The Fourth District’s unemployment rate has diverged notably from the national trend in recent months. A year-over-year comparison, without seasonal adjustments, shows that the District’s rate is rising (which is not surprising for a recession), but less quickly than the U.S. rate. Why should this be?

Some have suggested that the District’s heavy reliance on auto manufacturing, coupled with strong auto sales in recent months, have insulated its labor market, but this does not appear to be so. While it is true that the District relies more heavily on manufacturing industries than the U.S. does, selling more cars has not translated into higher production. In fact, District auto makers reported very little overtime in the fall, and some plants closed for a few weeks in response to slumping demand for particular models.

The two factors that do seem to make the District’s labor market diverge from the national pattern are the industrial mix of its employment and the size of the labor force from which unemployment figures are calculated.

In both goods- and service-producing sectors, average monthly employment losses have increased in the last six months. To the District’s benefit, its employment losses have moderated in the industries (such as manufacturing, especially transportation equipment) on which it depends more heavily than the nation does. At the same time, the District’s employment losses have accelerated in industries where its share of nonfarm employment is smaller than the U.S. average (construction, wholesale trade, finance, and business services).

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Undoubtedly, the District’s labor market also benefits from its heavier-than-average dependence on health services employment. While its total employment gains have slowed slightly from the average monthly increase of 24,000 new jobs in the first six months of 2001, the health services industry continues to add more jobs than any other subindustry.

The District’s divergence from the U.S. unemployment trend is also shaped by the composition and size of its labor force. Seasonally adjusted data for states with more than 10 counties in the District (Kentucky, Ohio, and Pennsylvania) show that the labor force fluctuates significantly from month to month. Although Ohio’s employment has grown in the last two months for which data are available, its labor force has grown at a faster rate than its jobs. Thus, despite a period of job growth, the number of unemployed has increased and the unemployment rate has risen. In Kentucky, movement in the unemployment rate does reflect changes in the number of jobs. Its labor force changes in September and October were negligible compared to its employment changes. Pennsylvania’s labor force figures have compounded the effects of employment expansion or contraction in the last three months. For each expansion in jobs, the state’s labor force has contracted, further shrinking the number of unemployed. For each contraction in jobs, an expansion in the state’s labor force has augmented the number of unemployed.