Regional Update

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Mixed Signals from the July Labor Market Report for the District of Columbia

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Labor market conditions in the District of Columbia were mixed in July according to the latest labor market report. The District of Columbia gained 3,100 jobs for the month; however, a sizeable part of the increase was due to a large increase in government employment. Private payrolls increased a more moderate 1,800 for the month. The unemployment rate continued on its recent upward trend, rising four-tenths to 10.8 percent, its highest level since 1983. The two surveys provided very different signals regarding the strength and direction of the labor market. However, taken together, the surveys indicated that the recent slowdown in economic activity resulted in deterioration in labor market conditions in the District, although the depth and duration of that deterioration is not yet clear.

Looking at the payroll numbers more closely, the July increase in employment was a result of sizeable increases in government, education, and other services and small gains in construction, information, finance, and professional and business services. Those increases were partly offset by notable declines in health and accommodation and food services, and a slight decrease in the transportation and trade sector. Overall, total payroll employment has declined by 0.4 percent over the past 12 months while private payroll employment has edged higher by 0.5 percent. The only sectors to post gains over the past year are construction, professional and business services, and education. Given the fiscal challenges for the District and at the federal level, it is likely that the education and government sectors will be weak in the near term and could impact the District labor market more broadly.

The results of the household survey were decidedly negative for a third consecutive month. The rise in the unemployment rate to 10.8 percent from 10.4 percent in June resulted from a decline in employment of 2,800, which increased the number of unemployed by 1,400 people. In addition, roughly 1,500 people left the labor force. Over the past four months the number of employed has dropped by 7,200 while the number of unemployed has increased by 4,100 people. The deterioration in the labor market since April, according to the household survey, is greater than in any four-month period during the recent recession. The unemployment rate is now higher than its previous peak of 10.4 percent in December 2009 and has not been at this level since 1983.

Looking ahead, labor conditions will depend on continued economic growth. Tax collections indicate that the District economy has strengthened over the past 12 months. Withholding tax collections grew strongly as a result of strong wage and salary growth, while sales tax collections are up 4 percent from last year. Both indicate improved economic conditions that would support a stronger labor market and job growth. However, sales tax collections in the latest quarter slowed dramatically, reflecting the recent slowdown in the economy. The length and depth of that slowdown clearly will be a primary factor in the near term that will weigh on the labor market. In addition, the prospects of higher taxes and/or cutbacks in government spending at the District and federal level will be a negative factor for the regional economy and job growth in the near term.