Employment Development Department
State of California

January 2014
Issue Number 1

This report provides an overview of some of the economic trends affecting California's long-term unemployed population. It examines the relationships between job openings and employment, the impact of hiring discrimination, and the use of temporary workers to fill job openings. In addition, the earnings of the state's long-term unemployed were examined from 2004 to 2010.

This report was prepared by Brandon T. Hooker, Statewide Information Services Group.

A publication by the Labor Market Information Division

LaborMarketInfo
www.labormarketinfo.edd.ca.gov

"Your Information Source"

Economic Trends Affecting California's Long-Term Unemployed

Introduction

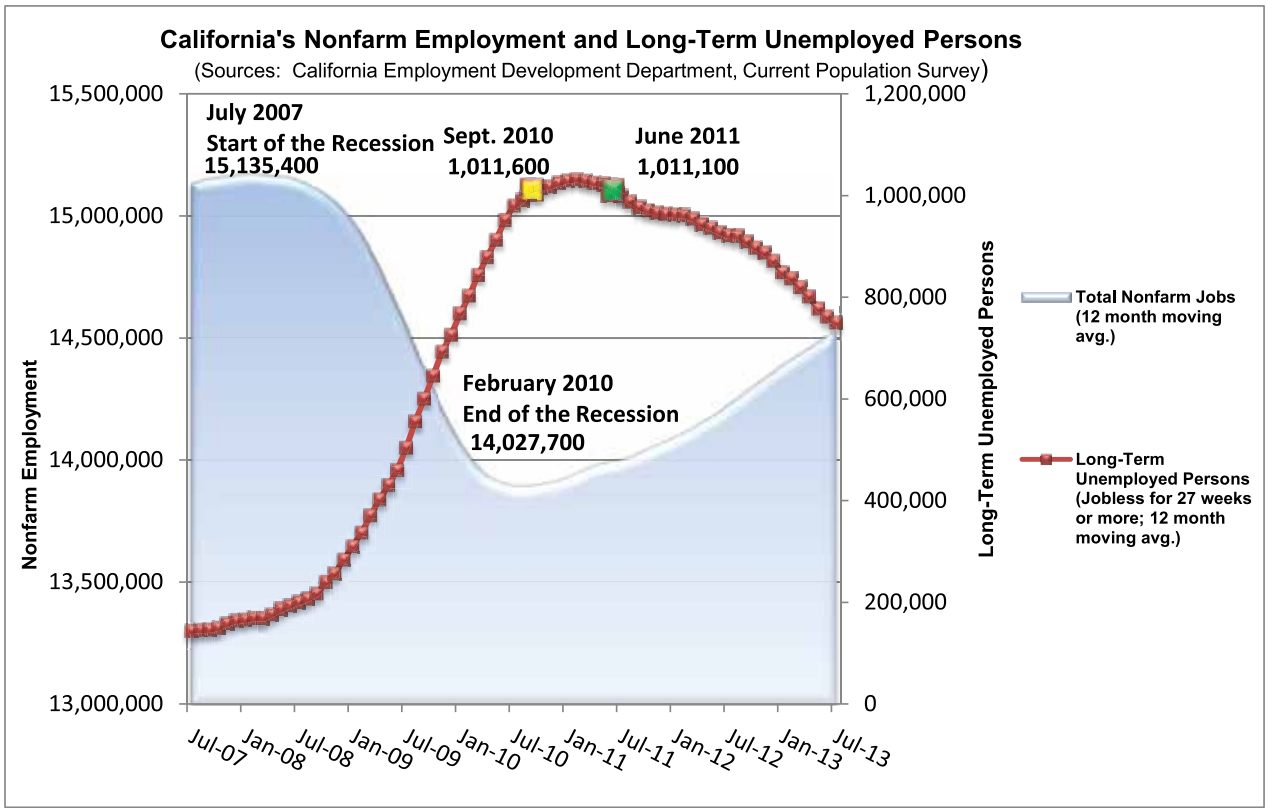
From July 2011 through July 2013, California's economy had experienced 25 consecutive months of job growth. Month-over job gains coupled with an unemployment rate standing at its lowest level since November 2008 provided encouraging signs that the state's economy was in a period of economic recovery. However, the recovery period was marked by a troubling economic trend. Since April 2010, just over 40 percent of the state's unemployed workers were jobless for 27 weeks or more (long-term unemployment).

In the U.S., there were over 4.3 million job seekers classified as long-term unemployed (July 2013). According to the Bureau of Labor Statistics, long-term unemployed persons are those that sought work and remained jobless for 27 weeks or more. This report was developed to provide insight into the economic and workforce dynamics that affect this subset of the state's unemployed population.

California's Long-Term Unemployed

California's most recent recession (July 2007-February 2010) started five months before the beginning of the U.S. recession (December 2007-June 2009), and ended eight months after the U.S. recession came to a close. Over the thirty-two month period (July 2007-February 2010), month-over *decreases* in the state's nonfarm job totals coincided with month-over *increases* in the number of long-term unemployed persons statewide (see Figure 1). Between July 2007 and February 2010, the state's long-term unemployed population grew by roughly 650,000 persons. This total rose to more than 1 million from September 2010 through June 2011, even as the state added jobs over that period of time (see Figure 1). In July 2013, the number of long-term unemployed persons declined to 749,900, its lowest level since December 2009 (725,800).

Figure 1



Relationships between Job Openings and Unemployment

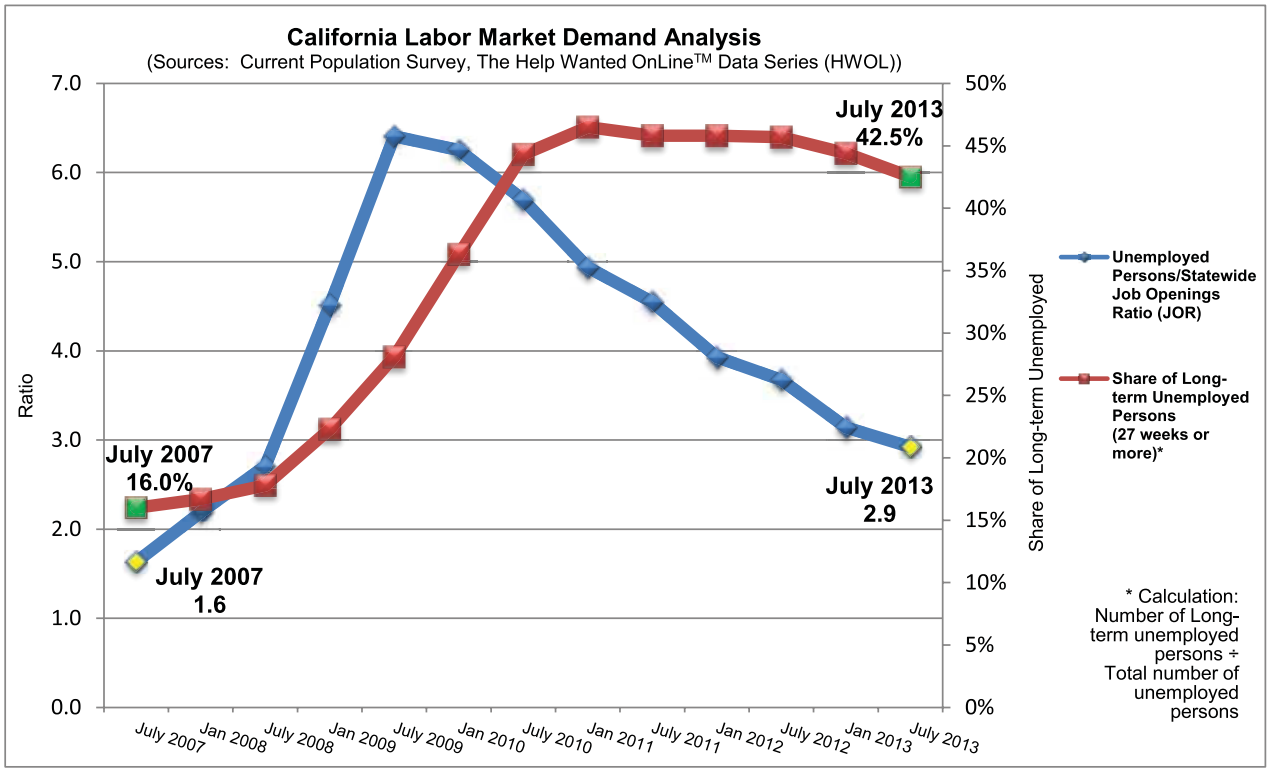
Weak labor market demand is cited as a key factor that contributes to long durations of unemployment. A job openings ratio (JOR) can be used to measure labor market tightness over time (see Figure 2). The JOR represents the total number of unemployed persons per job opening in California. Higher ratios are associated with a weaker demand for labor relative to the overall supply of available workers.

The data suggests there was a positive correlation between the JOR and the share of long-term unemployed persons over the course of the state's recession (July 2007-February 2010). As the JOR increased, the share of long-term unemployed increased as well (see Figure 2).[1] During the state's economic recovery (February 2010-July 2013), the JOR steadily decreased when the state experienced month-to-month job growth. The trend points to an uptick in hiring activity by employers, which generally leads to declines in unemployment. However, even after the state's expansion began (February 2010), over 40 percent over the state's unemployed were out of work for 27 weeks or more.

[1] The variables, the ratio (unemployed persons statewide/HWOL job openings) and long-term unemployed persons (jobless for 27 weeks or more) had a strong, positive correlation, $r(70) = .40$, $p < .05$) that was statistically significant.

Research conducted by Rand Ghayad and William Dickens of the Federal Reserve Bank of Boston explored the job opening-unemployment relationship. Their research found that even though job openings increased during the recent U.S. recovery period, it equated to little or no change in the unemployment figures for the nation's long-term unemployed, when compared to the short-term unemployed (jobless for 26 weeks or less).[2] Their research suggests that the short-term unemployed acquired more jobs during the recovery period than the long-term unemployed.[3] Evidence to support this trend is found in Figure 1. In general, from the start of the state's expansion period (February 2010), increases in the total number of long-term unemployed persons coincided with month-to-month nonfarm job growth. This trend suggests that persons, other than long-term unemployed workers, were attaining employment during this period of time.

Figure 2



[2] Dickens, W., & Ghayad, R. (2012). What Can We Learn by Disaggregating the Unemployment-Vacancy Relationship? Retrieved from http://www.bostonfed.org/economic/ppb/2012/ppb123.pdf.
[3] Dickens, W., & Ghayad, R. (2012), p. 5.

Impacts of Hiring Discrimination

Declines in the job openings ratio (JOR) suggest that during the economic recovery, employers ramped up their hiring and provided more job opportunities to job seekers. However, this trend has not led to a dramatic reduction in the size of the long-term unemployed population (see Figure 2). Research conducted by the National Employment Law Project (NELP) suggests that hiring discrimination has deepened the unemployment crisis because it shuts off job opportunities to those who are qualified to fill them.[4] The NELP argued that "U.S. employers of all sizes, staffing agencies, and online job posting firms are using recruitment and hiring policies that expressly deny employment to all unemployed workers—simply because they are not working."[5] Furthermore, research by Rand Ghayad found that job candidates with long gaps between jobs received fewer callbacks than the candidates with shorter gaps. Ghayad contends that companies have created an unemployment cliff because they rank more recently unemployed job candidates much higher than qualified candidates who have been jobless for more than six months. Trends such as these put the long-term unemployed at a severe disadvantage in today's competitive job market.[6]

Contingent Workforce Trends

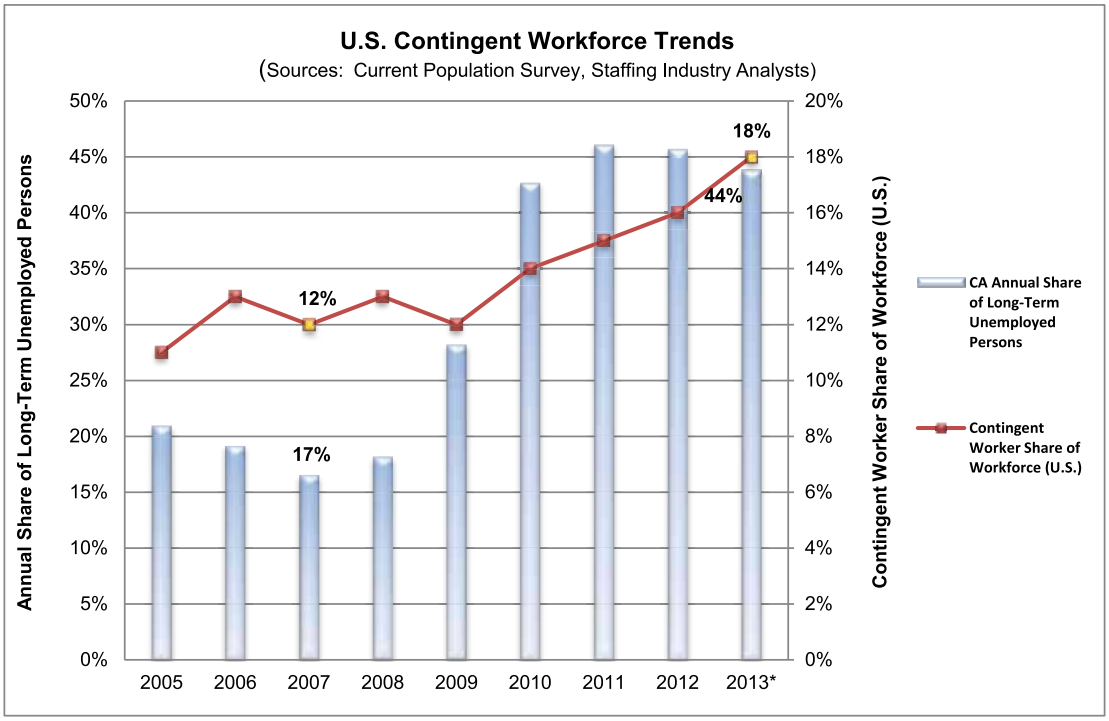
Long-term unemployed persons face the challenge of adapting to an evolving workplace where employers are leveraging the resources of their current workforce to fill their talent gaps, rather than hiring full-time workers. Manpower's 2013 Talent Shortage Survey indicated that employers are adopting new work practices that include integrating contingent workers more fully into the work process to fill their talent gaps.[7] Contingent workers are hired to address seasonal and cyclical workloads and the labor demands of just-in-time production. Examples of contingent workers are as follows: independent contractors, part-time, seasonal, temporary, and leased workers.

Research conducted by Staffing Industry Analysts suggests that the use of contingent workers will steadily increase in the years to come. Staffing Industry Analysts' 2013 Contingent Buyers Survey found that the share of contingent workers in the U.S. labor force increased by 6 percentage points from 2007 through 2013 (see Figure 3).[8]

[4] National Employment Law Project. (2012). Hiring Discrimination Against the Unemployed: Federal Bill Outlaws Excluding the Unemployed from Job Opportunities, as Discriminatory Ads Persist. Retrieved from http://nelp.3cdn.net/b4ade339e970088d72_alm6blqx8.pdf.
[5] National Employment Law Project, 2012, p.1.
[6] Collette, Matt. (2012, December 13). A New Theory on Long-Term Unemployment. Retrieved from http://www.northeastern.edu/news/2012/12/long-term-unemployment/.
[7] ManpowerGroup. (2013). 2013 Talent Shortage Survey Research Results. Retrieved from http://www.manpowergroup.us/campaigns/talent-shortage-2013
[8] Staffing Industry Analysts. (2013). 2013 Contingent Buyers Survey. Retrieved from http://www.staffingindustry.com/Research-Publications/Publications/CWS-3.0/June-19-2013/Portion-of-the-Workforce-That-Is-Contingent

In 2013, as the share of long-term unemployed persons experienced a slight decline, employers' usage of contingent workers steadily increased to 18 percent (see Figure 3).[9] This trend is consistent with the Bureau of Labor Statistics 2010-2020 forecast that predicted the number of jobs in the employment services industry, which includes temporary help services, was expected to increase at an annual rate of 2.1 percent through 2020.[10]

Figure 3



Earnings Analysis

The California Employment Development Department's Labor Market Information Division (LMID) examined the earnings of individuals that received unemployment insurance (UI) benefits from 2004 to 2010. This analysis was completed to study trends associated with the long-term unemployed. The earnings reported by an unemployed person reflected what was earned from a part-time or temporary job while he or she collected UI benefits. The UI initial start and end dates were used to measure the length of unemployment and earnings over the study period.

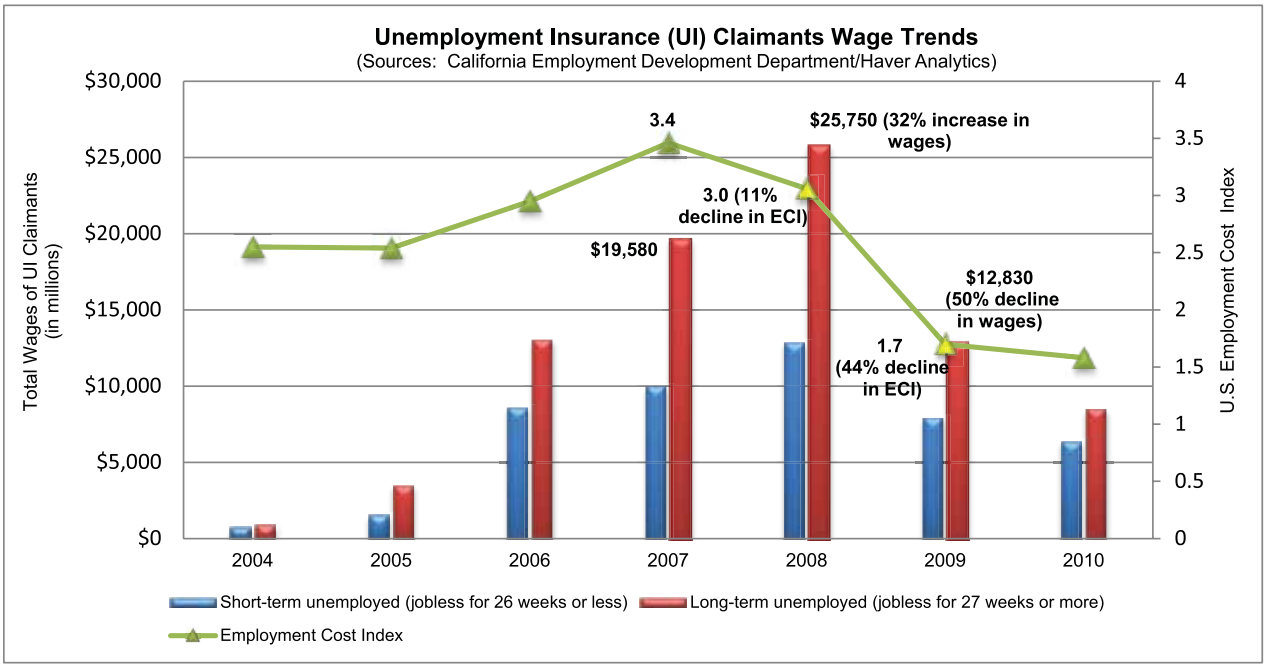
California's nonfarm job figures and the U.S. employment cost index (ECI) were *positively* correlated with the earnings of the long-term unemployed (see Figures 4 and 5) for most of the study period.

[9] Please note: The 2013 long-term unemployed persons figure is the average of the first seven months of 2013.
[10] Bureau of Labor Statistics. (2012). Employment Outlook 2010-2020.
Retrieved from http://www.bls.gov/opub/mlr/2012/01/art4full.pdf.

The employment cost index measures the change in the cost of labor and confirms the existence of an earnings trend. In general, the earnings of the long-term unemployed, nonfarm job totals, and the ECI steadily increased before the start of the Great Recession (2004-2007) and then declined as the recession gained steam (2008-2010). Furthermore, between 2008 and 2009, during the height of the Great Recession, the earnings of the long-term unemployed, the ECI, and nonfarm jobs steadily declined (see Figures 4 and 5). This trend reflects the research findings of the U.S. Bureau of Labor Statistics that state, "reductions in the growth of earnings begins during recessions and continues well into the post-recession recovery".[11]

However, between 2007 and 2008, the earnings of the long-term unemployed *negatively* correlated with the ECI (see Figure 4). Evidence of this correlation was confirmed, as earnings of the long-term unemployed increased by 32 percent and the ECI decreased by 11 percent (see Figure 4). This suggests that, when compared to California, the wages of U.S. workers on the whole were affected earlier in the recession. Wages for California's private and government sector jobs declined during the mid-point (2008-2009) of the recession period, not at the beginning (2007-2008) (see Figure 6). This trend suggests that when compared to the nation, the state's long-term unemployed were affected by wage trends unique to California.

Figure 4



[11] Bureau of Labor Statistics. (2012). BLS Spotlight on Statistics: The Recession of 2007-2009. Retrieved from http://www.bls.gov/spotlight/2012/recession/.

Figure 5

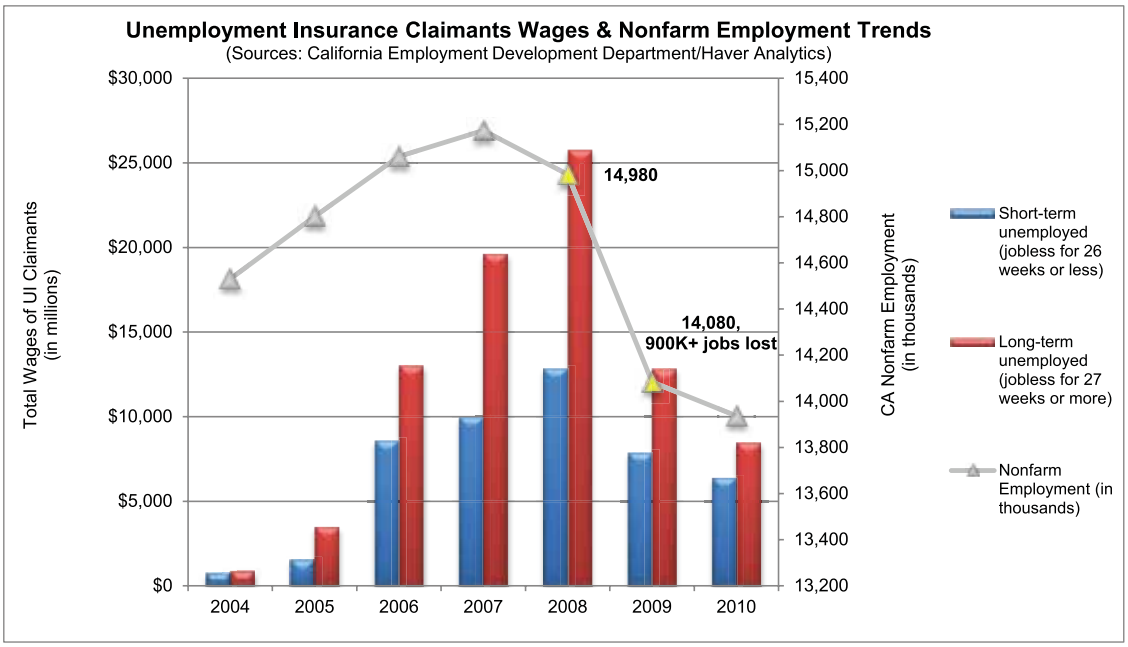
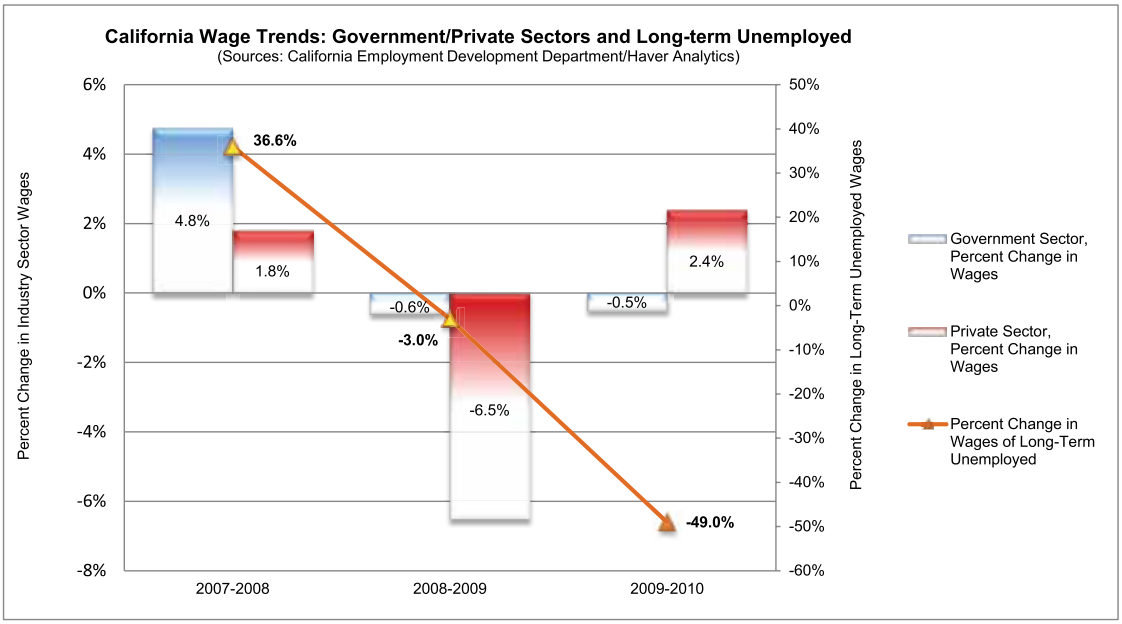


Figure 6



State of California
Labor and Workforce Development Agency
Employment Development Department