

Where Did All the Displaced Manufacturing Workers Go?

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Following is a report from The Manufacturers Alliance for Productivity and Innovation (MAPI). Founded in 1933, the alliance contributes to the competitiveness of U.S. manufacturing by providing economic research, professional development, and an independent, expert source of manufacturing information (www.mapi.net).

What happened to displaced manufacturing workers following the 2008–2009 recession? Did they find new jobs? And if so, in what industries?

The Great Recession of 2008–2009 took an enormous toll on manufacturing workers. From December 2007 to December 2009, the total number of manufacturing jobs fell by 2.3 million—a 17 percent reduction.

To put the job loss in perspective, non-manufacturing total employment declined only 5 percent in the recession.

On the upside of the cycle, the employment recovery has been similar in percent terms—i.e., 4.5 percent growth in manufacturing and 4.7 percent growth in non-manufacturing jobs. Because the decline in manufacturing employment was many times worse than in the general economy, the manufacturing jobs recovery is less complete. Manufacturing employment has increased by 519,000 jobs since December 2009 and has recovered 23 percent of the 2.3 million jobs lost in the downturn. Non-manufacturing employment, however, is 87 percent recovered for the same time frame.

Figure 1 shows the unemployment rate for all workers and for manufacturing from 2007 to the present. The unemployment rate in manufacturing was a couple tenths of a percentage point below the overall rate in 2007 and 2008, but then rose above the total for all workers. The sector's unemployment rate exceeded the falling total unemployment rate by an average 1.0 percentage point margin in 2010. The two rates converged in 2011, and by 2012 unemployment in manufacturing was consistently lower than in the general economy.

The sharper employment loss in manufacturing and the less complete jobs recovery both beg the question as to why the unemployment rate for manufacturing workers is so much lower than that of the general economy.

The Flow Determines the Level

As an example, consider that the level of a lake is determined by water inflow and outflow; the same is true with the level of employment. 2009 saw the worst of the manufacturing job reductions and is a good illustration of how quickly employment adjustments occur. That year, 2.9 percent of manufacturing workers separated from their employers each month (about one-third of workers quit and the other two-thirds were layoffs and discharges), and 1.9 percent of manufacturing workers were hired each month. The flows in and out were large relative to the size of the “pond.” In 2009 4.17 million manufacturing workers were separated from their manufacturing jobs and 2.76 million were hired, leaving an average manufacturing jobs level of 11.8 million jobs. The outflow was 1.41 million greater than the inflow, so the employment level fell in 2009 compared with 2008. The reverse happened in 2010 through 2012, and into the early part of 2013. The inflow was slightly greater than the outflow, allowing manufacturing employment to rise.

The Re-Employment Rate

Every two years the U.S. Department of Labor collects additional information, along with the survey that determines the unemployment rate, measuring the number of workers 20 years of age and older that were displaced from a job at least once in the previous three years. The definition of a displaced worker is rather strict in order to capture workers who are involuntarily separated from a job based on the operating decisions of employers. (*Displaced workers are those workers who lost a job because a plant closed or moved, the position or shift was abolished, there was insufficient work, or because of another similar economic reason. The definition of a displaced worker does not include job loss resulting from the actions of the worker, such as quitting or being fired for work performance or disciplinary problems. While workers may have had several job displacement spells in a three-year period, the individual is counted only once in the survey; the information collected about the job loss refers to the position held for the longest time.*)

Losing a job imposes costs on individual workers. While most displaced workers are able to collect unemployment insurance payments and quick-

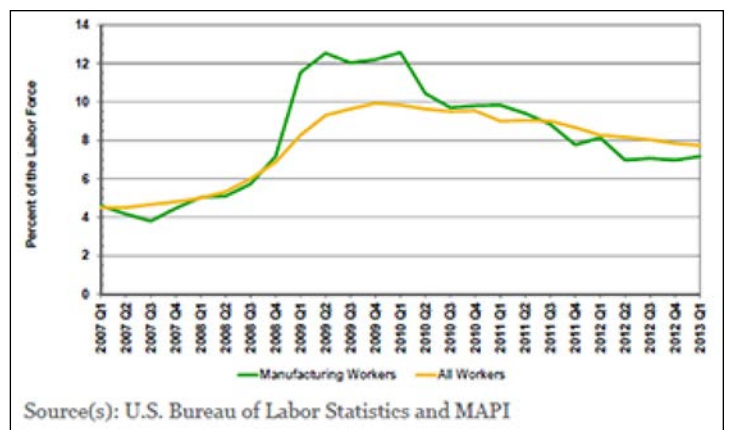


Figure 1 Unemployment rate for manufacturing workers and all workers.

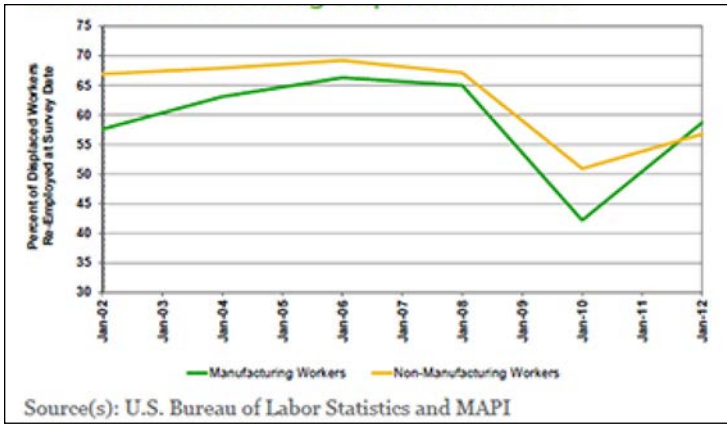


Figure 2 Re-employment rate for manufacturing and non-manufacturing displaced workers.

ly find another job, some segments of the displaced worker population remain unemployed for a long time; others simply stop looking for a job altogether. Figure 2 shows the percent of workers who lost a job for economic reasons over the previous three years, but who were re-employed at the time of the survey. For example, the 2009–2011 worker displacement survey estimated the number of workers who lost a job for economic reasons during the period of January 2009 through December 2011, and determined the number re-employed in January 2012. The survey found that 59 percent of manufacturing workers who were displaced from a job in the previous three years had a job by January 2012. Among workers who lost a non-manufacturing job, 57 percent were re-employed. Since 2002, manufacturing workers had consistently lower

re-employment rates, but this trend changed in the most recent survey. The severe decline in construction employment and the widespread nature of the 2008–2009 recession

affected many services industries that had previously been relatively immune to downturns—and drove down the non-manufacturing re-employment rate. What happened to the 41 percent of displaced workers in the latest survey who were not re-employed by January 2012? They either remained unemployed or were out of the labor market. That survey found that 25 percent of displaced manufacturing workers were unemployed and 16 percent stopped looking for a job and were out of the labor market.

Manufacturing Labor Resources are Re-Allocated to Other Industries

The department of labor examined those industries in which displaced manufacturing workers found re-employment. Of those workers who lost manufacturing jobs from January 2009 to December 2011, and were re-employed by January 2012, 58 percent found re-employment outside the manufacturing industry. As shown in Table 1, only 42 percent of workers who lost manufacturing jobs found another job in the sector. In other words, structural change in manufacturing re-allocated labor resources out of manufacturing and into many other sectors.

Earnings Loss as a Result of Displacement

The cost of job displacement is more than just lost wages during a job search; to many workers, it also means lower earnings at their new job when they are re-employed. Sixty-five percent of all displaced manufacturing workers who lost full-time jobs and were re-employed

full-time in January 2012 earned less than at their previous job; 35 percent earned the same or more. Unfortunately, the amount of lost earnings is skewed to the low end of the spectrum. Forty percent of displaced manufacturing workers found new, full-time jobs that paid 20 percent less than their previous job; 15 percent found jobs paying 20 percent more.

Research on displaced workers' outcomes has shown that there is a very strong link between the replacement of lost earnings and tenure at the lost job. The average earnings loss from the previous job to the new job becomes larger relative to the length of tenure the worker had in the lost job. Obviously, employers pay workers in large part for loyalty and job-specific knowledge that is accumulated in the position. Because manufacturing workers are more likely to have lost a high-tenure job and are older in age, they generally experience somewhat larger wage declines than do non-manufacturing workers when they are displaced. ⚙️

Industry of New Job	Percent
Mining	0.6
Construction	6.2
Manufacturing	41.7
Wholesale trade	4.5
Retail trade	6.1
Transportation and warehousing	5.8
Utilities	0.4
Information	0.7
Finance and insurance	1.6
Real estate and rental and leasing	1.3
Professional and technical	6.5
Management, administrative, waste	6.6
Educational	1.8
Healthcare, social assistance	4.3
Arts, entertainment, recreation	0.6
Accommodation, food	4.0
Other services	2.9
Not specified	4.5
Total	100.0

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He earned his BBA from Eastern Kentucky University before going on to receive a Master of Arts degree and a Ph.D. in economics, as well as a Master of Arts degree in industrial relations—all from the University of Cincinnati. Meckstroth has more than 20 years of service to MAPI, providing commentary and analysis on a wide variety of economic issues as they relate to the manufacturing sector, and is MAPI's primary spokesperson on business conditions and economic matters. He writes extensively on business practices and manufacturing activity. Prior to his tenure at MAPI, he worked 12 years for Armco (now AK Steel), a steel manufacturer. Meckstroth is a member of the National Association for Business Economics (NABE) and the National Economists Club in Washington, D.C.