



Economics Group

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Is Slower Health Care Hiring Here to Stay?

Health care has been a steady source of employment, but recent weakness in jobs data has raised some concern. Job growth in health care likely will be slow in 2014 as budget uncertainty and reforms take hold.

Health Care Employment: Down, but Not Out

December's surprisingly weak jobs report has raised questions on whether the recent pace of job growth is sustainable in 2014. While we believe the December employment report is not indicative of the overall trend in hiring, job growth in some industries has been slowing recently—most notably in health care (top chart). In December, the health care industry, which has been a steadfast source of employment since the Great Recession, cut 6,000 jobs. The reduction marked the first decline since July 2003, but is part of a broader slowdown in health care hiring. Over the past year, health care firms have added an average of 17,300 jobs per month versus 26,700 jobs per month in 2012.

Growth in hiring has weakened across major types of health care firms over the past year (middle chart). The most sizable drag has come from hospitals, which account for roughly one-third of health care industry employment. Hiring in the hospital sector slowed to 0.2 percent year over year in December, the weakest pace since mid-2010. Hiring at physicians' offices also has slowed, up only 1.8 percent year over year.

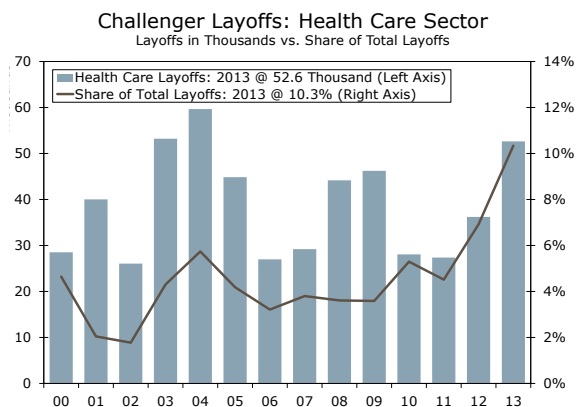
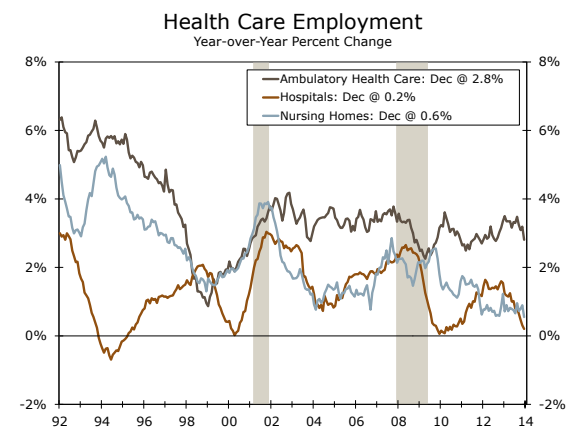
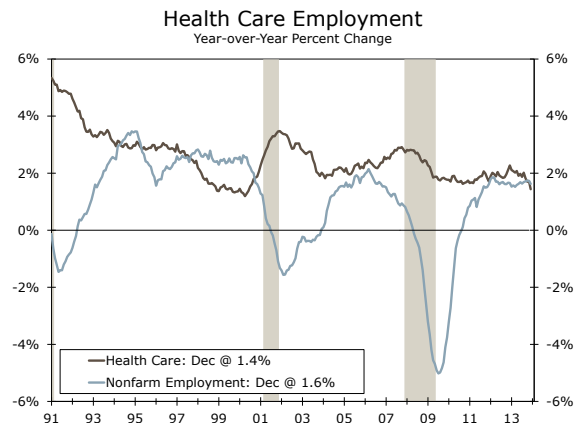
Budget Uncertainty

The slowdown in hiring comes as the industry faces significant cost pressures that have forced health care providers, and hospitals in particular, to rein in operating costs. Under the federal government's budget sequestration, nearly all Medicare payments to providers have been put at risk of a 2 percent annual cut. Other headwinds include possible changes from the Affordable Care Act, which puts new limits on Medicare reimbursement to providers. In a July 2012 report, the CBO projected in 2012 hospitals are to take the largest hit, with a reimbursement reduction of \$260 billion over 10 years.

More Job Cuts to Come?

Recent trends in layoffs reported by Challenger, Gray & Christmas suggest that more cutbacks are on the horizon in the health care sector. Health care layoffs in 2013 totaled 53,637, up from 36,212 in 2012. This was the largest number of health care layoffs since 2004, but represents a greater share as other sectors in the economy have strengthened (bottom chart).

We expect health care employment to gradually increase as the baby boomer generation continues to age. However, likely 2014 will be a stumbling block year for employment in this historically robust sector due to both actual and anticipated changes in reimbursements to providers. That said, many parts of the health care industry continue to see strong job growth. Outpatient and home health care employment each have grown more than 5 percent over the past year and should continue to see strong gains over the next year, offsetting weaker hiring at hospitals.



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