Employment Effects Across Recessionary Periods for the US, Wisconsin, and the Chippewa Valley: 1976 - 2009

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Introduction

Nearly all Americans have been impacted by the recent economic crisis. This includes substantial job losses resulting in rising unemployment. The most recent data shows a loss of over 650,000 jobs for the nation with the unemployment rate rising to 8.1% in February 2009. Given the severity of the current situation, many experts have begun to compare this recession to past economic downturns. Although it may be too early to suggest that we are headed toward another *Great Depression*, comparisons with the recession of the early 1980s could be very meaningful. Our research poster examines the current employment and unemployment trends for the US, Wisconsin and the Eau Claire Metropolitan Statistical Area (EC). We then provide a detailed comparison of these trends to the employment and unemployment figures from earlier recessions.

Recessions and Gross Domestic Product

The formal economics definition of a recession is two consecutive quarters of negative economic growth as measured by changes in Gross Domestic Product (GDP). When talking about modern day recessions we often hear about the early 1980s, the early 1990s, the early 2000s, and the current 2008-09 downturn.

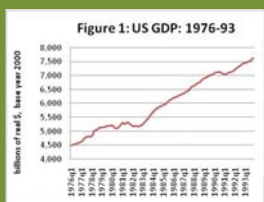


Figure 1: US GDP: 1976-93

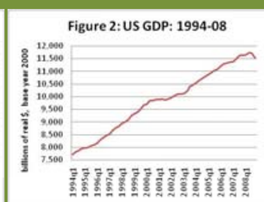


Figure 2: US GDP: 1994-08

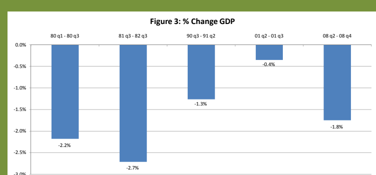


Figure 3: % Change GDP

Figures 1 and 2 show the trends in US GDP between 1976 and 2008 while Figure 3 shows the percentage change during the recessionary periods mentioned above. The first thing to notice is that GDP has increased substantially over this period, rising by more than one-and-a-half times.

In terms of recessions the double dip of the early 1980s was more severe than the other periods of decline. In 1980 GDP fell by 2.2% over two consecutive quarters while the second decline of the 1980s was larger and longer with GDP falling by 2.5% over 4 consecutive quarters. In comparison, the recession of the early 1990s lasted three quarters as GDP fell by only 1.5%.

Looking at Figure 2 it is difficult to see the recession of 2001, perhaps in part because it was not technically a recession with only one quarter of falling GDP (0.4%). There has been a lot of recent press coverage of the current economic crisis due to the combined collapse of financial markets and the ensuing decline in GDP. The only data available to date suggests that we are in a recession with GDP falling by 1.8% over two consecutive quarters.

It may be worth noting that the current two quarter drop in GDP is similar in magnitude to the first dip in 1980 after which the economy briefly rebounded only to fall even more dramatically in the second dip of 1981-82. Because there no way to accurately predict how long and severe the current economic decline will be, only time will tell how the current recession will compare historically to the early 1980s.

Employment Effects of Recession

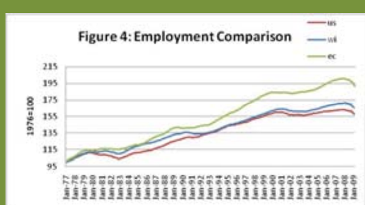


Figure 4: Employment Comparison

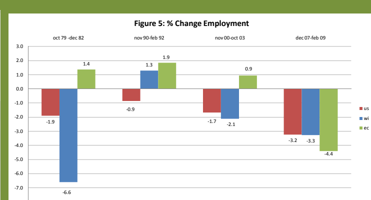


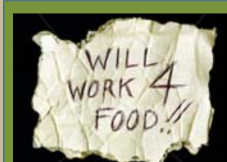
Figure 5: % Change Employment

The earlier analysis looked at recessions as defined by GDP growth. Here we examine the employment effects during recessions for the US, WI, and EC. Figure 4 presents a time series graph of seasonally adjusted total non-farm employment for all three areas from January 1977 – February 2009. The employment numbers are indexed to a base of Jan-77 = 100 so that the US, WI and EC can all be displayed on one graph.

The US, WI and EC have all experienced significant increases in total employment over this period. Interestingly, EC has seen the largest percentage increase over this period followed by WI and then the US.

In terms of recessions, Figure 5 shows that WI was hit hardest in the early 1980s with employment declining by more than 6%. In contrast, US employment fell less than 2%, while EC actually gained jobs. In fact, the employment numbers show that EC also gained a small number of jobs during the next two recessionary periods as well.

Turning our attention to the current economic decline we see that all three areas have experienced substantial job losses since December 2007 with EC being hit the hardest. However once again, we do not know just how far employment will fall before a recovery eventually sets in.



Data Sources:

United States Bureau of Labor Statistics

Federal Reserve Bank, St. Louis, MO

Recessions and Unemployment

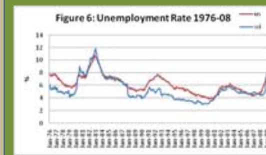


Figure 6: Unemployment Rate 1976-08

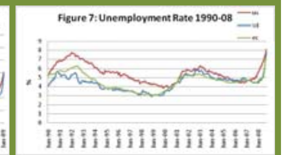


Figure 7: Unemployment Rate 1990-08

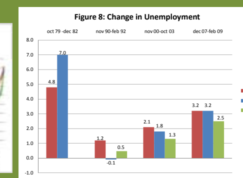


Figure 8: Change in Unemployment

The unemployment rate is defined as the number of employed persons divided by the labor force. Using the unemployment rate allows economists to look at the portion of the labor force that is unable to be utilized, so it is a useful tool in analyzing the severity of recessionary periods. Due to data limitations at the local level, we are only able to analyze the US, and WI over the period of January 1976 through December 1989, after which we are able to add EC to the analysis. This limitation keeps us from being able to compare EC to the US and WI unemployment numbers with the recession in the early 1980s.

Figure 6 shows that the unemployment rate reached well above 10% during the early 1980s in both the US and WI. This rate of joblessness is substantially greater than any other recessionary period shown. Figure 7 shows that the recession of the early 1980s also had the largest increase in unemployment with the rate rising 7.0 percentage points in just over three years. In comparison, unemployment increased by far less in the recessions of the early 1990s and early 2000s. Currently, the US, WI, and EC unemployment rates have all risen significantly, but the rise in the EC unemployment has been less severe (2.5 %pts) than in WI and the US (both 3.2%pts). It is also interesting to note that the unemployment rates of all three areas are at their highest levels since the 1980s (see Figure 6). This alarming statistic suggests that the current recession may be comparable to the recession of the early 1980s especially if unemployment continues to rise.

How Does the Great Depression Compare?

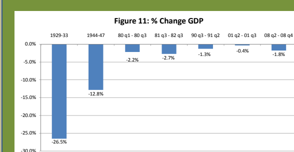


Figure 11: % Change GDP

Figure 11 is identical to Figure 3 with the addition of the percentage change in GDP during the *Great Depression* and the recession of the mid 1940s. This graph clearly shows that while the modern time recessions that this poster emphasizes are significant, they are nowhere near as large in magnitude as economic downturns experienced in earlier times.

Employment Trends in the Manufacturing and Retail Sectors

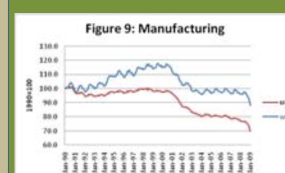


Figure 9: Manufacturing

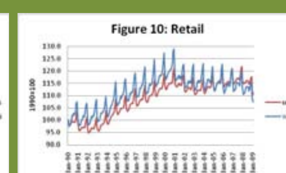


Figure 10: Retail

We also hear a lot of talk about how the US has encountered a structural shift in employment away from manufacturing toward a more service oriented economy. Figures 9 and 10 examine this trend for the US and WI from January 1990 – February 2009 (indexed to Jan-90 = 100).

The employment numbers presented here are not seasonally adjusted as can be seen by the clear seasonal trends especially for retail employment. In terms of manufacturing the US employment was stagnant in the 1990s while WI manufacturing employment was actually growing by almost 20% over the decade. However, the 21st century has not been so kind to manufacturing with both the US (28%) and WI (23%) losing many jobs in this sector.

The story with retail employment is nearly the opposite as the manufacturing sector. In particular we see US and WI retail employment rising through the 1990s and then stabilizing through the 2000s.

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