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U.S. Economy in Worst Hiring Slump in 20 Years

By DAVID LEONHARDT

The economy has fallen into its worst hiring slump in almost 20 years, and many business executives say they remain unsure when it will end.

The employment decline has become even worse than it was at a comparable point in the so-called jobless recovery of the early 1990's, according to recently revised statistics from the Labor Department. The economy has lost more than two million jobs, a drop of 1.5 percent, since the most recent recession began in March 2001, as layoffs have continued despite the resumption of economic growth more than a year ago. The decline was 1.3 percent at the same point in the business cycle a decade ago.

About one million people appear to have dropped out of the labor force since last summer, neither working nor looking for a job, according to government figures.

The surge in discouraged workers is the most significant since the months immediately after the recession's start. This suggests that the pain of joblessness has worsened even though the official unemployment rate, which counts only people looking for work, held steady at 6 percent in December.

"Last year," said Tom Koehn, 50, who lost his job at a machinery maker in South Bend, Ind., in May, "I heard a lot of people say, `Come back after the first of the year; if the economy picks up, we might hire some people.' But so far, I haven't found anybody who's hiring."

The shortage of jobs has also slowed wage growth so that only workers in the most affluent groups are still gaining ground on inflation, ending a six-year streak of broad increases in buying power.

Manufacturers of durable goods like computers, furniture and steel have made the deepest cuts, with one of every nine jobs in these industries eliminated since early 2001. Airlines, brokerage firms and makers of clothing and textiles have also each cut at least a tenth of their work forces. Government agencies have been among the few employers that continue to expand, although many states are now laying off employees to close budget deficits.

Executives say they have been disappointed too many times by the halting growth of the last year to begin hiring workers in significant numbers. While the government is likely to report tomorrow that the economy added some jobs in January, many executives are still waiting to be convinced that business has regained a solid footing after the collapse of the bubble of the late 1990's.

The possibility of a war with Iraq and an increase in oil prices offers another reason for hesitation, they say. Many companies have also used new technologies and management techniques to produce more with the same number of employees.

"This is what I call the new reality," said Robert M. Dutkowsky, the chief executive of J. D. Edwards, a software maker in Denver that has kept its work force at 5,000 people for the last few years. "The environment we're operating in is what it's going to be like for a while."

In his State of the Union address last week, President Bush called the improvement of the job market his "first goal" for the coming year and asked Congress to pass a $670 billion, 10-year tax cut.

"We must have an economy that grows fast enough to employ every man and woman who seeks a job," Mr. Bush said. "With unemployment rising, our nation needs more small businesses to open, more companies to invest and expand, more employers to put up the sign that says, `Help Wanted.' "

Most economists say that the tax plan and another $4 billion in help for the jobless would have only a small effect on the economy this year.

The number of companies cutting jobs has spiked since November, with AOL Time Warner, Boeing, Dow Jones, Eastman Kodak, Goodyear, J. C. Penney, McDonald's, Merrill Lynch, Sara Lee, and Verizon all announcing new layoffs. Barring a sustained rise in oil prices, however, the cuts appear likely to taper off in the coming months as the economy continues its slow recovery, most forecasters say.

The bigger problem seems to be the unwillingness of companies to hire new workers. In December, the number of help-wanted advertisements in newspapers across the country fell to the lowest level in almost 40 years, according to the Conference Board, a research group in New York.

"There isn't the confidence level in business today that we need for growth," said Cinda Hallman, chief executive of the Spherion Corporation, a staffing company based in Fort Lauderdale, Fla., that places almost 400,000 people in jobs, down from 600,000 three years ago. "There's uncertainty. Companies are being much more cautious than they used to be."

The labor market entered the 2001 recession tighter than it had been in 30 years, with the jobless rate falling below 4 percent in late 2000. Even at 6 percent — its level in December, the most recent reading — it remains lower than it was during the aftermath of most other recessions.

But the reluctance of companies to hire is causing pain in ways that the jobless rate does not measure.

An unusually large number of today's unemployed have been out of work for months, including Mr. Koehn, the South Bend manufacturing worker, who lost his job last spring. Almost 1.9 million people still looking for work have been unemployed for at least six months, triple the number of two years ago.

"There are a lot of people out there who aren't used to asking for help who need some help," said Mr. Koehn, who plans on applying to convenience stores if he has not found other work before his jobless benefits expire in mid-February. "It's a tough pill to swallow when people say, `Oh, you still haven't found work,' and you know you've been looking."

Many other people seem to have stopped looking. Since June, the number of adults not in the labor force has jumped by more than one million, to 72.4 million, according to the Labor Department. Many are retired, still in school or raising children, but the sharp change suggests that a growing number have become too frustrated to continue applying.

"I went out and pounded the pavement faithfully," said Theresa H. Washington, who lost her $60,000-a-year electrician's job more than a year ago at a Cleveland steel mill closed by the LTV Corporation. "I did the whole nine yards in terms of looking for work, and I never had an interview.

"There is no job market right now," Ms. Washington, 47, added. She estimated that she had applied to more than 50 companies.

In May, she enrolled in a community college and is studying to become a counselor to people addicted to alcohol or drugs, a job that will pay about $40,000 a year. Until she finishes the program in May 2004, she and her two children will rely on extended jobless benefits of about $370 a week, a local health care clinic, a food bank and help from friends and family, she said.

"It's been a complete change in lifestyle," she added.

The prolonged jobs slump has also taken away much of the bargaining power that workers had in the 1990's.

Qualcomm, the technology company based in San Diego, receives 200 résumés a day, up almost 25 percent from a year ago, and the applicants are generally more qualified than in the past, said Daniel Sullivan, executive vice president for human resources.

At 7-Eleven stores, employee turnover remains high, but it has fallen in the last year. "One of our biggest challenges was getting people," said James W. Keyes, 7-Eleven's chief executive. Now, he said, "it's much, much easier to both recruit and retain employees."

With little need for companies to compete for workers, wage growth has ground almost to a halt, after inflation takes its bite, for people in the bottom of the income distribution. That is a sharp reversal from the late 1990's, when low unemployment and increases in the minimum wage allowed low-income workers to receive bigger proportional raises than those in the middle.

Workers at the 20th percentile of earners made $8.31 an hourat the end of last year, up only 1.1 percent from a year earlier, according to an analysis of government data by the Economic Policy Institute, a liberal group in Washington. Over the same span, inflation was about 2.2 percent.

The median worker — the one falling squarely in the middle of the distribution — received a 2.1 percent raise over the same span, to $13.36. The top third of earners received increases of about 2.7 percent.

In the late 1990's and 2000, workers near the bottom were receiving annual raises of more than 4 percent, slightly better than the increases for those at the median or for most of those near the top.

The economy has shown signs of picking up in recent weeks, including a survey of service-sector managers released yesterday that showed their business improved in January. But the hints of recovery are difficult to distinguish from ones that proved false in the last year or so, executives say. Many companies still have more stores and factories than they can profitably use, and little need to add new workers.

The effects of the bubble of the late 90's in the stock market and business investment will eventually wear off, but the recent increases in corporate efficiency appear to have created a long-term change in the level of economic growth needed for an improving job market. The economy advanced 2.8 percent from the end of 2001 to the end of last year, which was once a growth rate capable of generating demand for tens of thousands of new workers a month. Yet payrolls still declined significantly, as companies used both new technologies and strategies forced on them by an increasingly competitive economy to produce more goods and services with fewer people.

In the last few years, for example, Applebee's, the restaurant chain based in Overland Park, Kan., has centralized its purchasing of food to save costs and begun varying the pay of its workers more than it had been, in order to retain the most productive ones. The steps have allowed its sales to grow faster than its employment, said Lloyd L. Hill, the chief executive.

"It's not brain surgery," Mr. Hill said. "We just recognized we had to do better."

BASF, the world's largest chemical company, spent $4 billion investing in new plants and equipment in the United States in the last five years. Like many companies, it will turn to its new machines to increase production.

"Now," said Klaus Peter Löbbe, who runs BASF's North American operations, "comes the time to make the assets sweat."