Regional Update

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August Labor Report Indicates District of Columbia Labor Market Continues to Weaken

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Labor market conditions in the District of Columbia weakened in August according to the latest labor market report. The District of Columbia lost a staggering 12,500 jobs for the month; however, most of the loss was due to a large decrease in government employment of 13,500 jobs. Private payrolls increased a moderate 1,000 for the month. In the household survey, the unemployment rate increased for the fifth consecutive month, rising three-tenths of a percent to 11.1 percent – its highest level since 1983. The payroll and household surveys continued to provide mixed signals regarding the strength and direction of the labor market. However, taken together, the surveys indicate that the recent slowdown in economic activity resulted in a 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 August decrease in employment was a result of a very sharp drop in local government employment, a notable decline in education, and smaller declines in construction, retail, and information. Those private sector declines were more than offset by increases in financial, professional and business services, health care, leisure and hospitality, and other services. Overall, total payroll employment has increased by just 1,500 or 0.2 percent over the past 12 months while private payroll employment has edged higher by 2,600 or 0.6 percent. Over the past year, the sectors with above-average growth include professional and business services, education, and health care. Given the fiscal challenges for the District, it is likely that the education and government sectors will be weak in the near term and could also impact the District labor market more broadly.

The results of the household survey were decidedly negative for a fourth consecutive month. The rise in the unemployment rate to 11.1 percent from 10.8 percent in July was due to an increase in the number of unemployed by 900 workers. In addition, 1,700 people left the labor force. Over the past five months, the number of employed has dropped by 9,000 while the number of unemployed has increased by 5,100 workers. The deterioration in the labor market since April, according to the household survey, is greater than the deterioration over any five-month period during the recent recession. The unemployment rate is 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 strengthened over the past 12 months. Income tax collections grew strongly as a result of strong wage and salary growth. However, sales tax collections slowed dramatically and are now flat year-to-date, after being up by 10 percent in March, clearly 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.