TD Bank Financial Group

Observation

September 28, 2009

TD Economics
www.td.com/economics

HIGHLIGHTS

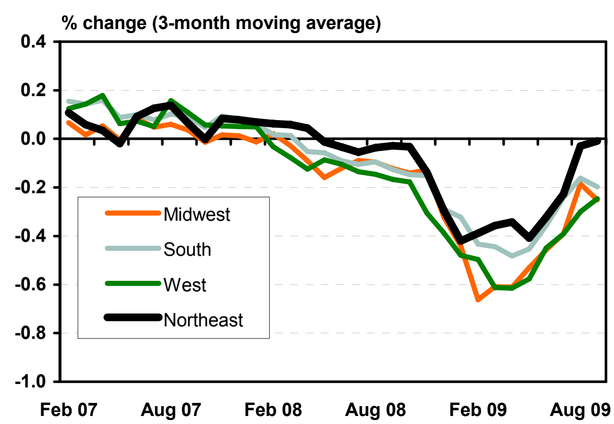
- **In spite of being the hub of financial market activity in the U.S., the Northeastern job market has held up better than any other region during the financial crisis**
- **An under-represented construction job market and over-represented health/education job market helped buffer the Northeast from the recession**
- **However, the fallout from financial restructuring and recapitalization will continue through 2010, suggesting that the outperformance of the Northeastern job market will not last**

Beata Caranci
Director of Economic Forecasting
416-982-8067
mailto:beata.caranci@td.com

NORTHEAST JOB MARKET IS A CUT ABOVE

Although the National Bureau of Economic Research (NBER) has yet to declare the official end of the U.S. recession, investors need not wait. The pieces of the recovery puzzle are falling into place, marked by strong upturns in a broad swath of economic indicators – manufacturing, consumer sentiment, exports, home sales. The economy continues to shed jobs, but this is typically the case. The gun-shy nature of businesses means that the job market is one of the last indicators to move back into expansion territory following a recession. However, there's no denying that here too momentum has shifted, with growth in the 3-month moving average already at levels that in the past coincided with an end to a recession. When we peeked underneath the hood to see if this momentum is occurring universally across regions in the United States, the answer came back a resounding 'yes'. In this report we take a closer look at the Northeastern job market. In spite of being the financial hub of the U.S., which automatically placed it at the center of the financial crises and recession, the job market has held up better than any other region.

U.S. REGIONAL NON-FARM PAYROLLS

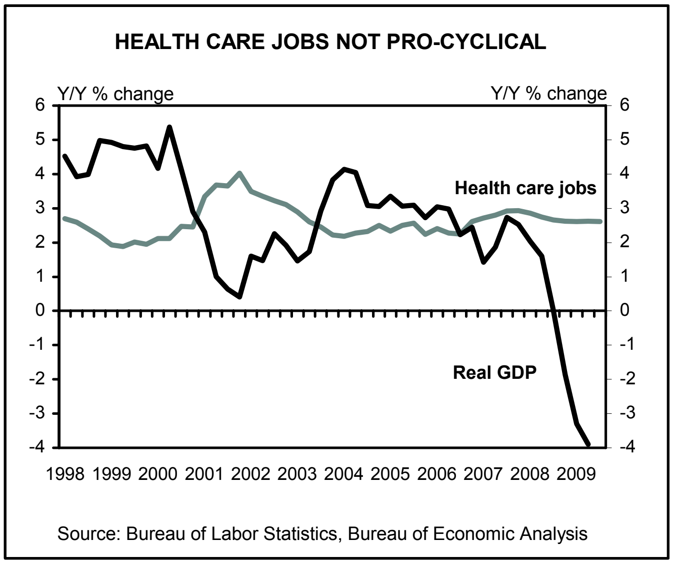


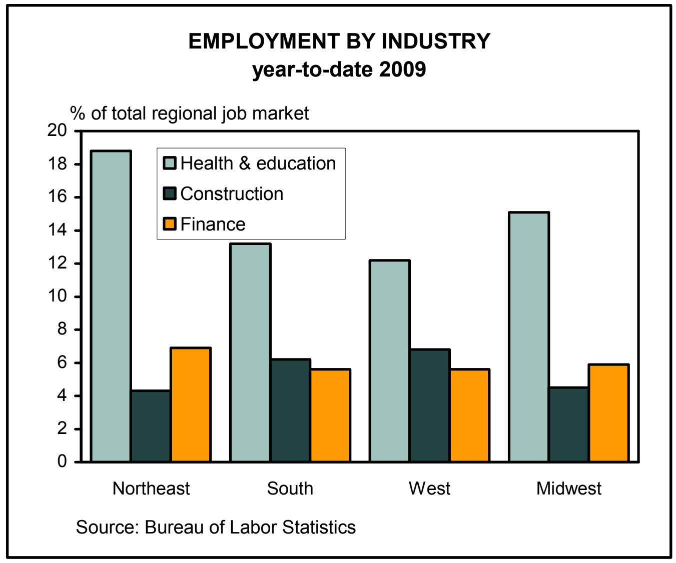
Source: Bureau of Labor Statistics , Moody's/Economy.com

Northeastern exposure

There are a couple of unique traits to the Northeastern labor market that have served it well during the recession. First, while the Northeast may be the hub for financial market activity, that was not the case for the housing boom and bust. Economic and job growth in the region was less leveraged to construction and the housing boom than other parts of the country. At the peak of the housing market in 2006, construction jobs made up slightly over 4% of the workforce in the Northeast, compared to 6% in the South and an even more outsized 7% in the West. So while the West and South lost construction jobs hand over fist during the recession, the Northeastern economy was more insulated from the impact.

The second unique feature of the Northeastern labor market is the high concentration of workers in the health and education sector. As the graph on the following page indicates, it is not a sector that is sensitive to business and, in particular, recession cycles. While the U.S. has shed a total of 6.9 million jobs since the start





of the recession, the health and education sector has added 751,000 people to its workforce. All regions in the U.S. have participated in the hiring, but in the Northeast, health and education jobs make up 19% of its workforce, compared to 12-13% in the West and South, thereby providing further insulation from overall job losses.

So, having a job market that was overweighted in the high growth area of health and education alongside one that was underweighted in the construction sector buffered the Northeastern economy through the recession. It helped compensate for the relatively high exposure the region has to the financial sector (7% of all workers). Given the sector's crucial role in inducing the now-coined Great Recession, the natural inclination is to expect the financial sector to shoulder a disproportionate share of the job losses. And in one respect it did. In August, employment in financial activities for the nation as a whole contracted by 5.3% relative to the same period in 2008. This was the largest drop in the history of the data, which extends to 1940. Seems large, with nearly 8% of finance jobs removed from payrolls since the peak of the cycle. Not surprising, the Northeast and West job markets were the culprits, though the latter region absorbed the bigger impact. However, this is still a drop in the bucket compared to the job losses experienced in the construction sector, which was down by 15% in August and had shed more than one-fifth of its workforce over the recession. Let's face it, of the near 7 million jobs lost in the U.S., 1.6 million were in construction, compared to just over 600,000 in the financial sector.

Concluding thoughts

The composition of the Northeastern job market allowed it to weather the recession better than any other region in the United States. Job losses troughed at a more shallow level and earlier in the cycle than other regions, and the 3-month trend in job growth has already clawed its way back to zero, while the other regions remain in negative territory. So, where will it go from here? We are doubtful over how much longer the Northeastern job market can continue to outperform. While we are seeing some stabilization in the housing market, which should mitigate the severity of further job losses in that sector for the West and South, we believe the fallout from financial restructuring and recapitalization will continue through 2010 – putting the Northeast at a disadvantage. In addition, once the national economy becomes fully engaged in the recovery, the Northeast maintains another disadvantage of having older demographics and historically slower job growth. So, the composition of the Northeast job market appears to have served it well during the recession, but it's probably back to basics going forward.