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How Much Do Oil Prices Affect Employment?

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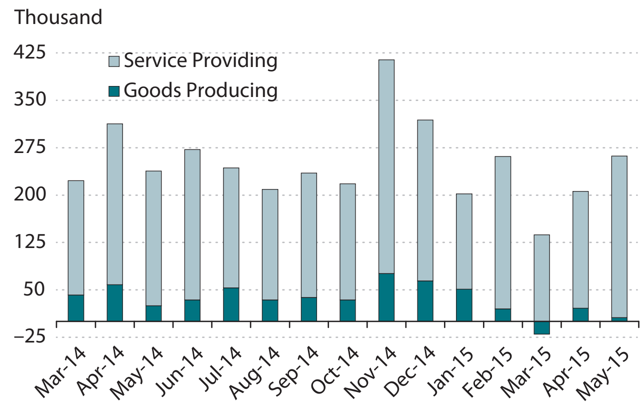
From March 2014 to February 2015, the U.S. job market remained relatively steady, with private nonfarm payroll employment adding an average of 262,000 jobs per month. But in March 2015, job growth slowed sharply, with only 117,000 jobs added—55 percent below the recent trend. This steeper-than-expected slowdown has raised concerns about the job market outlook and prompted policy discussions. Does it suggest weaknesses in the job market? Will it have any long-term effects? To address these questions, in this essay we examine recent job-growth trends across industries and geographic regions,[1] paying particular attention to those related to the recent decline in oil prices.[2]

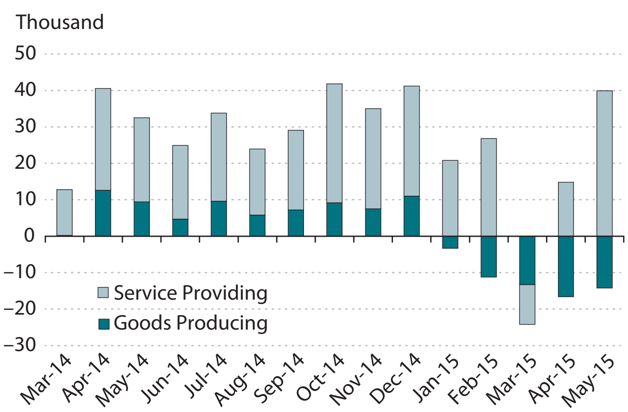
Texas accounted for 37 percent of the decline in the U.S. job market in March.

U.S. Private Nonfarm Payroll Employment Growth



SOURCE: BLS.

Texas Private Nonfarm Payroll Employment Growth



SOURCE: BLS.

The first figure shows U.S. monthly private nonfarm payroll employment growth from March 2014 to May 2015. Broadly speaking, slack in the goods-producing industries and a deceleration in the service-providing industries contributed to the March employment slowdown.[3] The goods-producing industries had been adding an average of 44,000 jobs per month from March 2014 to February 2015. They then lost 20,000 in March—44 percent of the March job-growth decline. The service-providing industries had been more robust, adding an average of 218,000 thousand jobs per month from March 2014 to February 2015. They then added only 137,000 in March and accounted for 56 percent of the March decline.

The industries with the largest March job-growth declines were the construction and leisure and hospitality industries, together accounting for about 25 percent of the slowdown; the business and professional services industry followed at 11.5 percent and the mining and natural resources industry at 10.5 percent.

Overall, 27 states experienced a decline in private nonfarm payroll employment in March. Although the states that lost jobs are geographically spread out, a few stand out as major drivers of the March deceleration. For example, Texas accounted for 37 percent; Pennsylvania, Georgia, and Oklahoma accounted for 12 percent, 10 percent, and 9 percent, respectively; and North Carolina, Missouri, and Kentucky accounted for about 8 percent each.

Texas had been leading the nation in job creation for an extended period. However, as shown in the second figure, its job growth in 2015 has been irregular. It slowed moderately in January and February from its recent average of 29,000 new jobs per month and then declined suddenly in March by over 24,000 jobs. Although only 9 percent of the March decline occurred in the mining and natural resources industry, it appears that low oil prices caused spillover effects in related sectors: The wholesale and retail trade industry, which includes oil-related trading, and the professional and business industry, which includes oil-related research, accounted for 28.5 percent and 24.2 percent of the decline, respectively; the construction and manufacturing industries accounted for 18.7 percent and 7.4 percent, respectively. Thus, nearly all the data point to the slack in oil-related industries as the primary driver of the decline of the Texas job market in March.

Overall, the March 2015 U.S. job-growth deceleration corresponds to slack in a few industries. And because the slowdown is concentrated in very few states, it does not appear to be systemic. In fact, private nonfarm payroll employment increased for a majority of states in April and May. It even ticked up for Texas in May, adding nearly 26,000 jobs (very close to its recent trend). Also, construction employment returned to its recent pace in April and leisure and hospitality employment increased strongly in May. Because the data suggest slow job growth in March is linked to low oil prices, long-term effects of the decline seem very unlikely. ■

Notes

[1] The data in our analysis are monthly private nonfarm payroll employment by industry and state from the Bureau of Labor Statistics (BLS).

[2] The U.S. spot oil price declined 55 percent from June 2014 ($105.79 per barrel) to March 2015 ($47.82 per barrel).

[3] The goods-producing industries include mining and logging, construction, and manufacturing. The service-providing industries include wholesale trade, retail trade, transportation and warehousing, utilities, information, financial activities, professional and business services, education and health services, leisure and hospitality, and other services.

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