The Wall Street Journal October 10, 1994

Report on Jobs Shows Contrast In Hiring Trends

by Christopher Georges

WASHINGTON -- The government's latest report on unemployment illustrates a growing contrast between hiring trends in the manufacturing and service sectors, and could provide a new twist to the search for inflationary pressures.

On the one hand are employers like Larry Lewis, general manager of a CompUSA Inc. computer store in Paramus, N.J. His business is so brisk he's adding 10 new employees to his staff of 80. But he also has had to push up his wages. "I've had to sweeten the pot to get the right people," Mr. Lewis says.

But at AlliedSignal Inc., a maker of aerospace and auto equipment, the picture is quite different. Despite the improving economy, "wages are under control" and there are no plans to increase the work force, said Lawrence Bossidy, the company's chief executive officer.

The difference between Mr. Lewis's and Mr. Bossidy's predicaments mirrors a broader trend -- one reflected in the details of Friday's 0.2-percentage-point drop in unemployment to 5.9% for September, the lowest rate in four years. While employment and wage increases have been growing at a healthy clip in the service sector, they have been surprisingly modest in manufacturing.

Virtually all of the 239,000 new jobs added to the nation's nonfarm payrolls last month came outside of manufacturing, mining and construction. The service-producing sector added 224,000 jobs, including 40,000 in retail trade, 28,000 in temporary-help services and 22,000 by other business service firms. But payrolls in the manufacturing sector declined 3,000 last month.

Economists said the sluggish hiring in manufacturing was especially striking because there have been strong gains in factory orders, industrial production and capacity utilization.

The divergence in recent figures for the service and manufacturing sectors may require a different kind of search for inflationary pressures, some economists say. Although analysts traditionally scrutinize manufacturing trends such as higher production capacity for early signs of inflation, the inflationary trigger this time may be in the service sector's rising wages and prices.

"The inflation threat appears to be coming more from gains in service-related areas, especially high-skill areas such as accounting and computer technicians," says Elliott Platt, an economist at Donaldson, Lufkin & Jenrette Securities Corp.

Economists have been watching the booming manufacturing sector for the start of a traditional inflationary spiral. According to the textbook scenario, a pickup in demand for manufactured goods leads factories to hire more employees, prompting wage pressures. Because labor costs make up about two-thirds of what consumers pay for goods and services, higher wages are expected to trigger inflationary pressures.

But employment and wages pressures in manufacturing have remained almost nonexistent, primarily because productivity gains have allowed manufacturers to get greater output from workers without having to expand payrolls. For example, Johnson & Johnson chief executive officer Ralph Larsen said that productivity at his firm surged 10% last year. "We're not intending to increase our work force," he added.

Other factors helping keep manufacturing wages in check are intense international competition and weaker union bargaining power. As a result, employment gains in manufacturing, especially when compared to the service sector, have been modest: Manufacturing unemployment since June has decreased to 6.6% from a rate of 6.8%, while the jobless rate in services over the same period dropped to 5.5% from 5.9%.

A similar picture emerges for wages. While overall hourly wages rose just 0.3% last month, they increased more rapidly in the service sector than in manufacturing. That trend has been apparent over the past year: While wages in manufacturing have risen 2.4% since last September, they have increased 3% in retail trade and 2.7% in services.

All of this helps explain why the traditional tip-offs of inflationary pressures may be rooted more firmly in the service sector.

"Retail surveys are all pointing to strong growth in retail spending and consumption that should lead to even further expansion in employment," says Brian Wesbury, chief economist at Griffin, Kubik, Stephens & Thompson Inc.

At a Riverhead, N.Y., Pizza Hut, for example, assistant store manager Chris Honor says his franchise expects to "bump up wages" in the next few weeks. "To get people to work, we've had to recruit -- go to schools, hang up signs -- just to keep our employee base. Anyone can walk in the door and get a job on the drop of a dime."

Looking at Friday's numbers more broadly, some economists speculated that inflationary pressures would heat up with the overall unemployment rate falling below 6%. Many economists estimate that a joblessness rate of under 6% is the threshold at which wage increases and higher prices start to accelerate.

Administration officials played down that notion. While Laura D'Andrea Tyson, chairwoman of the Council of Economic Advisers, said that her own estimate of the level at which unemployment would cause accelerated pressure for higher wages is 5.9% to 6.3%, she added that there was no reason to believe "the world has radically changed" once the rate hits any particular point.

In fact, Ms. Tyson and other administration officials welcomed the dip in unemployment, labeling it evidence that the economy is in the midst of a healthy expansion with modest inflation.

Economists predicted that the Federal Reserve Board would see the unemployment figures in a similar light, and hold off an interest-rate increase for the time being. Most economists, however, predicted, that a 0.5 percentage point increase in short-term interest rates will come by mid-November. The central bank's next scheduled meeting is set for Nov. 15.

Friday's unemployment report showed that the economy has added nearly 2.5 million jobs this year. Construction employment was up a moderate 19,000 in September after falling 3,000 in August. Government jobs grew 65,000 in September, due mostly to increases in temporary election workers and additions to staff of state universities.

Hiring gains last month were greatest among adult men. The black unemployment rate was 10.7%, compared to 10.2% for Hispanics and 5.1% for whites.

Here are excerpts from the Labor Department's employment report. The figures are seasonally adjusted.

	September 1994	August 1994
	(millions of persons)	
Civilian labor force	131.34	131.19
Civilian employment	123.63	123.17
Unemployment	7.72	8.02
Payroll employment	114.11	113.87
Unemployment:	(percent of labor force)	
All civilian workers	5.9	6.1
Adult men	5.1	5.4
Adult women	5.3	5.4
Teenagers	17.0	17.5
White	5.1	5.3
Black	10.7	11.5
Black teenagers	30.9	36.8
Hispanic	10.2	10.2
Average weekly hours:	(hours of work)	
Total private nonfarm	34.6	34.5
Manufacturing	42.0	42.0
Factory overtime	4.6	4.6