



Economic Review



Issue XXXVII
Mar/Apr 2009

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Musings & Amusings:

Lottery: A tax on those who are bad at math.

Acceptable level of unemployment: means that the economist to whom it is acceptable still has a job.

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The Great Recession: By any measure, this is shaping up to be the deepest of the 12 recessions since World War II. If the decline ends in December, it will have lasted two years – breaking the previous postwar record by eight months. The current contraction has already been labeled the *Great Recession*, a term originally applied to the long and deep New England malaise of the early 1990s.

By the end of this year, the economy should be responding to the potent combination of lower oil prices, much lower interest rates and the large fiscal stimulus package. It will also benefit from measures being undertaken to buoy the financial sector and reduce the torrent of foreclosures.

My forecast has a total real GDP decline of 4 percent, a loss of some six million jobs and an unemployment rate that hits 9.5 percent before heading down. GDP should start rising again by the fourth quarter of 2009. Before that, the stock market will start rallying. However, jobs and unemployment won't begin to improve until next year... more about this later.

Although the recession is severe, it falls far short of the 1930s both in depth and duration. A recent comment by Economics Professor Robert Barro of Harvard that there's a 30 percent chance of a depression has been misinterpreted. What he actually said was that – given the stock market collapse – there's a 28 percent chance that real GDP per person could decline 10 percent, something he'd count as a "minor" depression. Using Barro's classification, New England's Great Recession was probably a minor depression!

Barro put the odds of replaying the 1930s, when the economy collapsed by 25 percent, at less than 10 percent. My forecast has per capita GDP falling about 5 percent. The bottom line is that there's a lot of downside risk until the financial sector starts to stabilize. There's also considerable uncertainty in Europe where economic conditions are deteriorating but the monetary responses have been modest and the fiscal stimulus minimal. This is a real test of the Euro currency zone which recently celebrated its tenth anniversary.

Jobs and the Jobless: Years ago, my job as a young economist with the President's Council of Economic Advisers in Washington was to go to the Labor Department a day before the unemployment rate was released to the public on the first Friday of the month. I would clutch the manila envelope in my hands in the taxicab on the way back to my office to write a report for the President. I was always afraid of leaving that very sensitive data on the back seat and causing a major scandal, but it never happened.

The numbers are even more important today. To economists and real people alike, the jobs and unemployment data are the most relevant measures of how severe this recession is. There are several important sources.

The unemployment rate is derived from a huge monthly survey of 50,000 American households. By comparison, the monthly Consumer Confidence survey polls "only" 5,000 people.

Each month, trained enumerators ask questions such as, "Did you work last month?" If *yes*, then the respondent is counted as employed. If *no*, then that person is classified as unemployed if he/she (1) looked for work and (2) was available for work. *Looking* can range from simply scanning the help-wanted ads to sending out resumes and pounding the pavement every day. Being *available* means not being in school or ill. The unemployment rate is the number of unemployed divided by the size of the labor force. All data are for individuals aged 16 years and older.

Although this so-called *household survey* yields an employment count, the more familiar "nonfarm jobs" number comes from the monthly *payroll survey* of some 300,000 employers. Basically, the questionnaire asks "How many people did you have on your payroll during the middle of the previous month." It also asks how many hours they worked and what they were paid. All employers except farmers are canvassed.

Together, these two surveys yield a wealth of information about where people work and their demographic characteristics.

In addition, the Labor Department reports *initial claims for unemployment insurance* every Thursday morning. This is the number of newly laid-off people who filed for unemployment compensation with their state during the previous week. The weekly average was 640,000 this past February, indicating a very large volume of layoffs. A companion series is called *insured unemployment*, which is the total number of persons actually collecting that week. During any given period, some have gone back to work and some have exhausted their benefits.

The number of insured unemployed is less than half the total unemployed from the household survey because many people without jobs are not eligible to collect, e.g., new entrants into the workforce and, in most cases, those who have quit or been fired rather than laid off.

Ok, let's turn to a few issues and observations:

It's sometimes claimed that "official" unemployment data understates the "true" number of jobless people because it excludes those who are ineligible or have exhausted their benefits. This is simply not correct. You don't have to be collecting unemployment insurance to be counted as unemployed by the household survey. Indeed, the survey doesn't even ask about this.

Similarly, some contend that official unemployment is understated because it excludes so-called "marginally attached workers" who have given up looking and those who are working part-time because full-time jobs are not available. The claim is misleading. Data are reported for both these categories every month. In February, there were 8.6 million "involuntary part-time" workers, up 3.7 million over the past 12 months. And there were 2.1 million "marginally attached workers", an increase of 466,000 from last year. They're just not included in the reported unemployment rate.

The Labor Department does add these categories back in an alternative measure known as U-6. This is almost double the official 8.1 percent rate. Keep in mind that it doesn't take much effort to be classified as having looked for work. Just asking your neighbor if he knows of any jobs on the way to the ballpark will suffice.

The payroll survey job count is considerably smaller than the household total primarily because payrolls don't include farm workers and the self-employed. On the other hand, a person working two jobs gets counted only once in the household survey but possibly twice in the payroll data.

Most forecasters believe that jobs and unemployment are "lagging indicators" which will start improving after the economy has begun recovering as measured by real GDP. This has been the "jobless recovery" pattern that followed the past two recessions. (By the way, I did a segment on the *Newshour with Jim Lehrer* several years ago after their search traced the first use of the *jobless recovery* term to my newsletter in the early 1990s). Prior to 1990, nonfarm jobs moved much more closely with GDP. And while the unemployment rate always tended to lag a little, the wait has grown much longer in the past two decades.

It's not obvious why these changes have taken place. Businesses might have become more reluctant to add new workers until they are convinced that the recovery is for real. Meanwhile, they work their employees harder and/or longer to get the extra output needed for that rising GDP. Another possibility is that changes in technology and industry mix have made at least labor more of a fixed cost than a variable expense. In any case, the jobless recovery is widely expected to reappear next year.

The slowness of labor markets to recover can be quite disconcerting. To the average person on the street, it hardly feels like the recession has ended if jobs are still eroding even as stock prices and the GDP are rising. To politicians running for re-election in 2010, the prospects of campaigning during a jobless recovery might be enough to convince them it's time to start looking for a real job... if only they were available!

Labor Market Snapshot

	February 2009
Labor Force (Thous.)	154,214
Employed	141,748
Unemployed	12,467
Not in Labor Force	80,699
Unemployment Rate %	8.1%
Nonfarm Jobs (Thous.)	113,768
Weekly Hours	33.3
Hourly Earnings	\$18.47
Initial Claims (Thous.)	643
Insured Unemployed	5,016



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