry Employment, 2005



SOURCE: Bureau of Labor Statistics, Current Employment Statistics program.

- The health care sector includes some of the largest and fastest-growing private industries in terms of employment. With 12.3 million payroll employees in 2005, the private health care industry comprised 9.2 percent of all payroll jobs. Overall health care sector employment grew by 4.1 million between 1990 and 2005 – a 50 percent increase.
- The ambulatory care industry group grew by 80 percent (2.3 million jobs) from 1990 to a total of 5.1 million jobs in 2005, making it the largest subcategory within health care. This industry includes offices of physicians and other health practitioners, outpatient care centers, medical laboratories, and home health care services.
- Private hospitals added 834,000 jobs from 1990, bringing 2005 hospital employment to 4.3 million, a 23.8 percent increase. Nursing and residential care facilities added 1.0 million jobs, a 54 percent increase that brought total employment in nursing and residential care facilities to 2.9 million in 2005.

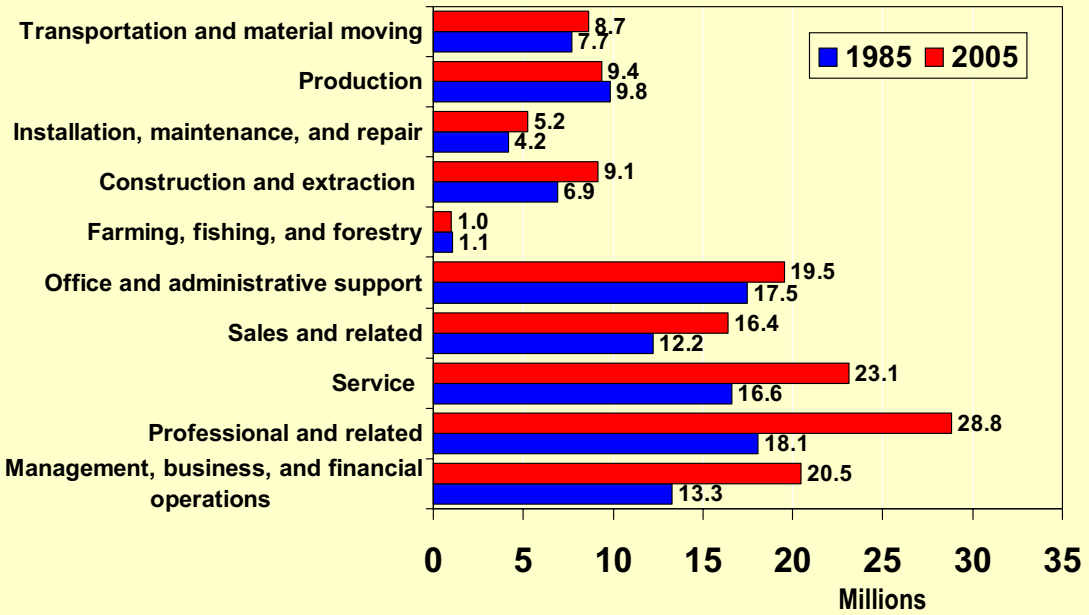
Figure 3-7. Sum of Quarterly Gross Job Gains and Losses, 1995–2005



NOTE: Data are not seasonally adjusted.
SOURCE: Bureau of Labor Statistics, Business Employment Dynamics program.

- Between first quarter 1995 and third quarter 2005, job creation because of the opening of new establishments or the expansion of existing ones totaled 352 million, and job elimination because of closing of some establishments or reductions in numbers of jobs at others totaled 337 million.[12] The flows of job creation and elimination somewhat mirrored the patterns of net job creation, but not entirely.
- With gross job gains of 63.1 million and gross job losses of 58.6 million, the growing professional and business services industry experienced both the greatest jobs creation and elimination among major industries, as competition sorted out business successes and failures.
- It is notable, also, that manufacturing, which experienced net employment decline, also experienced relatively high levels of job creation in parallel with job elimination. In manufacturing 35.1 million jobs were eliminated in aggregate during the period, but job gains in new or expanding establishments totaled 32 million.[13]

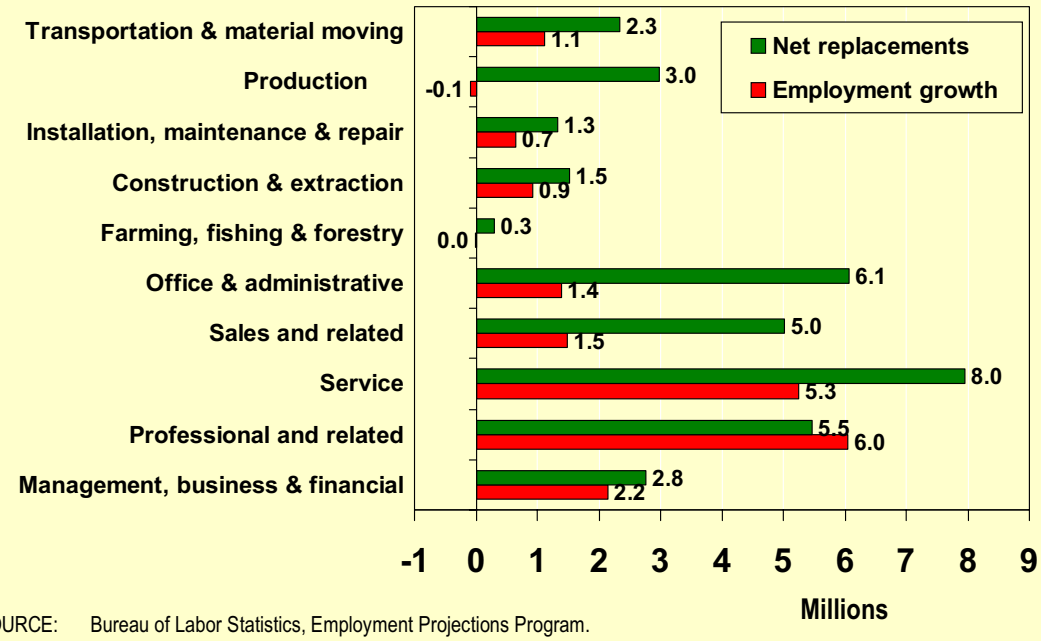
Figure 3-8. Employment by Occupational Categories, 1985 and 2005



SOURCE: Bureau of Labor Statistics, Current Population Survey. Data are from the specially constructed conversion series available online at http://ww.bls.gov/cps/constio198399.htm.

- Over the past 20 years the major occupation groups with both the fastest percentage growth and the largest numerical increase in employment were professional and related occupations and management, business and financial operations occupations.[14]
- Professional and related occupations accounted for 20.3 percent (28.8 million) of total employment in 2005, up from 16.9 percent in 1985. Employment growth of 10.7 million in professional and related occupations accounted for 30.9 percent of total employment growth over the 1985 to 2005 period.
- Management, business and financial operations occupations accounted for 14.5 percent (20.5 million) of total employment in 2005, up from 12.4 percent in 1985. Employment growth of 7.2 million in management, business and financial operations occupations accounted for 20.8 percent of total employment growth over the period.

Figure 3-9. Employment Growth and Net Replacement by Occupations, 2004 to 2014



SOURCE: Bureau of Labor Statistics, Employment Projections Program.

- Employment is projected to grow by 18.9 million jobs between 2004 and 2014. In addition to job growth, net replacement for retirees and others leaving the labor force is expected to provide another 35.8 million job openings. Together, growth plus net replacement will yield 54.7 million cumulative job openings.
- Growth-related job openings over the 10-year period will be greatest in professional and related occupations and in service occupations. Within the professional and related occupations category, health care workers will be especially in demand.
- The largest major occupation category in terms of replacement needs will be the service occupations group, with 8.0 million projected replacement job openings.
- Even production occupations will need workers: 2.5 million net replacement openings are projected despite little increase in job openings due to growth.