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Musings & Amusings:

Late Night Humor

"Last week, economists were saying the recession is finally over, but this week, all those economists were laid off."
-Jimmy Fallon

"The Dow hit 10,000 this week… And people were so excited, they took to the streets to celebrate, which is easy because so many of them live there."
-Bill Maher

"President Obama announced that he wants to give senior citizens $250. Has this been the greatest year for Brett Favre or what?"
-Jay Leno

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Unemployment: Although economists declared that the recession "ended" in August or September, the unemployment rate continued to climb. It hit a 26-year high of 10.2 percent in October, when nearly 16 million persons were without work. However, the total number of people who will have experienced some unemployment this year is at least double that. Let's try to sort out what's been happening and what lies ahead.

When economists say that the recession has ended, they are referring to the 2.8 percent rise in real gross domestic product (GDP) during the third quarter after declining in five of the six previous quarters. GDP, which is the best measure of overall economic activity, grew as consumers bought cars under the "cash for clunkers" program and businesses cut inventories at a slower rate than in the previous quarter. The economy is now said to be *recovering* from the recession. We will be *fully recovered* when the economy is back to normal or to its pre-recession peak.

The stock market makes this clear. The Dow Jones peaked at 14,165 in October 2007 – just before the "official" start of the recession in December of that year. It then fell to 6,600 by March of 2009 – about six months before the recession ended. At the time of this writing, the Dow Jones was hovering a bit above the 10,000 mark. Hence, the stock market has been *recovering* but has along way to go before it is *fully recovered.*

The stock market is classified as a leading indicator since its movements typically precede those in the overall economy. However, the unemployment rate is a lagging indicator and is likely to continue to deteriorate for a while longer. The consensus among forecasters is that it will rise until late 2009 or early 2010 and then start falling (recovering) slowly next year. However, odds are that it won't get back down to the vicinity of 5 percent (which many consider to be normal) for five or six years.

Why so long? Reducing unemployment is truly like trying to hit a moving target. GDP has to grow at least 2.5 percent per year to keep unemployment from rising due to productivity gains and the increase in the labor force as the population expands. Only GDP growth in excess of this hurdle will reduce unemployment. This is shown in the *Wall Street Journal* survey where unemployment falls slowly from 10.3 percent in December 2009 to 9.6 percent a year later with real GDP rising 3 percent. The prediction might prove optimistic if productivity and/or the labor force gain more rapidly than expected.

So far, we've only discussed the "official rate" which hit 10.2 percent in October. This is the ratio of the number of unemployed persons to the total labor force. To be counted as unemployed by the monthly survey of households, a person must have looked for work during the past month and be available for work, e.g., not in school or jail. It does *not* matter whether the individual was collecting unemployment insurance. The labor force is the sum of those who worked and those counted as unemployed.

The media have also been stressing a much higher jobless rate that reached 17.5 percent in October. I've heard it referred to as the "true" unemployment rate. More accurately, it is a different way of computing the total. The Labor Department has been publishing the series known as U-6 for almost 15 years. It starts with the official count of the unemployed and adds those who "want and are available for full-time work but have had to settle for a part-time schedule." Also included are so-called "marginally attached workers who… are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past." The latter are often referred to as "discouraged workers" because they have given up looking. These additions raise the October tally of persons considered unemployed/under-employed using U-6's expanded coverage to about 27 million.

There's yet another way to look at the extent of unemployment: the annual "work experience survey." Once a year, the Labor Department conducts a special survey that asks respondents whether they worked at all and/or experienced any unemployment during the previous year. This is a different perspective from the more familiar monthly survey which is a snapshot of who is working and who is not during the month. People move in and out of employment and unemployment during the year.

Unfortunately, the data come out with a substantial lag of more than a year. However, I went back to 1982, a year when a severe recession had driven the official unemployment rate to 9.7 percent – not very far from today's level. In 1982, the monthly survey counted 10.6 million unemployed persons on average. However, 26.5 million persons actually experienced some unemployment during the course of 1982! Based on this, my "guesstimate" is that the work experience survey for 2009 will show that upwards of 30 million – and perhaps as many as 40 million – Americans will have suffered a bout of joblessness this year!

Which unemployment numbers are the "best?" It depends on what question you're trying to answer. If you want to know how many people are touched by rising unemployment, then the work experience data and U-6 give a more complete picture. However, the "official" jobless rate does an adequate job of measuring the severity of the recession relative to past cycles. That's because these other measures are highly correlated with it.

Looking ahead, most economists expect unemployment to climb a bit more before starting to decline sometime next year. This means that the improvement in labor markets will lag the GDP turnaround, which started in the third quarter of 2009.

One reason for the lag is the so-called "jobless recovery" phenomenon where firms obtain the early increases in output (GDP) through increased productivity and by lengthening the workweek for existing employees. Later they turn to adding workers to their payrolls. The second reason is that as labor market conditions start to improve, persons who were not looking for work are encouraged to start seeking jobs, thereby raising the unemployment rate. One conclusion is that the unemployment rate does not tell the full story at this stage of the business cycle. You also need to look at employment. Jobs are still declining but at a slower pace than at the beginning of 2009.

At the state level, there are large unemployment rate differences across the U.S. Michigan has the highest jobless rate, having been hit hard by the collapse of the auto industry. Even before the national recession started, Michigan's economy was distressed. One of the lowest is South Dakota, which benefits from having a state budget surplus that has kept government from being a drag on the economy. Also, the cost of doing business is well below the U.S average.

In the Northeast, Rhode Island has been having a very difficult time, with the third highest unemployment rate in the nation. New Hampshire, Connecticut and Massachusetts are significantly below the national average.

Looking ahead, the recent forecasts from the New England Economic Partnership (NEEP) are revealing. NEEP is a non-profit research consortium that has been making twice-yearly forecasts of the New England states for the past quarter century. The November update shows unemployment in Connecticut and Rhode Island starting to decline in the third quarter of next year – the same as for the national as a whole. Massachusetts lags by only a quarter. Of course, the timing is very dependent on what happens to the national economy.

Labor Market: U.S.

	Oct 2009
Labor Force (Thous.)	153,975
Employed	138,275
Unemployed	15,700
Not in Labor Force	82,575
Unemployement Rate %	10.2%
Want Full-Time Work	9,284
Gave up Looking	2,373
U-6 Expanded Unemployement Rate	17.5%

Source: U.S. Bureau of Labor Statistics.
All data are seasonally adjusted except "Gave up Looking"

Unemployment: States

	Oct 2009
Michigan	15.1%
Nevada	13.0%
California	12.5%
North Dakota	4.2%
South Dakota	5.0%
Montana	6.4%
Connecticut	8.8%
Massachusetts	8.9%
Rhode Island	12.9%
New Hampshire	6.8%
New York	9.0%

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