

LMI Report #126
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Labor Market Report
From the Verdugo Workforce Investment Board
By Don Nakamoto

Updated forecast for jobs and the economy

Our WIB mid-year 2009 forecast of a strong economic recovery near the end of 2009 was right on target, despite the fact that most economists at the time were predicting a continuing recession or a very weak recovery leading into 2010.

In our last forecast, we said record low business inventories and a boost from stimulus spending would lift the economy by a much stronger rate than most people expected. Recently released 4th quarter Gross Domestic Product (GDP) numbers showed economic growth of 5.7%, which was stronger growth than anyone expected.

In fact, it was the rebuilding of inventories that accounted for 3.4% of the 5.7% GDP growth.

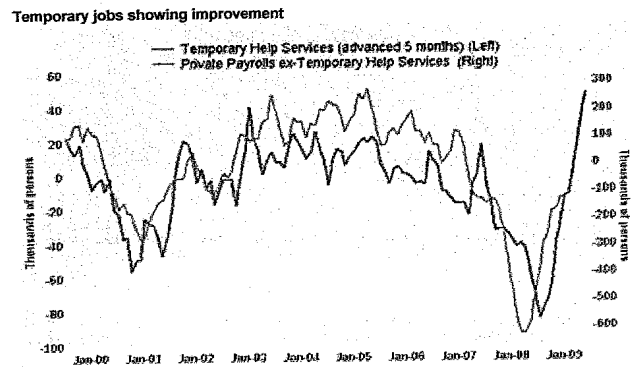
In past Labor Market Reports, we've forecast that areas like manufacturing would pick up substantially as companies place more manufacturing orders to rebuild inventories and the value of the U.S. dollar remains low, which makes our exports more competitive. Today, the Institute for Supply Management said U.S. manufacturing activity grew for the 6th straight month in January to the strongest level since August 2004.

We also said that the local entertainment industry was likely to pick up because employment had been artificially depressed by factors such as a threatened Screen Actors Guild strike. In fact, entertainment employment grew for the third consecutive month in L.A. County in December.

What's ahead for jobs?

The unemployment rate and job growth are following patterns similar to past recessions. As the economy shows signs of coming out of the recession, employers remain cautious about permanent hiring commitments until they are confident that the economy is on a sustained growth path.

One of the first signs that confidence is beginning to return is the hiring of temporary workers. Hiring in this area has taken off, as the chart below indicates, as cautious employers take this first step before hiring more permanent workers.



Businesses cannot employ just temporary workers forever if the economy continues to grow. At some point they will have to hire permanent workers to meet demand for their products and services. We could start to see permanent hiring growth emerging late in the first quarter of 2010 or early in the second quarter.

What lies ahead?

The Conference Board's Index of Leading Economic Indicators, which is one tool for projecting future economic growth, rose for the ninth consecutive month in December. This would indicate that the economy is likely to continue to grow through mid-2010, and possibly much longer.

Because companies are expected to continue rebuilding their inventories in the first quarter of 2010 and because effects from stimulus spending are still being felt (only about a third of the \$787 billion stimulus funding has actually been spent), we are likely to see another very solid quarter of economic growth in the 1st quarter of 2010.

One area to be concerned about is small business, which ordinarily is the job growth engine for the U.S. economy. One small business industry association released a survey of its members in December that showed that only 8% planned to hire new employees. That's one reason the Obama Administration has focused its proposed Job Creation legislation on small business hiring incentives.

Stay tuned...