An Economy That Works

Job Creation and America's Future

McKinsey Global Institute

October 6, 2011

Key messages

Recoveries are increasingly becoming “jobless,” due to firm restructuring, skill/geographic mismatches between workers and jobs, and sharp decline in new business creation

The U.S. needs to create 21 million new jobs by 2020 to regain full employment – and only achieves this in our most optimistic job growth scenario

The U.S. workforce will continue to grow until 2020, but under current trends, workers will not have the right skills for the available jobs

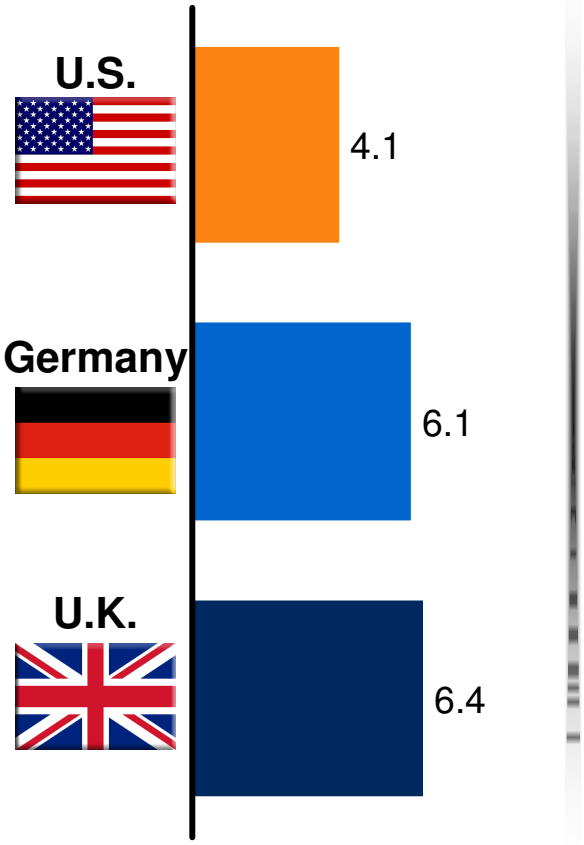
Technology is changing the nature of work: jobs are being disaggregated into tasks, work is becoming virtual, and firms are relying on flexible labor (temporary, contract workers)

Progress on 4 dimensions is essential: develop the U.S. workforces’ **skill**; expand U.S. workers’ global **share**; **spark** emerging industries; **speed** up regulatory decision-making

Other countries have not experienced the same employment decline as the U.S.

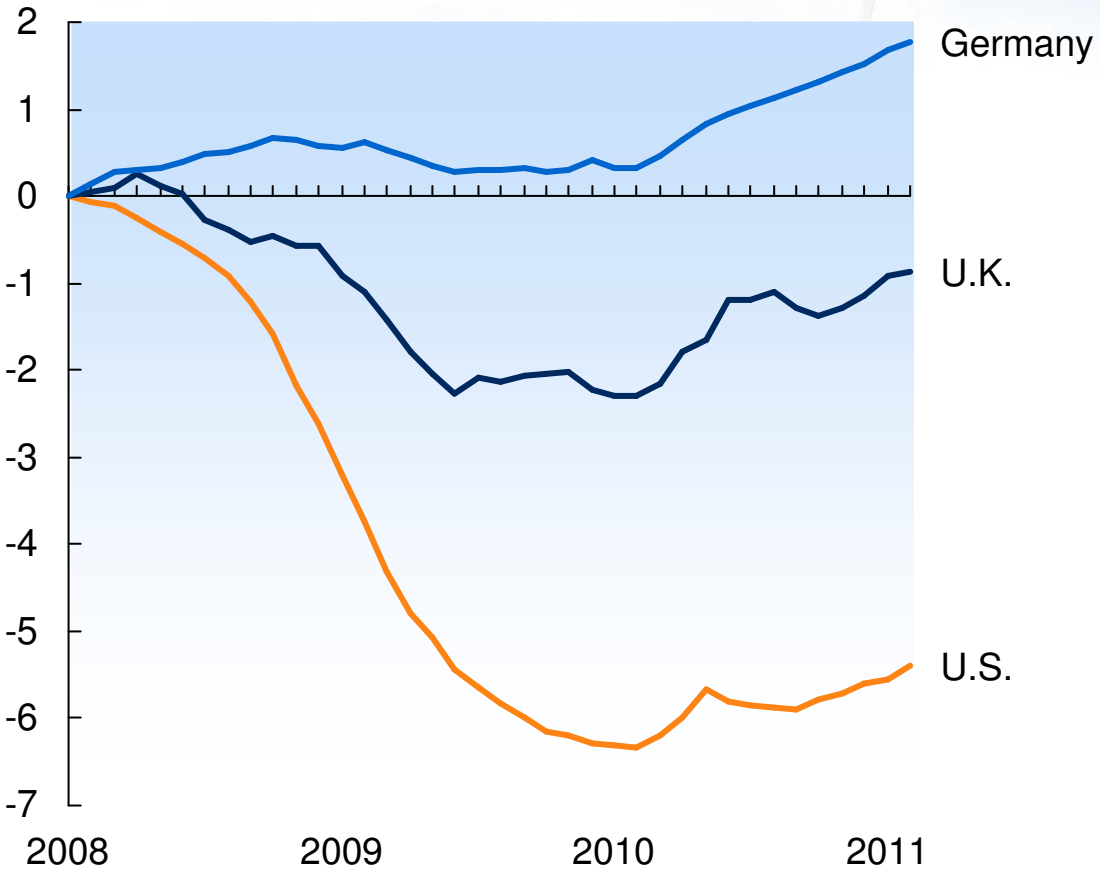
Gross Domestic Product

Percent decline, peak to trough[1]



Employment

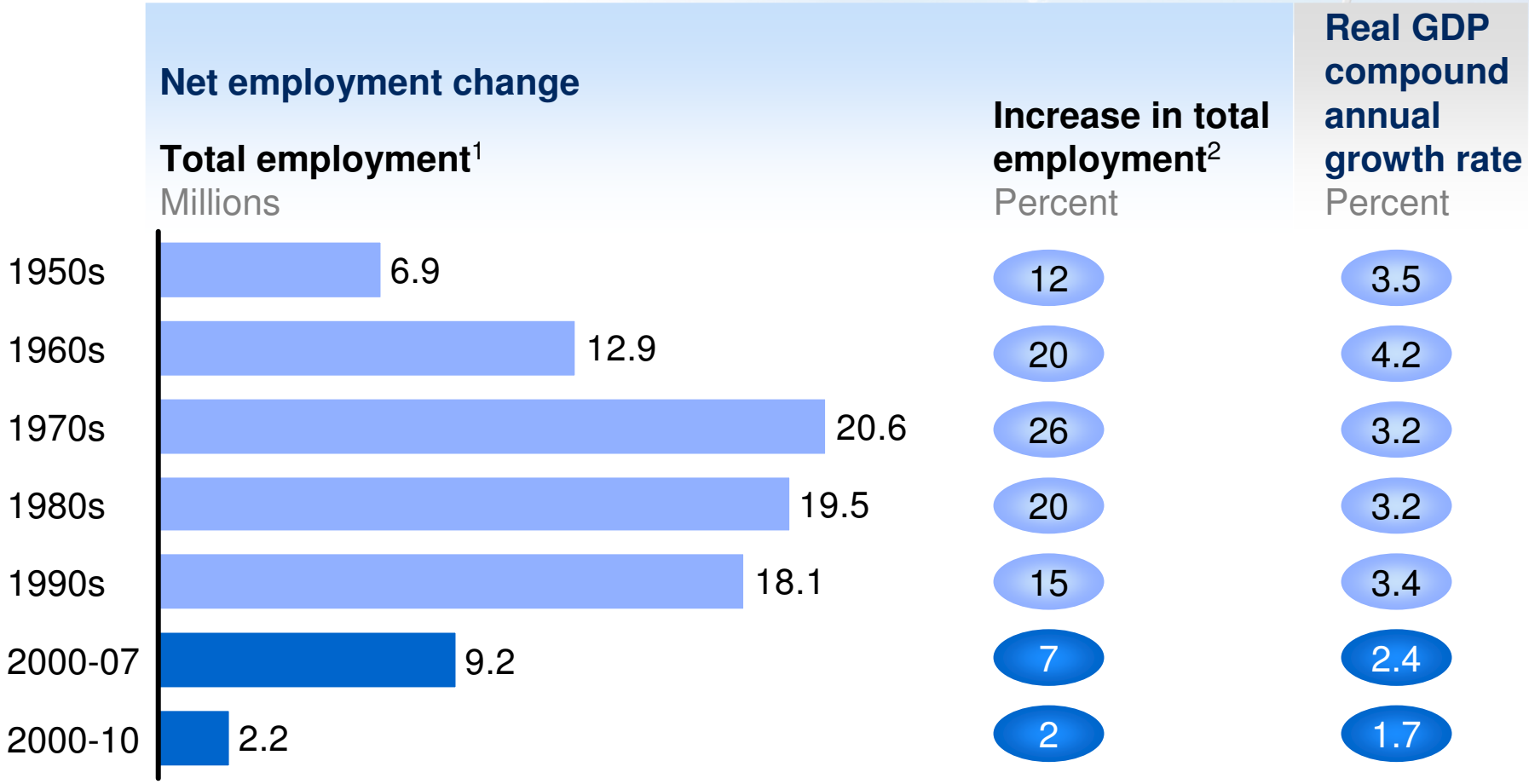
Percent change from January 2008



1 Peak quarter for United States was Q4 2007; peak quarter for Germany and United Kingdom was Q1 2008

SOURCE: United States Bureau of Economic Analysis; United Kingdom Office for National Statistics; Germany's Statistisches Bundesamt Deutschland; ILO; OECD; McKinsey Global Institute

Job growth in the 2000s was half the rate of previous decades



1 Total employment equals the number all employed workers in the economy, including full-time, part-time, and self-employed
2 Net employment change as a share of total employment in the base year (e.g., 1990 for 1990s)

SOURCE: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; McKinsey Global Institute analysis

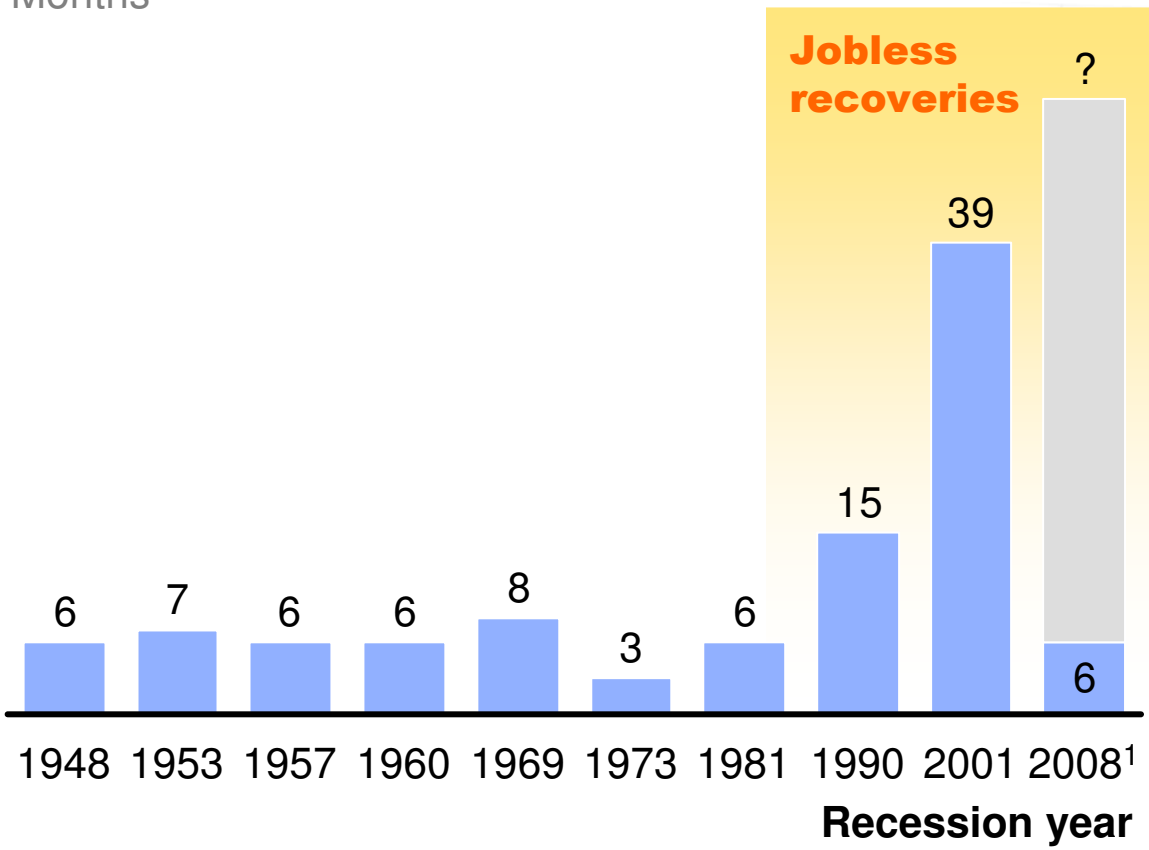
Jobless recoveries

The new normal?

The US is entering the third and likely longest "jobless recovery" of the last 20 years, reflecting 3 structural changes in the US economy

Gap between GDP returning to pre-recession peak and employment returning to pre-recession peak

Months



Three factors explain the rise of "jobless recoveries"

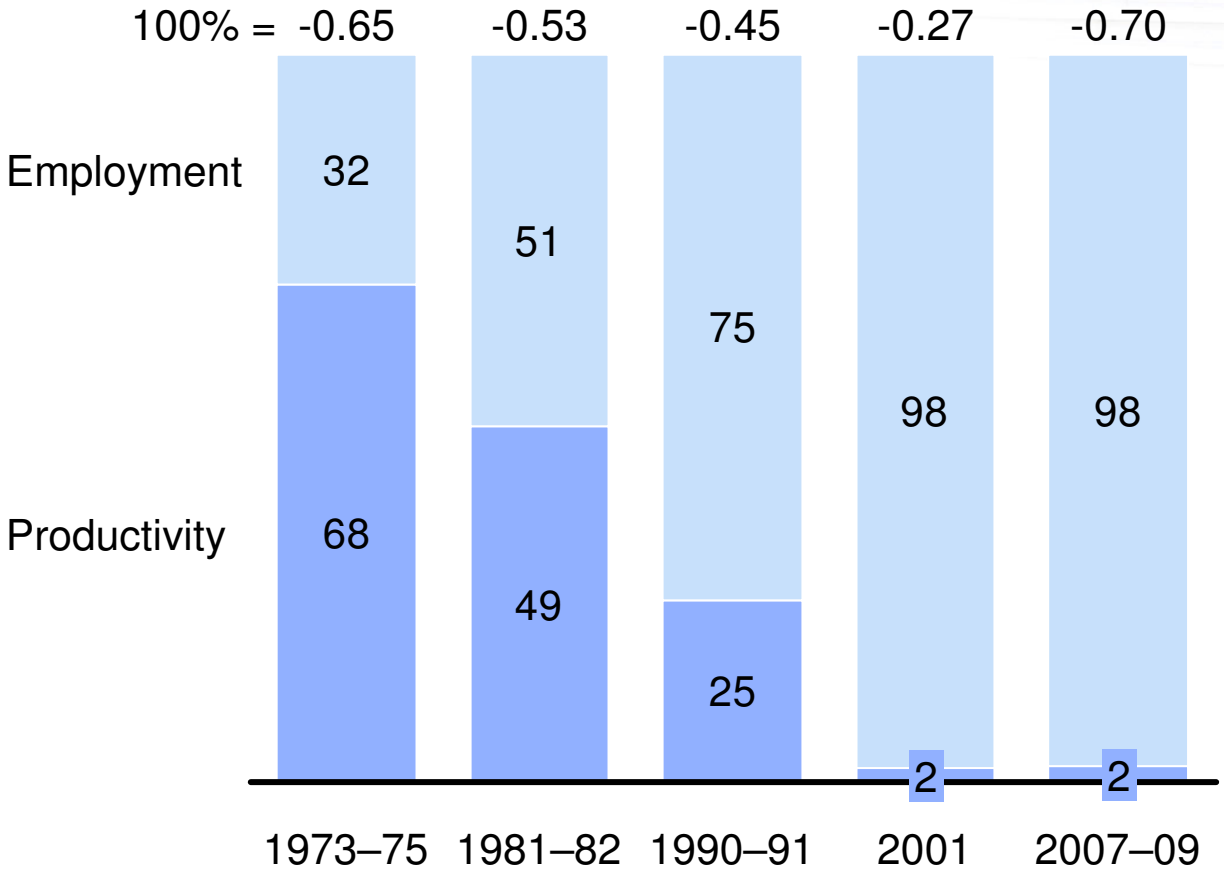
1 GDP returned to its pre-recession peak in December 2010

SOURCE: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis; McKinsey Global Institute analysis

1 In contrast to the past, firms today are more likely to lay off workers during a recession than suffer declines in productivity

Contribution to change in real GDP during recessions

Compounded quarterly growth rate,[1] peak to trough (%)



65% of business survey respondents report that they have made operational changes over the last 3 years to reduce headcount

1 Calculated from the onset of recession to trough of GDP. Calculations use real GDP estimate (2005 chained dollars) and total employment (full time and part time) for workers ages 16 and over.

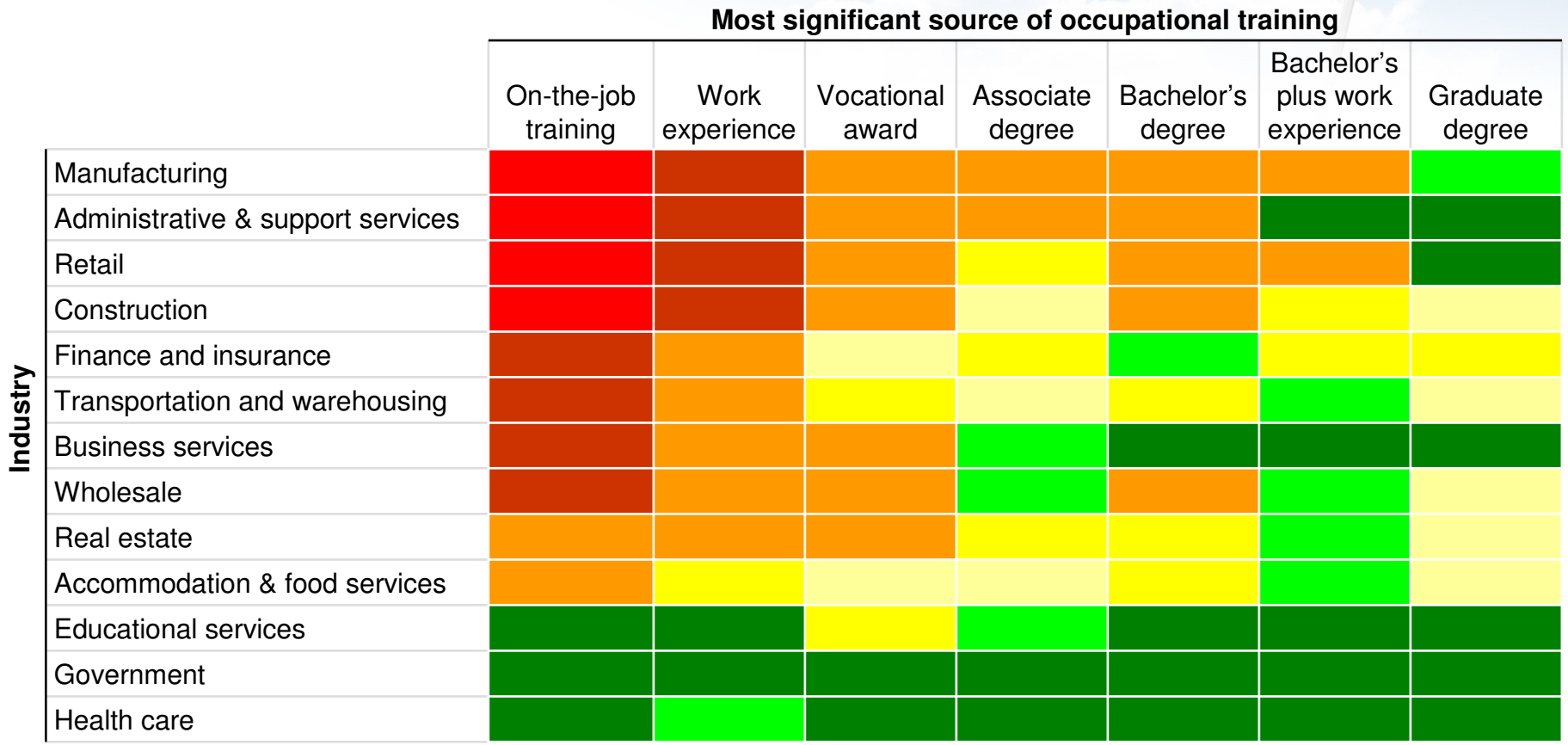
SOURCE: US Bureau of Labor Statistics; US Bureau of Economic Analysis; McKinsey Global Institute analysis

2 Newly created jobs require new skills

Annual net employment change from 2007–2009[1]

Thousands of jobs

- >500,000 job loss
- >100,000 job loss
- 10,000-100,000 job loss
- 1,000-10,000 job loss
- <1,000 job change
- 1,000-10,000 job gain
- >10,000 job gain



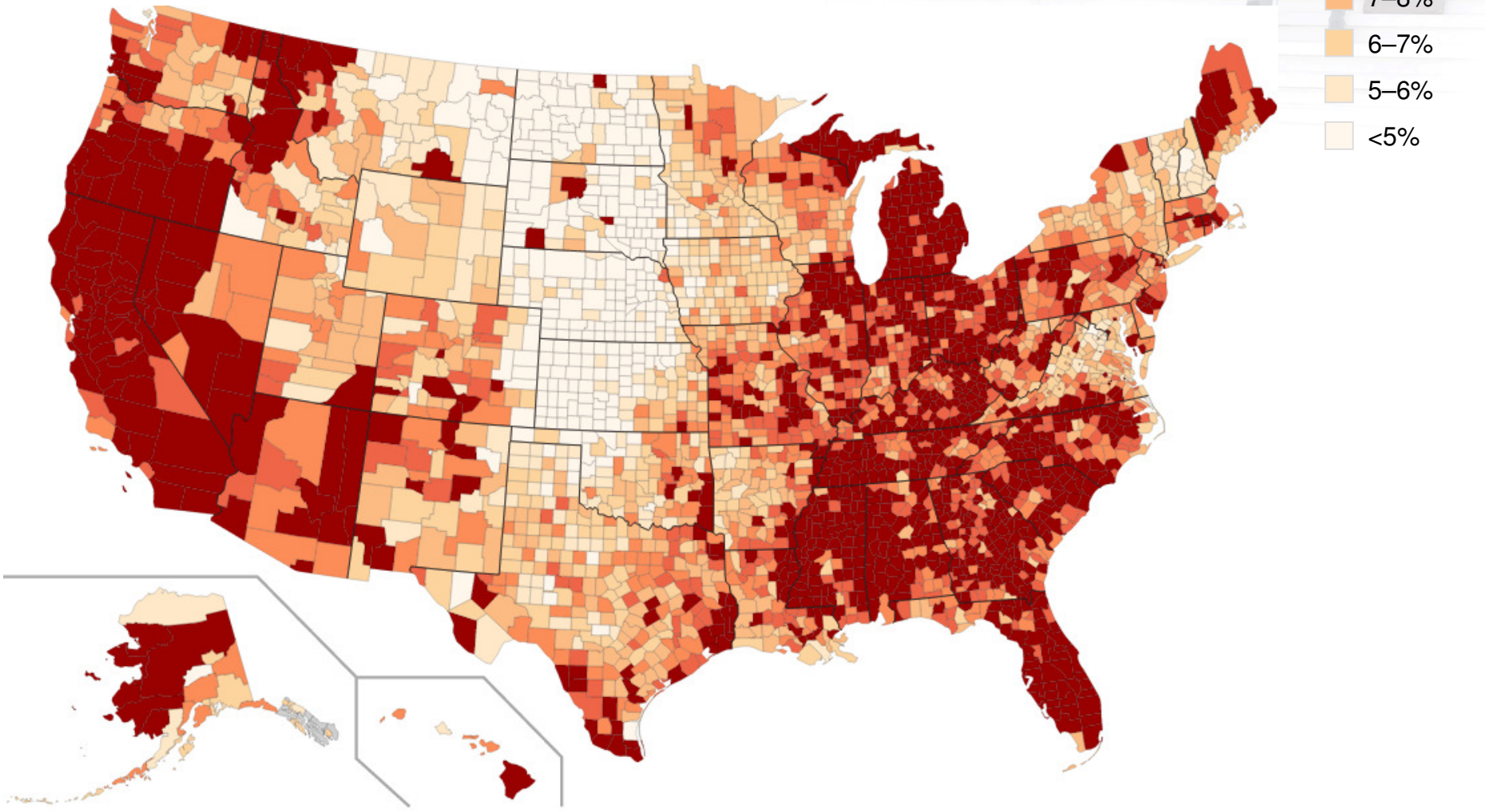
1 Calculated using US Bureau of Labor Statistics Occupational Employment statistics data, which do not include farm, self-employed, or new entrants to the labor market.

SOURCE: US Bureau of Labor Statistics; McKinsey Global Institute analysis

2 The unemployment rate varies widely across the United States…

Unemployment rate, December 2010

% unemployed

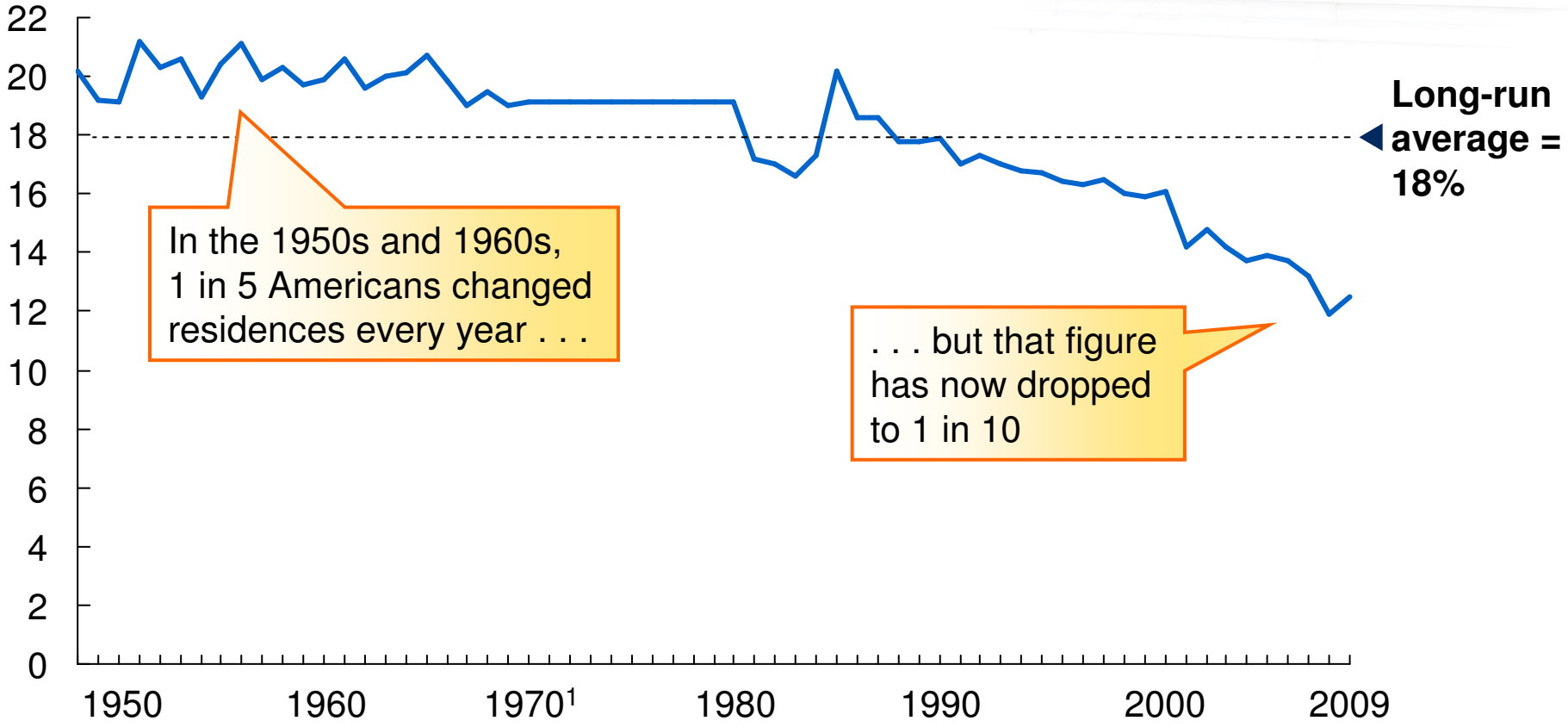


SOURCE: U.S. Bureau of Labor Statistics; McKinsey Global Institute analysis

2 … but mobility in the United States has been declining since 1990 and is at a 50-year low

Annual domestic migration rate, 1948–2009

% of residents who have changed addresses during the past year



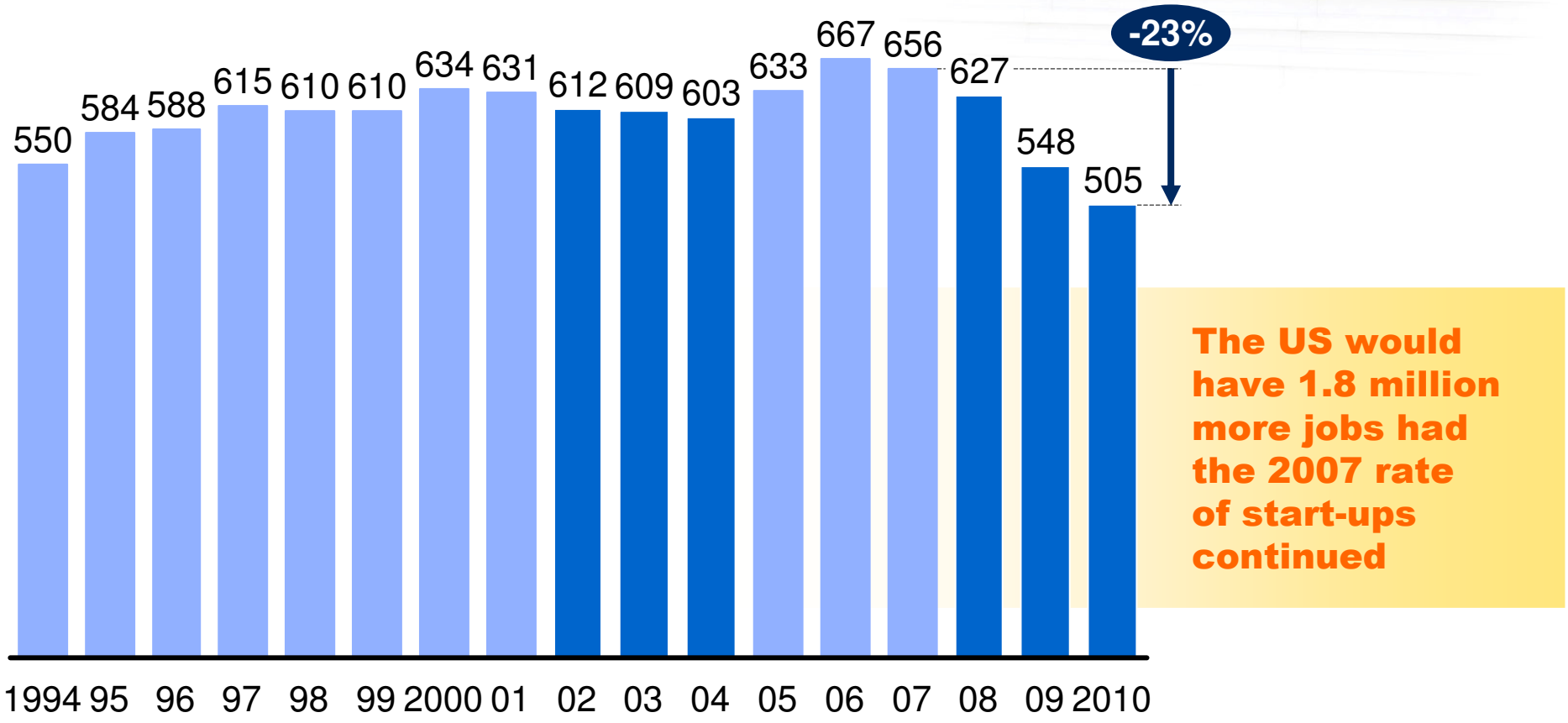
1 Data from 1970–1981 are interpolated due to data constraints.

SOURCE: U.S. Bureau of Labor Statistics; McKinsey Global Institute analysis

3 The number of new businesses has declined dramatically in this recession – accounting for 1.8 million fewer jobs

Change in number of private-sector establishments launched every year

March 1993 to March 2010,[1] thousand



The US would have 1.8 million more jobs had the 2007 rate of start-ups continued

1 Calculated using US Bureau of Labor Statistics Business Employment Dynamics data set; the annual number indicates the number of businesses less than 1 year old that were in existence in March of that year

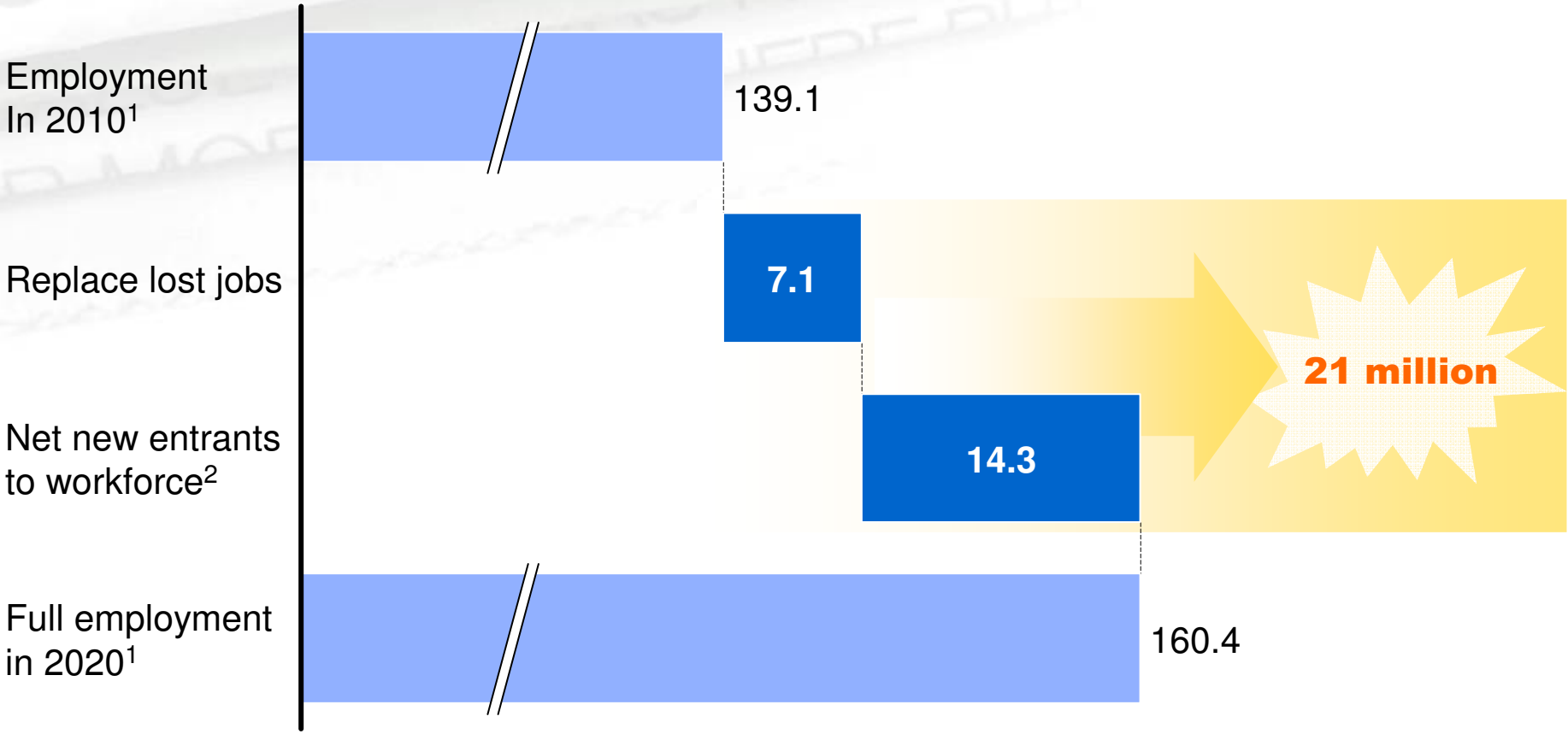
SOURCE:US Bureau of Labor Statistics; McKinsey Global Institute analysis


Unemployment Surges
That makes the recession
WANTED
21 million jobs
Answering Service Experienced
Evening Shift. CR5
Dan
Conduct
of Caron
333
PLUMBER Repair Salesmen.Exp.

The United States needs to create 21 million net new jobs by 2020 to return to a 5% unemployment rate

Employment needed to achieve 5% unemployment rate by 2020

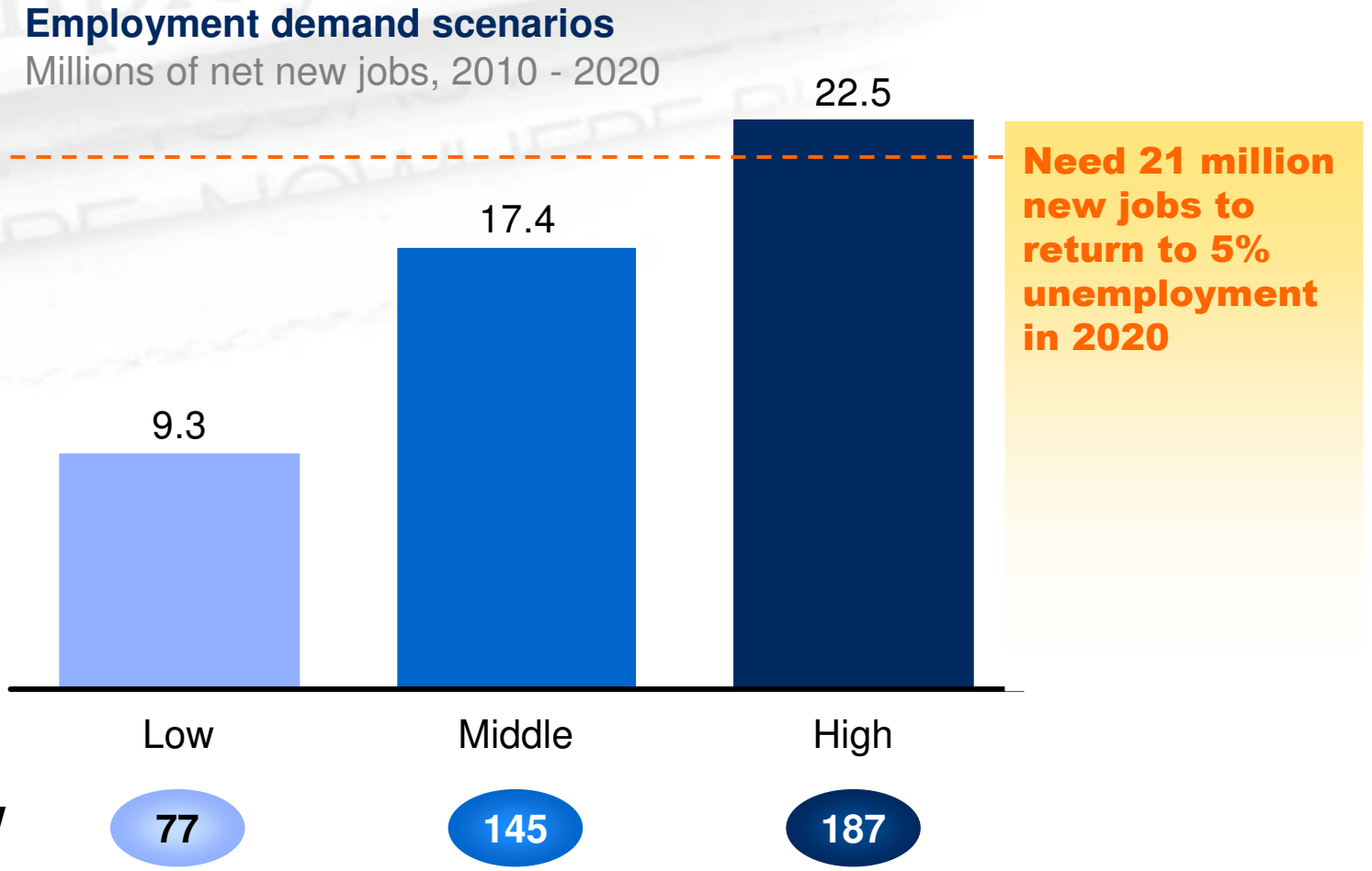
Millions



1 Total employment, including self-employed and part-time workers
2 New entrants include student inflows, net immigration inflows, return of discouraged workers, and exits of retirees

SOURCE: Bureau of Labor Statistics' Current Population Survey; McKinsey Global Institute analysis

The high job-growth scenario is the only one that returns the United States to 5 percent unemployment by 2020

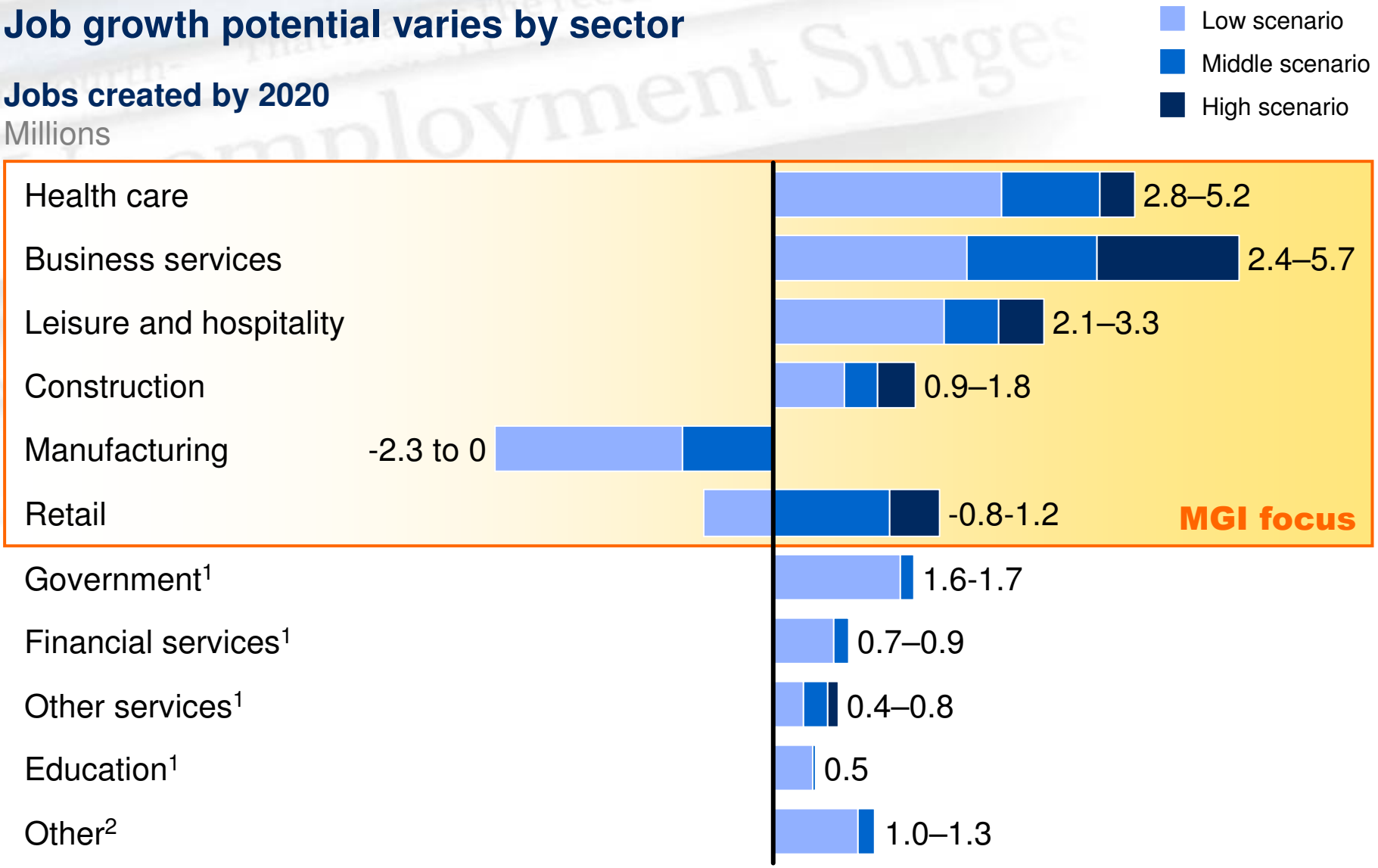


SOURCE: Moody's Analytics; McKinsey Global Institute analysis

Job growth potential varies by sector

Jobs created by 2020

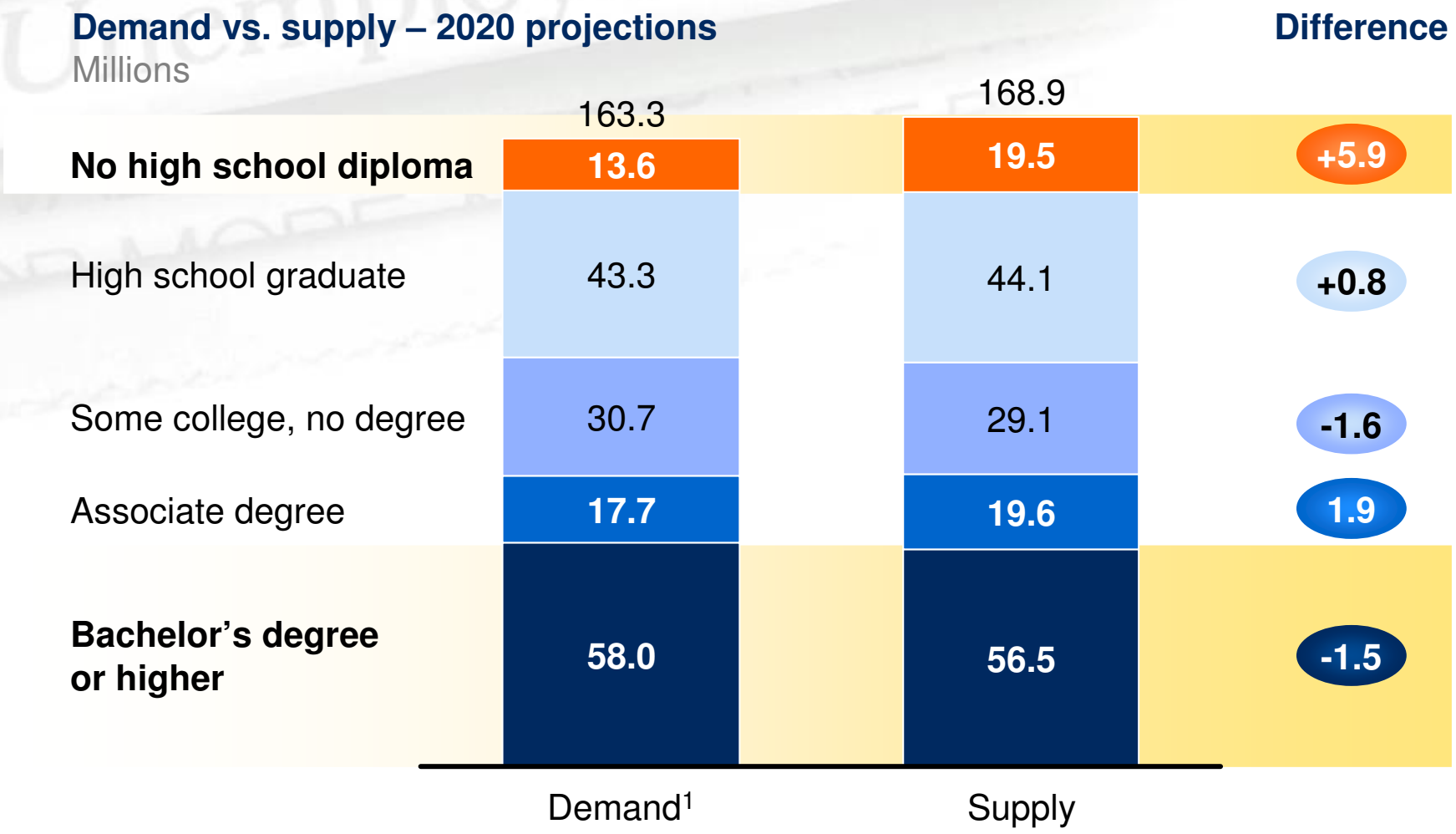
Millions



1 Job growth projections from Moody's Analytics.
2 Other includes mining, utilities, wholesale trade, transportation and warehousing, information, self-employed, and agriculture.

SOURCE: Moody's Analytics; Global Insight; U.S. Bureau of Labor Statistics; McKinsey Global Institute analysis

In the high job-growth scenario, we project 1.5 million too few college graduates in 2020



1 Labor demand from MGI high job-growth scenario

SOURCE: U.S. Bureau of Labor Statistics; McKinsey Global Institute analysis


Toward a
U.S. jobs agenda

To revive job creation, the U.S. must make progress on four dimensions

High skill

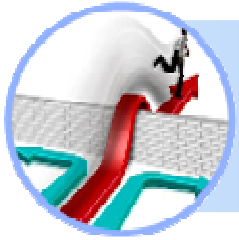
Ensure Americans acquire the skills that match employer needs

High share

Harness globalization to create more U.S. jobs

High spark

Encourage innovation, new company creation, and the scaling up of new industries in the U.S.



High speed

Remove impediments to investment and job creation

SOURCE: McKinsey Global Institute

Thank you

The full report can be downloaded at:

McKinsey Global Institute

www.mckinsey.com/mgi