Labor markets surged in October, as job growth partially offset disruptions caused the previous month by Hurricane Floyd. U.S. payrolls rose 310,000 in October, after a September increase of only 41,000. For the year to date, payroll growth has averaged 211,000 jobs per month. October also saw labor markets tighten further, as the unemployment rate fell to a 30-year low of 4.1%. The unemployment rate has not exceeded 4.3% since March. Although the labor market was tight in October, wage growth was moderate; average hourly earnings rose just 1 cent to $13.37. Since last October, average hourly earnings have risen 3.6%.

After slight September gains, the service-producing sector gained 210,000 widely dispersed new jobs. Of these, 45,000 were in help-supply companies, whose September counts had been depressed by Floyd. Significant employment increases also occurred in other service industries with weak September growth, notably health services (19,000), educational services (23,000), social services (15,000), and engineering and management services (27,000). However, retail trade continued its three-month decline, losing 30,000 jobs in October. Construction and mining buoyed the goods-producing sector, which gained 17,000 jobs. Manufacturing lost 15,000 workers last month, continuing the same job-loss rate it has posted since July.

The low unemployment rate for the economy as a whole has caused initial claims for unemployment benefits to fall throughout the current expansion. The employment-to-population ratio increased one-tenth of a point to 64.2%, close to its January peak of 64.5%.

(continued on next page)
Labor Markets (cont.)

The United Auto Workers estimate that the typical automotive assembly-line worker in the U.S. will gain $29,300 to $29,900 over the next four years because of new labor settlements signed with DaimlerChrysler, Ford, and General Motors. The most notable gains are a baseline wage increase of 3% per year and cost-of-living adjustments of about 2.5% per year.

One of the most hard-fought issues in this round of bargaining arose from union concerns about eroding membership. Since the 1970s, UAW membership has fallen from a peak of 1.5 million to about half that number. The recent settlement gave the union a guarantee that if unionized jobs drop below 80% of the minimum level specified for each company, the auto makers will replace each union job lost. Business journalists and stock market participants seem confident that this guarantee will leave management enough flexibility to adjust to changing conditions.

The UAW could negotiate large gains partly because industry profits have been so high. After combined 1991 losses of $7.4 billion, the Big Three netted profits exceeding $11 billion in 1998. Over the same period, new-vehicle sales in the U.S. jumped from less than 13 million to almost 16 million; this year’s sales figures are already almost 17 million.

The Big Three’s increased profitability also results from strong demand for trucks, including high-margin sport-utility vehicles. Furthermore, the memory of last year’s strike, which cost GM $2.5 billion in lost sales, is still fresh. Auto makers were willing to significantly increase wages, which have lagged those of the economy as a whole.