Center for American Progress

From a Trickle to a Flood

The Sharply Accelerating Contraction of an Already Weak Labor Market

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December 2008

Introduction

The National Bureau of Economic Research last week officially declared what many Americans have felt for quite some time: The United States is in a recession. Importantly, the labor market is also clearly in a recession, having lost more than 1.9 million jobs so far in 2008 and more than half a million jobs in November alone. When determining that the downturn began in December 2007, NBER referenced the significant decline in payroll employment, which, like the overall U.S. economy, reached its peak in December 2007.

The job losses that the economy has experienced throughout 2008 have been widespread, leaving essentially only government and health care jobs untouched. Yet there have been especially large declines in the construction, financial services, and retail sectors, which reflect the weakness in the financial market and the general economic crises.

The economy began shedding jobs 11 months ago, but job growth has been meager throughout the business cycle, which started in March 2001, with an average annualized monthly job growth rate of less than one-third of the long-term historic average job growth rate. Put differently, we are starting from a lower relative point and quickly falling into a severe labor market slump. Worryingly, the job losses have only accelerated in recent months and show no sign of ceasing in the near future.

An analysis of two data sources from the Bureau of Labor Statistics—the Current Population Survey and the Current Employment Statistics—shows that several labor market indicators suggest this is the worst labor market recession in decades for particular sectors of the population and segments of the population. The number of jobs lost each month, the unemployment rate, and the median and average duration of unemployment have all continued to rise, especially in recent months. People are losing jobs ever more quickly, and once a worker is out of a job, it is becoming increasingly difficult to find a new one. What's more, the assistance that the government has provided in the past may not be enough to help tide their families over.

Policymakers must act quickly and intelligently to deal with the current labor market recession, set the stage for stronger job growth in the next expansion, and help put the economy back on a path toward broadly shared, prosperous growth. Congress needs to pass smart stimulus and recovery packages and put them to work in the coming months before we will begin to see the light at the end of the tunnel. Accomplishing these goals will not be easy, but failing to adequately deal with the labor market recession and the long-term weaknesses in the labor market will only cause more pain down the road for both employed and unemployed workers and their families.

The labor market reflects the overall recession

- The number of jobs in the United States has declined for 11 months in a row. In November 2008, job losses amounted to 533,000, bringing the total for 2008 to 1.91 million. This is the largest one-month decline in 34 years.

- Nearly two-thirds of this year's job losses have occurred in the past three months, which indicates that the job market contraction has accelerated during this period.

- Long labor market slides are a comparatively recent phenomenon. There was not an 11-month continuous decrease in the labor market between World War II and 1982.

- Every recession since 1982 has been associated with at least an 11-month slide. The labor market contraction in 1981 and 1982 saw 17 continuous months of job losses, the recession in 1990 and 1991 saw a slide of 11 months of job losses that ended in May 1991, and the recession in 2001 saw 15 continuous months of job losses, meaning that the job losses continued even after the recession was already officially declared finished.

- The total employment losses in 2008 averaged to an annual rate of negative 1.5 percent for each month. This is about half the rate of the average losses during the first 11 months after the beginning of a labor market recession. To a large degree this reflects the fact that the employment growth rate prior to the current downturn was less than one-third of the historical employment growth rate of previous business cycles. Put differently, the current job losses are somewhat milder than during past labor market recessions because the labor market added so few jobs during the preceding labor market recovery. Most experts, however, expect that this recession will last at least well into 2009, thus substantially worsening the job losses.

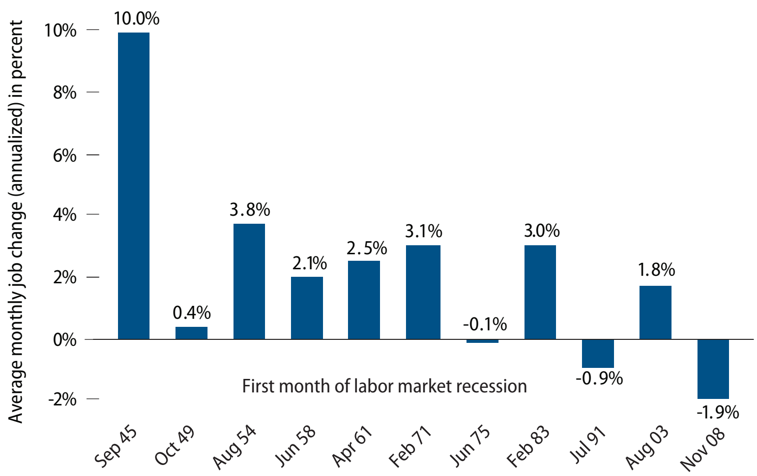
The labor market recession mirrors the financial and economic crisis

- The economic recovery that began in March 2001 and ended in December 2007 was carried by residential construction, and the labor market contraction has similarly been led by the construction sector. Over the course of 2008, more than one-quarter of the total job losses—26.8 percent—have been caused by declining employment in construction.

- The crisis in the housing sector—fewer sales and lower prices—precipitated a crisis in the mortgage market in addition to job losses. The problems in the mortgage market ultimately translated into more job losses, as fewer mortgages were needed, lenders made fewer loans, and the overall credit market tightened, thus requiring fewer workers in financial services. More than 7 percent of all job losses in 2008 were concentrated in the financial services sector.

- The decline in financial services has now taken on historical proportions. Job losses in this sector started in May 2006, and there have been 23 months of declining employment since then. This is the highest such job loss period, and it is only the second time on record that the U.S. economy has lost jobs in financial services in 23 out of 31 months—the other time being the 31-month period ending in August 1944. What's more, the average monthly job loss equates to negative 1.1 percent on an annual basis for the past 31 months—the largest such decline since the 31-month period that ended in April 1945. For the first 11 months of 2008, the average job loss in financial services came to an annualized rate of negative 1.9 percent, which shows an accelerating job loss in this sector and is the largest decline in financial services employment in the first 11 months of a labor market recession since World War II. No matter how the data are sliced, the evidence clearly shows that there has not been this kind of job destruction in financial services since World War II.

Figure 1: Average monthly job changes (annualized) during first 11 months of labor market recession



Note: Authors' calculations based on U.S. Department of Labor, Bureau of Labor Statistics. 2008. "Current Employment Statistics." Washington.

- The housing and financial crises ultimately laid bare the underlying problem of consumers with small incomes and too much debt. Families slowed their consumption spending and lay-offs in the retail sector started to pile up. In November alone, 91,300 jobs were lost in the retail sector at a time when retailers typically hire more workers to deal with the holiday rush. Nearly one-fourth, or 23.1 percent, of all job losses during 2008 have been in the retail sector.

- Slowing consumption has translated to a need for fewer manufactured goods, from cars to computers. The long-term decline in the manufacturing sector thus continued. Manufacturing had lost jobs for 29 consecutive months by November 2008, for a total of more than 1 million jobs. The job losses in manufacturing were nearly one-third, or 31.6 percent, of the total job losses in 2008.

The flipside of declining jobs is a rising unemployment rate

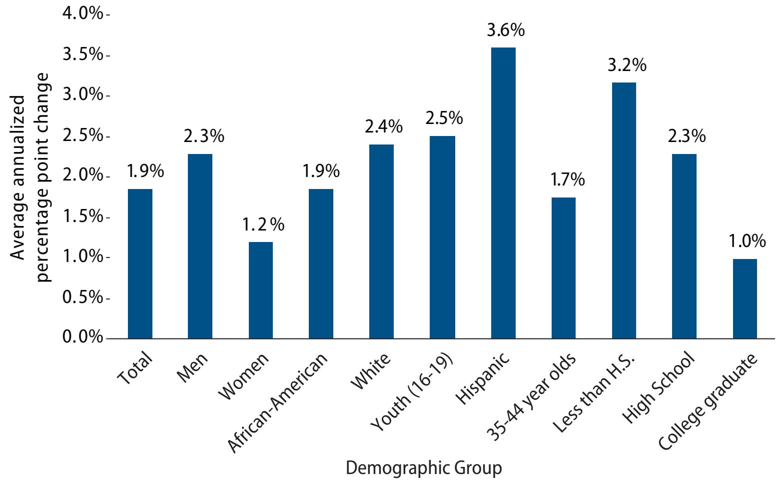
- The U.S. unemployment rate now stands at 6.7 percent. This is the highest unemployment rate since October 1993.

- The total U.S. unemployment rate has risen by 1.7 percentage points over the course of 2008. This is the largest absolute increase in the national unemployment rate over the first 11 months of a labor market recession since the early 1970s.

- The unemployment rates for minorities, young workers, and workers with less formal education are substantially higher than those of their counterparts. The unemployment rate for whites, for instance, was 6.1 percent in November 2008, compared to 8.6 percent for Hispanics and 11.2 percent for African Americans.

- All demographic groups have seen sharply higher unemployment rates in 2008, but minorities, young workers, and those with less education have seen larger absolute increases in the unemployment rate than their counterparts. The unemploy-

Figure 2: Average annualized percentage point change in unemployment rate in 2008



Note: Authors' calculations based on U.S. Department of Labor, Bureau of Labor Statistics. 2008. "Current Population Survey." Washington.

ment rate for Hispanics increased by 2.3 percentage points, compared to 2.2 percentage points for African Americans and 1.7 percentage points for whites. The youth unemployment rate increased by 3.3 percentage points—more than twice as much as the unemployment rate for workers between the ages of 35 and 44, which increased by 1.6 percentage points. And the unemployment rate for workers with less than a high school education has risen more than three times as much as the unemployment rate for college graduates, increasing by 2.9 and 0.9 percentage points, respectively. The unemployment rate for workers with less than a high school diploma was 10.5 percent in November 2008, compared to 3.1 percent for those with a college degree.

- The increase in the unemployment rates for all broad demographic groups in 2008 has been the sharpest increase during a labor market recession in decades. The absolute increases in the unemployment rate during the first 11 months of 2008 were larger for all groups than the increases in the unemployment rates during the first 11 months of the recessions in the early 1980s, early 1990s, and early 2000s.

Some states are faring much worse than others

- Unemployment rates vary widely across states. In October 2008, Michigan and Rhode Island had the highest unemployment rates with 9.3 percent each. South Dakota and Wyoming recorded the lowest unemployment rates with 3.3 percent each.

- The unemployment rate increased in all 50 states and the District of Columbia in 2008, except in Arkansas, where the unemployment rate essentially stayed flat at 5.4 percent.

- More than 20 states have seen increases of at least two percentage points in their unemployment rate. In four states, the unemployment rate even rose by a minimum of three percentage points: Georgia (+3.0), Florida (+3.0), Idaho (+3.1), and Rhode Island (+4.9).

- This has been the sharpest increase in unemployment in more than three decades for half of the states. In 26 states, the increase in the unemployment rate over the first 10 months of this year was the largest increase over the initial 10-month period of a labor market recession since 1976 when the Bureau of Labor Statistics started to collect these data.

Employment opportunities are quickly disappearing

- The employment-to-population ratio in November 2008 stood at 61.4 percent—its lowest level since February 1993.

- African Americans continue to have the lowest employment-to-population ratio. The employment-to-population ratio for African Americans was 56.1 percent in November 2008, well below the 62.2 percent for whites and 62.0 percent for Hispanics.

- The employment-to-population ratio declined for all demographic groups in the first 11 months of 2008. The total employment-to-population ratio decreased by a monthly average of 1.4 percentage points on an annual basis during those 11 months.

- The trend toward less employment among men continues at an accelerated pace. The employment-to-population rate for men stood at 67.5 percent in November 2008, its lowest level on record. Over the course of 2008, the employment-to-population rate for men has decreased by a monthly average of 2.0 percentage points on an annual basis after staying essentially flat since 2003.

- The current labor market contraction has seen a sharper erosion of employment opportunities for prime age workers—those between the ages of 35 and 44—than was the case in the first 11 months of the previous three labor market recessions. Over the course of 2008, the employment-to-population ratio for workers between the ages of 35 and 44 has decreased by a monthly average of 1.5 percentage points on an annual basis.

- Hispanics and African Americans have also seen their employment opportunities diminish. The employment-to-population ratios for both African Americans and Hispanics decreased in the first 11 months of 2008 more in absolute terms than it fell during the first 11 months of the labor market recessions of the early 1980s, early 1990s, and early 2000s.

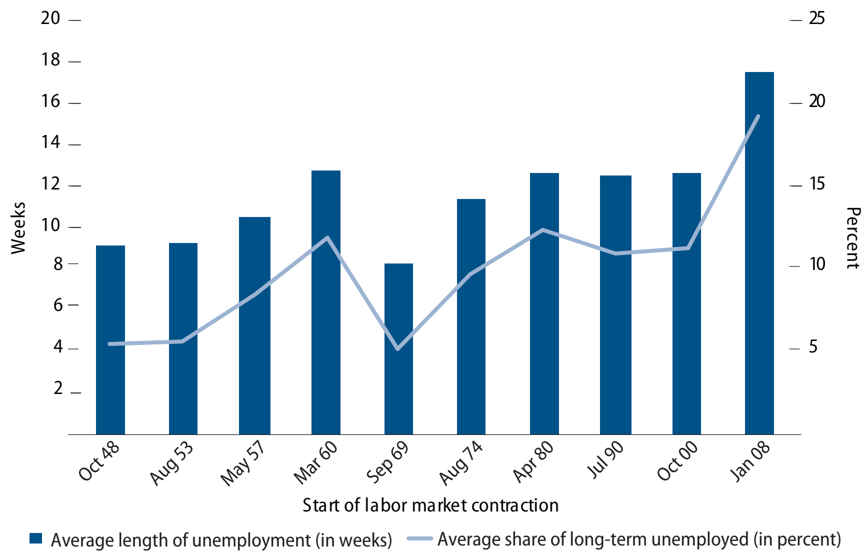
Once out of a job, workers now have a much harder time than in the past finding a new job

- Long-term unemployment was much higher at the beginning of this labor market recession than it was during previous ones. The average length of unemployment in January 2008, for instance, was 17.5 weeks. This was 34.6 percent greater than the second-highest average length of unemployment at the start of the labor market recession in May 1957.

- There was also a larger number of long-term unemployed—those out of work for 27 weeks or more—at the beginning of this labor market cycle than at the beginning of previous cycles. The share of the long-term unemployed out of the total unemployed was 18.3 percent in January 2008—56.4 more percent than the next highest level in the mid-1950s.

- Even though long-term unemployment was already at a record high level at the beginning of this labor market recession, it continued to increase at a relatively brisk pace. The share of the long-term unemployed, for instance, rose by a monthly average of 4.3 percent on an annual basis during the first 11 months of 2008—faster than was the case for the first 11 months of the labor market contraction in the early 1980s, early 1990s, and early 2000s. The average length of unemployment also increased faster in 2008 than during the similar periods in the early 1990s and 2000s.

Figure 3: Averages of long-term unemployment measures during the first eleven months of labor market recessions



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Conclusion

The United States is arguably in the middle of the most painful recession in decades. The current labor market recession has already been very painful for many American families, and no states and few sectors have been spared thus far. The construction and financial services sectors have been hardest hit, although manufacturing has also continued its multiple year-long decline, and the retail sector is reeling from the impact of American consumer's closing wallets. This recession comes after very meager job growth during the previous expansion, which left the labor market to fall from already low levels. Policymakers have no choice but to help both the unemployed and businesses find their footing again in order to spur future investment, growth, hiring, spending, and ultimately recovery in the economy.

Congress must enact a second round of stimulus policies in the short term in order to offer an immediate boost throughout the economy and help jump-start job recovery. A second stimulus package would stall the downward spiral in the overall economy and give confidence to businesses to invest and hire by restoring consumer confidence and demand for businesses' products. A recovery program will also be required in the medium term to accelerate the creation of a stronger labor market and help restore the jobs that will continue to be lost during the labor market recession.

The Center for American Progress has outlined a set of spending initiatives, totaling $350 billion for one year, as a starting point for stimulus and recovery. It recommends:

- $55 billion to spur demand by aiding those most in need through the expansion of unemployment insurance, COBRA support, food stamp benefits, the Emergency Food Assistance Program, and other similar programs.
- $70 billion for states and localities to help them deal with the fiscal consequences of the economic downturn, avoiding layoffs and cuts in education and health spending that would come at the worst possible time for the economy. The aid described comes in the form of greater federal assistance for Medicaid, General Block Grants, and Community Development Block Grants.
- $50 billion for stimulus tax credits to put money in the hands of those who need it most and help it to circulate throughout the economy the quickest.
- $75 billion for recovery through infrastructure development and investment, including money for ready-to-go highway projects, repairs for schools, and necessary improvements for our aviation infrastructure.
- $8.0 billion for key investments in health-related information, technology, prevention, and care coordination.
- $5.0 billion for enhancing our nation's broadband infrastructure, which has fallen behind that of other nations.
- $100 billion devoted to the creation of green jobs and putting our nation on a path toward a green recovery and green economy. Specific uses for this money would include a Weatherization Assistance Program, smart grid matching federal funds, money to retrofit buildings, and funds for advanced technology vehicle manufacturing and retooling. These programs would put the United States on a path to increase our energy independence, lessen our collective effect on the environment, become a green innovation and technology leader in the global economy, and spur the creation of good, high-skilled, 21st century jobs.

This $350 billion in expenditures and programs over the coming year would help those who are hurting now, and place the economy on a path for a stronger labor market recovery and overall economic recovery that will benefit more Americans.

The declines in the labor market and overall economy will likely not end in the near future, and it is important to reflect on the overall weakness of the labor market before the contraction began, which was a comparatively weak labor market with slow job growth, flat wages, and declining wages. Policymakers should make helping affected workers a high priority, as doing so goes hand-in-hand with helping restore businesses' confidence and boosting their incentives to invest and hire again. Without this turn of events, the overall economy will likely continue to flounder. If we ignore this opportunity to focus on the creation of good jobs, with good wages and benefits, we would be ignoring the likely future pain that America's families and eventually the economy at large would feel. Easing the hemorrhaging of jobs, ending the labor market recession, and putting the labor market on a part for a recovery with job growth above what was achieved during the previous business cycle will require significant effort. However, failing to put in the effort today will only set the United States up for a disappointing tomorrow.