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The country still needs jobs, but where will they come from?



By Mark Zandi, January 28<sup>th</sup>, 2013

Where will the jobs come from? For most of us, this is the bottom-line question for any discussion of the U.S. economy.

It's especially so for the nearly 30 million U.S. workers who are unemployed, underemployed, or so discouraged they aren't even looking for work. It is also a pressing worry for millions of twentysomethings who dutifully earned college degrees but still can't find jobs. And it is for countless others toiling at work they don't like, but afraid to leave to look for something more suitable.

Slow job growth frustrates policymakers and economists as well. Federal Reserve Chairman Ben Bernanke rightly focuses on all this wasted talent when he defends the central bank's policy of holding short-term interest rates super-low and buying long-term bonds to push down mortgage rates and corporate borrowing costs.

It is important to note that the job market has improved greatly since the Great Recession. The economy lost an astounding 820,000 jobs in January 2009, the month President Obama first took office. Four years later, the economy is consistently adding about 150,000 jobs per month, with the gains broadly spread across industries, occupations and regions. The only significant layoffs still going on are in media, at some local governments, in defense, and at very big financial institutions.

Yet while the U.S. job market is much better than it was, it isn't nearly good enough. The economy needs to add more than 100,000 jobs a month just to absorb people coming into the workforce and keep the unemployment rate stable. With that rate still high at around 8 percent, it could take a decade at the current pace of job creation to bring it down to a level where it essentially includes only those in between jobs or just entering the workforce.

The longer someone is unemployed, moreover, the more likely they will stay unemployed. Skills quickly erode, and those learned in school or in past jobs grow obsolete fast. Employers become suspicious of those who haven't worked in a long time and reluctant to take a chance on hiring them. With 40 percent of the unemployed out of work longer than six months, this is a big concern.

So where will the millions of needed jobs come from? One important source in the next few years will be housing. Yes, you heard right. The housing crash in 2007 brought down the financial system and triggered the recession, but that was then: Housing has since bottomed out and begun to rise, and its prospects are very good. Home sales, building, and prices are all moving higher, propelled by record-low mortgage rates and a dwindling number of vacancies and foreclosures.

Housing can have a huge impact on the job market, providing work not only in construction but also manufacturing (think plumbing fixtures, lumber and wood, steel, concrete, etc.), transportation and distribution (as all that building material has to be moved around), retailing (at home-improvement stores), and financial services (creating, insuring, and reselling mortgage loans). A housing revival means jobs for Realtors, cable installers, landscapers, and on and on. Small businesses are especially tied into the housing market and thus should soon start hiring in earnest.

Energy will also provide many more jobs in coming years. From Pennsylvania to North Dakota, the industry is enjoying a renaissance, driven by game-changing technological advances. This is especially important to rural parts of the country that have been left out of past job-market recoveries.

But the most important source of jobs over the long term is the services sector. Fields such as accounting, advertising, architecture and engineering, education, finance, health care, law, logistics, and management consulting, just to name a few. Leading companies in these industries sell across the globe. In fast-growing parts of the emerging world, consumers are quickly acquiring cars and household appliances. They also want and soon will be able to afford better educations for their children, health care, insurance, and retirement plans. No one on the planet offers these services better than Americans do.

Take my company, located in the Philadelphia suburbs. We hire the best and the brightest to build models that the world's largest banks use to determine whether they are prepared for the next big calamity. These are jobs that draw on America's comparative advantage: a highly educated and skilled workforce.

Millions more of these jobs can be created as the rest of the world grows and seeks what we make so well. But to realize this optimistic vision, we must continue to educate our kids, and attract gifted people from all over the world as well. If we do this, in a few years we won't be worrying about high unemployment, but about finding enough workers to fill all the open positions.

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