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How Bad is the Economy, Really?

An Historical Look at Utah, the US and Recessions

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Introduction

The economic downturn is topic number one among the media, policymakers and much of the general public. As the numbers contained in reports from the Bureau of Labor Statistics on job losses and the rising unemployment rate are discussed at length among these groups, there is very little effort to put the current downturn into a historical perspective. This article reviews national and state level data on jobs, unemployment, housing, and consumer sentiment to provide some perspective on these figures and what they mean for Utah.



Employment

The indicator that has been garnering a lot of attention recently is the national jobs count. The 3.57 million jobs that have been lost since the recession started in December 2007 are a significant number. However, at 2.6% of the total jobs in the U.S., these losses are not as large as have been seen in previous recessions. Figure 1 compares job losses in each recession since 1945.

Figure 1: Recessions and U.S. Job Losses-A Historical Perspective 1945-Present

Recession	Number of Months	Peak Employment	Month Peak Employment Obtained	Number of Jobs Lost During Downturn	Lost Jobs as a Percent of Total Jobs	Number of Months to Return to Pre-Recession Employment
Feb-Oct 1945	9	41,903,000	Feb-45	3,305,000	7.9%	9 (Jul-46)
Nov 48-Oct 1949	12	45,194,000	Nov-48	2,244,000	5.0%	9 (Jul-50)
Jul 53-May 1954*	11	50,536,000	Jul-53	1,571,000	3.1%	13 (Jun-55)
Aug 57-April 1958	9	53,128,000	Aug-57	2,102,000	4.0%	12 (Apr-59)
Apr 60-Feb 1961	11	54,812,000	Apr-60	1,256,000	2.3%	10 (Dec-61)
Dec 69-Nov 1970	12	71,453,000	Mar-70	1,044,000	1.5%	10 (Sep-71)
Nov 73-Mar 1975*	17	78,634,000	Jul-74	2,115,000	2.7%	11 (Feb-76)
Jan 80-Jul 1980	7	90,991,000	Mar-80	1,159,000	1.3%	6 (Jan-81)
Jul 81-Nov 1982*	17	91,594,000	Jul-81	2,838,000	3.1%	11 (Nov-83)
Jul 90-Mar 1991*	9	109,775,000	Jul-90	1,579,000	1.4%	23 (Feb-93)
Mar 01-Nov 2001*	9	132,500,000	Mar-01	2,678,000	2.0%	39 (Feb-05)
Dec 07-Present	14	138,152,000	Dec-07	3,572,000	2.6%	TBD

Source: US Bureau of Labor Statistics, Current Employment Series (CES), Seasonally Adjusted Data and National Bureau of Economic & Business Research, Business Cycle Dating Committee

*Jobs in these recessions hit their low point after the recession was official declared over. For most, this low point was within a few months. The 2001 recession is the exception--jobs did not reach the trough until August 2003, when total nonfarm jobs reached a low of 129,882,000.

As the chart shows, the current recession is now one of the longest since 1945—exceeded only by the downturns of 1973 and 1981. The current jobs losses are not nearly as severe as those experienced during five previous recessions, when measured as a percent of total jobs.

Perhaps the most concerning information this analysis provides is the fact that U.S. job recovery is taking longer with each downturn, especially since the 1981 recession. The recession of 2001 only lasted nine months, but the economy didn't stop shedding jobs until March 2003, when employment bottomed out at 129,822,000 jobs. From that point, it took almost two years for the economy to recover to pre-recession

levels. While there were some extenuating circumstances associated with the 2001 recession (9/11 and the collapse of the dot.com bubble), job losses during that recession followed a pattern very similar to the one seen in the 1990 recession. This suggests that the U.S. economy is becoming less able to replace jobs lost in the goods-producing sectors (such as manufacturing and construction) by job growth within the service-producing sectors. Further analysis of the data series supports this theory.

When total employment recovered from the 1981-82 recession in November 1983, there were 260,000 more jobs in the country than in July 1981. When the jobs created by non-governmental entities were compared, there were still significant losses in the good producing sectors, approximately 1.6 million. The service sector, however, gained 2.04 million jobs. So, for every job lost in manufacturing, construction and natural resources, the economy was able to replace it with 1.27 jobs in the service sector. By the 2001 recession, the replacement ratio was down to 0.75—private service sector gains were only replacing three-quarters of the jobs lost in the goods sectors. Figure 2 details this information for each recovery following a recession. It is important to note that “recovery” in this context only means when total jobs first exceed the number that was posted as peak employment prior to or during the recession preceding it in Figure 1. As an example, employment reached a peak in February 1945 at 41,903,000. It took until July 1946 for the economy to exceed that number with employment reaching 42,153,000. So, of the 250,000 jobs added, 1.4 million were in the service sector while the goods producing sectors lost 1.2 million.

Figure 2: Composition of U.S. Job Gains and Losses for Goods Producing and Service Producing Sectors During Economic Recoveries

Jobs Recovery Date	Net Jobs Gained	Goods Producing	Service Producing	Private Service Producing	Government Producing	Ratio Service Producing	Ratio Private Service Producing	Ratio Government
Jul-46	250,000	-1,203,000	1,453,000	2,010,000	-557,000	1.21	1.67	-0.46
Jul-50	259,000	-135,000	394,000	173,000	221,000	2.92	1.28	1.64
Jun-55	254,000	-579,000	833,000	536,000	297,000	1.44	0.93	0.51
Apr-59	192,000	-459,000	651,000	266,000	385,000	1.42	0.58	0.84
Dec-61	59,000	-465,000	524,000	222,000	302,000	1.13	0.48	0.65
Sep-71	167,000	-1,088,000	1,255,000	790,000	465,000	1.15	0.73	0.43
Feb-76	183,000	-1,569,000	1,752,000	1,059,000	693,000	1.12	0.67	0.44
Jan-81	40,000	-666,000	706,000	642,000	64,000	1.06	0.96	0.10
Nov-83	260,000	-1,604,000	1,864,000	2,042,000	-178,000	1.16	1.27	-0.11
Feb-93	192,000	-1,556,000	1,748,000	1,406,000	342,000	1.12	0.90	0.22
Feb-05	220,000	-2,372,000	2,592,000	1,785,000	807,000	1.09	0.75	0.34

Source: U.S. Bureau of Labor Statistics, National Current Employment Series, Ratios calculated by author

With the exception of the 1945 recession, when the government was decommissioning a large military infrastructure from World War II, and the 1981 recession, when Ronald Reagan was downsizing federal jobs, government has contributed to every recovery. The influence has been fairly small (1950 being the obvious exception) but without those jobs, recovery would have taken longer. Indeed, in the current downturn, without the 170,000 jobs government has added since December 2007, the employment situation would be even grimmer. Besides government, only the private education and health services (EHS) sector, and the natural resources sector are adding jobs. Since the start of this recession, EHS has added 573,000 jobs nationally while the natural resources sector has added 47,000. Most of the current job gains in natural resources are in response to the uptick in crude oil prices. If prices stay low or fall further, many of those job gains could evaporate. Excluding those natural resources jobs, there are only two employment sectors keeping the job situation from going into free-fall. In most prior recessions, there were at least four sectors that were still gaining jobs. The exceptions were the 1958 recession in which only the financial activities and government sectors added jobs and the 1990 recession in which job losses were offset by gains in EHS. Both of these prior recessions had fairly severe job losses overall and by this indicator alone, the current recession isn't going to be much better.

Unemployment

From January 1976 through December 2008, the average unemployment rate for the U.S. has been 6.2%. The monthly rate reported by the US Bureau of Labor Statistics (BLS) for December 2008 was 7.1% or roughly one percentage point above that average. The highest rate recorded was January 1983 when the

rate registered at 11.4%. BLS records do not go further back than 1948, so there is no official government rate during the Great Depression, although it has been estimated that one in five white males was out of work. [1] [Figure 3](#) provides the monthly unemployment rate for both the US and Utah from 1976 to the most current figure—December 2008. As the graphic indicates, Utah has generally weathered recent economic downturns better than the nation as a whole. January through June 1987 has been the only time period in which Utah's unemployment rate exceeded the national average. In the current recession, Utah's unemployment rate has lagged well behind the national average although the rate is starting to climb; it has not yet reached the state's historical average of 4.9%.

Policymakers should keep in mind that official unemployment figures do not take into consideration two key issues with a recessionary job market. First, it does not count workers who lose their job, can't find another and exit the labor market altogether. Nor does it count underemployment—that is, workers who lose their job but find another at significantly reduced wages and/or hours. These two groups can have a more lasting impact on government resources than those that are classified as unemployed.

Housing

The role of the housing sector as a driver of this recession has been well documented. [2] For a macro-economic perspective, what is troubling is that the indications of a problem, at least for some metropolitan areas, date back to at least 2005. The US Census Bureau performs a survey of housing vacancies quarterly. Data are available for the nation, regions, states and the 75 largest metropolises with very little lag time. This survey tracks the percentage of homeowner vacancies, as well as rental vacancies and homeownership rates. Historically, homeowner vacancies are very low, averaging around 1.5% of total housing stock. Reasons for these vacancies can be situations such as when a house is in the process of being sold and is not occupied or a second home that is only seasonally occupied or one in which the owners simply abandon the structure. Prevailing economic wisdom suggests that if this rate exceeds 3.0%, then there are fundamental issues with the housing market—overbuilding of new units, pricing issues, etc. [3] According to the Census Bureau, that 3.0% threshold has not yet been exceeded at the national level. However, if the data for some of the most distressed metropolitan areas are reviewed—the Las Vegas-Paradise metropolitan statistical area (MSA) breeched 3.0% in 2004 on the way to a high of 7.7% reached in second quarter of 2008. The Phoenix-Mesa-Scottsdale MSA hit 3.1% in 2006 and is currently around 3.7%, indicating that problems began in these areas long before the housing sector collapsed.

Fortunately, the Salt Lake City MSA appears to be in much better shape. Vacancies hit a high of 2.7% in 2006 and have been declining since. For the state, the rate in the fourth quarter of 2008 was 1.9%. [Figure 4](#) provides the quarterly rates for Utah, the Intermountain West and the U.S. from 1986 (the first year state-level data was available) to the present. With the exception of 2002 and the unique real estate circumstances around the 2002 Winter Games, Utah's housing vacancies have seemed to level off from the volatility shown in the mid to late 1980s.

Consumer Sentiment

The three previous indicators of economic health are what are commonly called lagging indicators. This means they give us a look in the "rearview mirror" after the fact. It takes companies some time after a downturn to begin to lay off workers. It takes some time, as well, for people to be placed in the situation of having to sell a home or walk away from it. However, before these things happen, businesses and consumers start to feel uncertain about the economy. This uncertainty leads to a reduction in spending. This reduction then can spiral into a full-blown recession. The Consumer Sentiment Index is a product of the University of Michigan that tries to gauge that uncertainty as it happens. [Figure 5](#) graphs the index from 1978 (the first year monthly data were available) to the present. The index is tied to the economic situation in 1966, which was given a numeric value of 100. Surveyors with the project ask a series of questions to consumers and then compare the responses to those given during 1966. Therefore, it is possible for the index to exceed 100. The index has never dropped below 50—which would indicate very discouraged consumers.

As is shown, consumer sentiment hit its low point during the 1980 recession. May 1980 registered a 51.7. The current recession almost hit that low point, registering 55.3 in November 2008. This recession has also seen the largest drop—12.7 points from September to October 2008—that has been registered in the index. While sentiment has rebounded a little since November, it is still well below the average of 87.2. This indicates that it will be some time before private sector consumption rebounds to anywhere near pre-recession levels.

Conclusion

So what does all this mean? This article echoes the sentiment of many economists—it is going to be a while before the nation pulls out of the recession. Could it get as bad as the Great Depression? It remains to be seen. The perspective policymakers need to keep in mind that during the darkest days of that downturn, 1929-1933, gross domestic product (GDP), as the broadest indicator of the economy, declined by 23.3% in 1932 alone and by 45.6% over the four year time period. Currently, GDP isn't even close to those levels of decline.

That being said, today's economy is much larger and more intertwined than that of the 1930s. Data presented in this article suggests that recovery is going to be very slow and that the service sectors of the economy cannot be counted on to counterbalance the goods producing sectors, as has happened in past recessions.

Finally, Utah has weathered recent recessions better than other states. However, Utah's industry mix is more tied to national trends now than in the past. The state may be in for an economic downturn that does not fit with past ones. Therefore, policymakers at all levels need to be prepared to deal with something more serious than has been seen in recent memory.

[1] This working paper from the Federal Reserve Bank of Philadelphia discusses the unemployment rate during the Depression vis-a-vis the amount of government and private sector "effort" it would take to recover from similar circumstances today

[2] See for example http://news.yahoo.com/s/afp/20090218/pl_afp/uspublicaidpropertyforeclosures_20090218164139

[3] For a good discussion of real estate bubbles and the indicators used (including homeowner vacancies) to determine if a bubble exists, see http://en.wikipedia.org/wiki/Real_estate_bubble

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