

# Federal Reserve Bank of San Francisco

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## Strength in Services

Analysts looking for a bright spot in the otherwise somber labor-market picture may find it in the services industry. Since mid-1981, employment has declined (sometimes sharply) in manufacturing, construction, and other industries, but it has continued to expand in firms that supply business, health, personal, entertainment and other services. The services industry thus may take on part of the employment-stabilizing role that government agencies played in earlier recessions—but not in this one—especially since services account for one-fourth of all the workers on private non-farm payrolls.

These trends may be difficult to discern because of the different meanings given to the term “services” in labor-market discussions. Here we are referring to the industry which produces business, health and other obvious services. By some definitions, however, “services” encompasses a broader range of activities (such as trade and transportation) which produce various intangible items rather than tangible goods. Statistics on the broad services sector tell us little, however, because of the substantial differences among the industries included in this definition. Separately, but somewhat misleading in this context, analysts use the term “service worker” to cover certain employees who do not fit into the normal blue-collar or white-collar occupational categories.

### Rapid growth of services

The recent strong performance of the services industry is not surprising, considering that the industry has grown more rapidly than any other throughout the past quarter-century. However, the various parts of this industry have shown a great diversity in growth patterns. In the 1972-80 period, for example, health and business services grew more rapidly than the industry in general, and accounted for almost half of the industry's total employment at the end of that span. In the health sector, employment in doctors'

and dentists' offices almost doubled—rising much more rapidly than in the larger hospital sector. In business services, meanwhile, employment more than doubled in data-processing and employment-agency services. Employment also increased very rapidly in several smaller sectors, such as legal services and social services; but at the other extreme, employment grew very slowly in personal services (barber, beauty, and shoe-repair shops) and motion-picture theaters.

The services industry showed several unique structural characteristics during the past decade. According to Michael Urquhart, writing in the October 1981 issue of the *Monthly Labor Review*, women accounted for two-thirds of the 1972-80 increase in employment in this industry, primarily in health, business, and social services. As a result, women now account for 60 percent of total employment in the services industry. Also, these women as a group generally are older than those working in other industries.

As a related matter, almost one-fifth of all workers in the service industry are part-timers—indeed, this industry accounts for more than one-third of all part-time workers. Thus, the average workweek in services, at less than 33 hours last month, was at least six hours less than in manufacturing (although three hours longer than in retail trade).

Professional and technical workers tend to dominate the services industry, accounting for 39 percent of employment in that industry compared with a 21-percent share of the total private workforce. (The higher educational requirements in this area may help account for the older age of the women working in services.) Paradoxically, in 1980 professional and technical workers far outnumbered the number of “service” workers in the services industry. Health services, for example, showed a heavy representation of physicians,

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dentists, nurses, managers, and other professionals, along with such service-type workers as hospital aides and practical nurses.

**Immune to recession?**

The recent strength in services employment could have been expected, since this industry has been relatively immune to all the recessions of the past several decades. Employment in services increased in each of the four contractions since 1960, although in each case at a slower rate than in the preceding expansion (see table). Employment trends in trade, transportation and other parts of the broader "service" sector paralleled the trends in the services industry, but to a lesser degree—and as expected, employment in goods-producing industries dropped sharply in every business contraction.

During the recession which began last July, services employment has risen at a 2.2-percent annual rate—an increase of 310,000 jobs (see chart). But during this same July-April period, only retail trade and finance showed increases among other industries in the broader "service" sector—and indeed, total employment in this sector dropped

slightly for the first time in any recession of the past two decades. Employment in the goods-producing sector meanwhile dropped sharply, for an overall loss of 1.5 million jobs.

Unemployment has increased in the services industry as elsewhere during this recession. The jobless rate in the combined services and finance industry has risen almost a full percentage point since last summer's peak, to 7.0 percent in April. But in contrast, the jobless rate for all non-farm workers reached 9.9 percent in April—and the rate reached 11.3 percent in manufacturing and 19.4 percent in construction.

**Employment and investment**

The strength in services employment, however, has gone hand-in-hand with a flat level of investment in that sector over the past decade. Previously, in the 1947-73 period, investment increased much more rapidly in that area than in non-farm business generally. But between 1973 and 1980, real investment in the services industry grew at only a 0.2-percent rate annually, compared with a 2.6-percent rate of investment growth for all non-farm business.

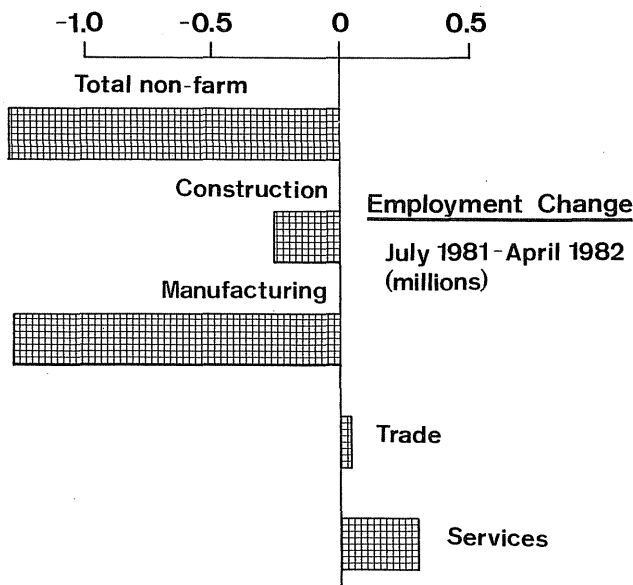
Expansion or Contraction	Annual Employment Change (%)		
	Services	Other "Services"*	Goods Producing
February 1961–December 1969	5.9	3.9	2.4
December 1969–November 1970	2.4	1.7	-6.0
November 1970–November 1973	4.1	3.3	3.6
November 1973–March 1975	3.6	1.5	-8.4
March 1975–January 1980	7.1	4.3	4.8
January 1980–July 1980	3.2	0.6	-10.1
July 1980–July 1981	3.9	2.9	3.1
July 1981–April 1982	2.2	-0.1	-5.8

\*Other "services" includes transportation, public utilities, wholesale and retail trade, and finance-insurance-real estate. Source: Bureau of Labor Statistics.

Altogether, the continued expansion of an industry which accounts for one-fourth of all private non-farm employment helps to impart a certain amount of stability to the labor-market situation. At the same time, the flat level of capital spending by this fast-growing industry suggests a declining capital-labor ratio, which in turn implies minimal gains in productivity. Indeed, productivity growth has

lagged recently in services; real output per hour declined at a 3.6-percent annual rate in services over the 1972-79 period, compared with a 0.7-percent average rate of decline in all private industry. The lagging productivity figures thus indicate the presence of continued cost pressures in an increasingly important part of the national economy.

**Herbert Runyon**



A mathematical appendix is available to accompany the article "Are Interest Rates Comparable?", which was published in the April 23 *Weekly Letter*. Interested readers can obtain copies of that mathematical appendix by writing the Public Information Department, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco, CA 94120. Phone (415) 544-2184.

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**BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT**

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount	Change	Change from	
	Outstanding 5/12/82	from 5/5/82	Dollar	Percent
Loans (gross, adjusted) and investments*	159,354	- 308	10,304	6.9
Loans (gross, adjusted) — total #	138,465	- 333	11,543	9.1
Commercial and industrial	43,301	149	5,743	15.3
Real estate	57,166	14	4,946	9.5
Loans to individuals	23,329	- 91	399	1.7
Securities loans	2,048	- 74	627	44.1
U.S. Treasury securities*	6,049	20	- 425	- 6.6
Other securities*	14,840	5	- 793	- 5.1
Demand deposits — total#	38,385	-1,503	- 2,139	- 5.3
Demand deposits — adjusted	26,597	- 106	- 2,075	- 7.2
Savings deposits — total	30,650	- 198	380	1.3
Time deposits — total#	93,015	531	13,574	17.1
Individuals, part. & corp.	83,295	342	13,418	19.2
(Large negotiable CD's)	34,124	204	2,340	7.4
<b>Weekly Averages of Daily Figures</b>	Week ended 5/12/82	Week ended 5/5/82	Comparable year-ago period	
<b>Member Bank Reserve Position</b>				
Excess Reserves (+)/Deficiency (-)	104	55		55
Borrowings	20	17		241
Net free reserves (+)/Net borrowed(-)	84	38		- 186

\* Excludes trading account securities.

# Includes items not shown separately.

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