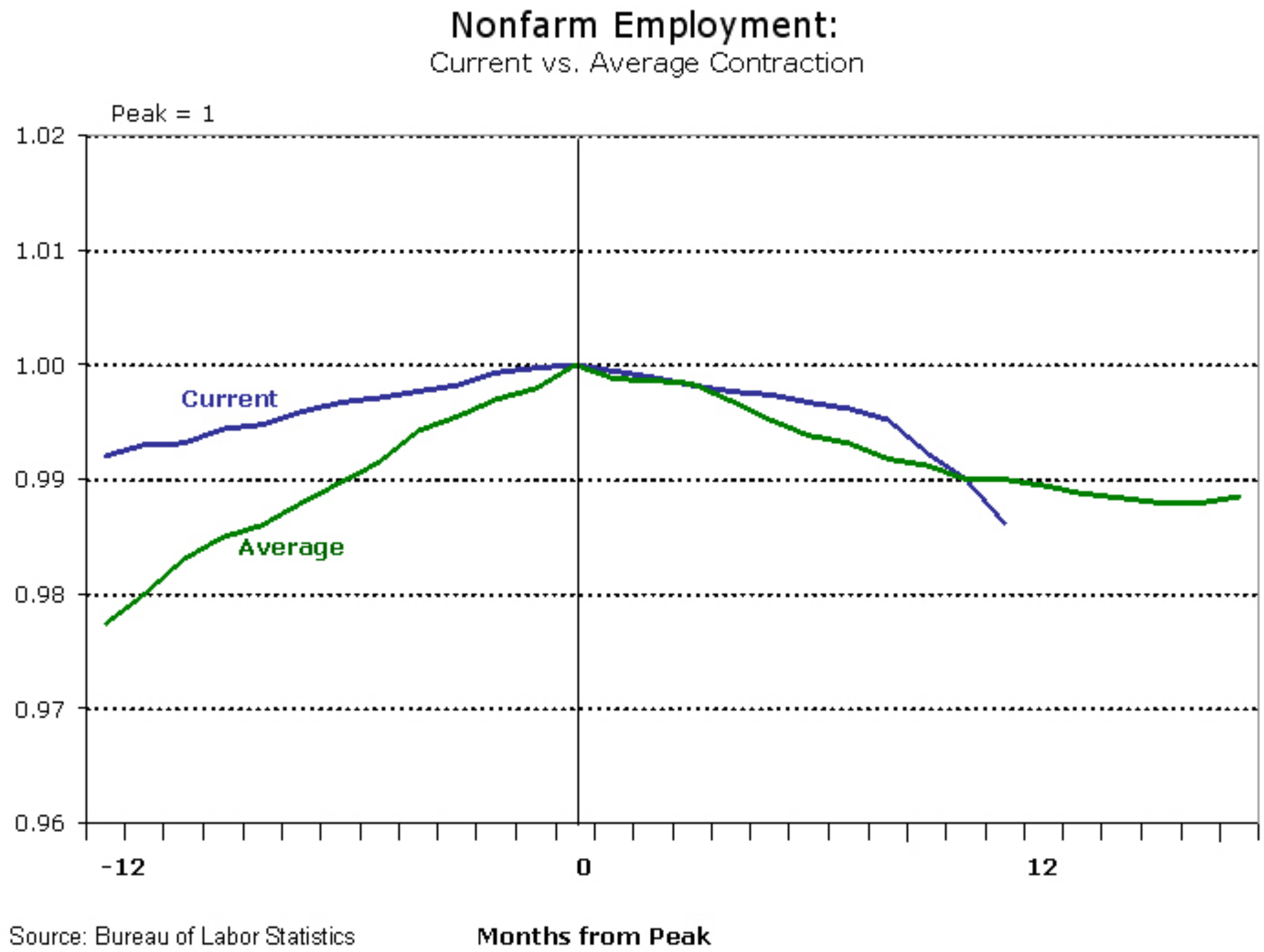
December 5, 2008

The recession in pictorial context

If your head had not yet been turned by economic events, today's startlingly weak employment report probably did the trick. Rather than repeat all the negative superlatives you are likely to hear, I'll take the opportunity to step back and take in the current recession in a somewhat broader context. One way to look at this is to examine the trajectory of employment relative to December 2007 levels (when this recession began) and compare it with the average trajectory of relative employment in other recessions:

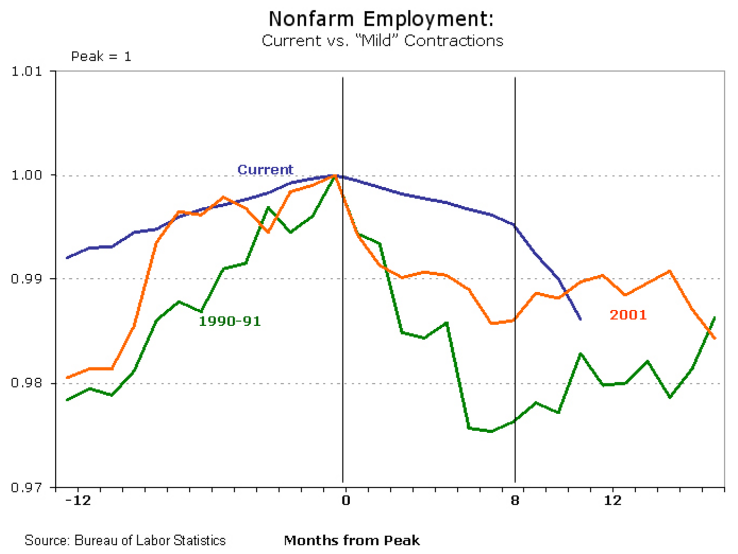


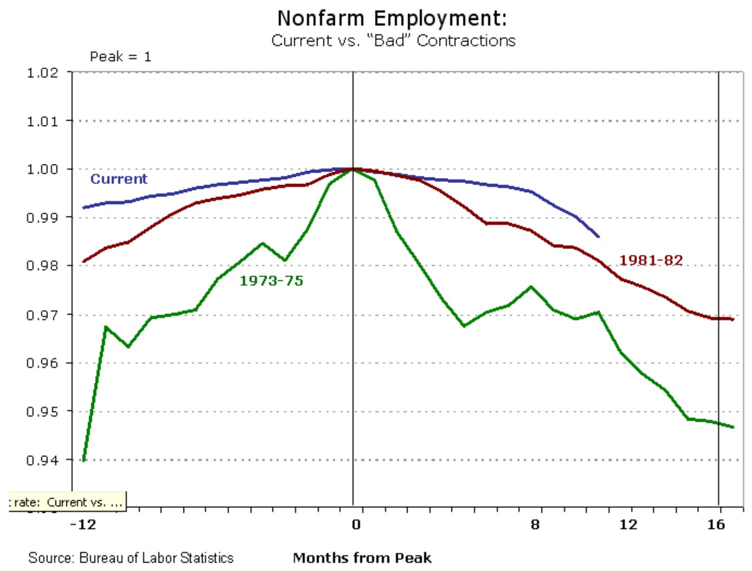
In the graph above "time 0" represents the peak of a business cycle, or the month before a recession begins (December 2008 for the current recession). "Average" refers to the average experience in the seven previous recessions since 1960 (1960-61, 1969-70, 1973-75, 1980, 1981-82, 1990-91, and 2001). To facilitate comparison across recessions, I have normalized the level of employment at the peak of the business cycle to one. As noted, then, each point represents the level of employment relative to the peak: numbers below one indicate that the number of nonfarm jobs was below the number that existed as the economy entered recession.

Before the November job report, the overall employment picture had been fairly unexceptional compared to the average recessionary experience. That changed, as I guess will happen when a half-million job loss statistic arrives. As of today, a milder than average recession has turned into a somewhat deeper than average recession, at least in terms of employment.

Does this mean we are heading off the map in terms of past experience? It is hard to tell by just focusing on the average experience of the previous seven downturns. The previous two recessions—1990–91 and 2001—lasted only eight months. Assuming that we remained in recession through November—and I don't think that conjecture will draw much debate—the current episode is already a year in duration. A more apt comparison might therefore be the "bad" recessions of recent memory, the 1973–75 and 1981–82 episodes, which both lasted sixteen months.

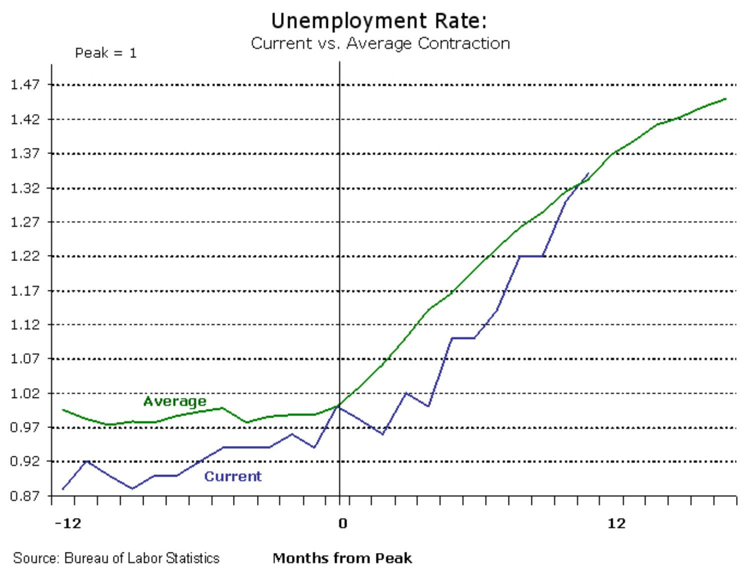
Here, for your viewing displeasure, are those comparisons:

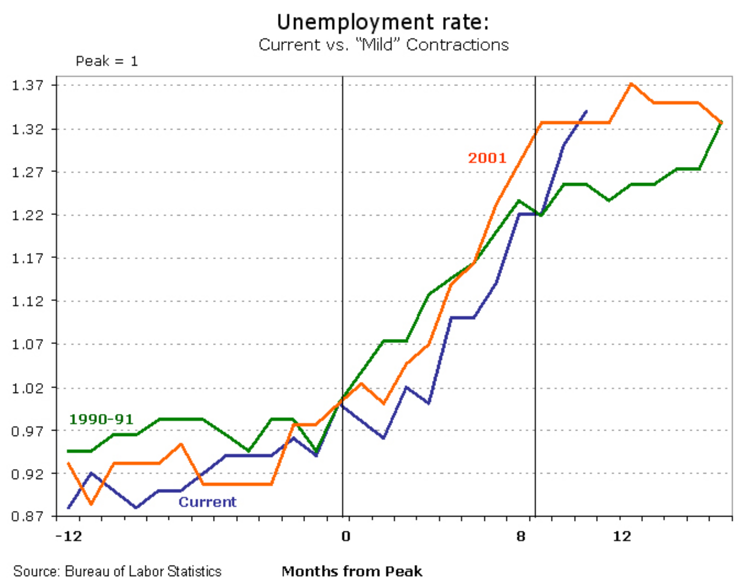


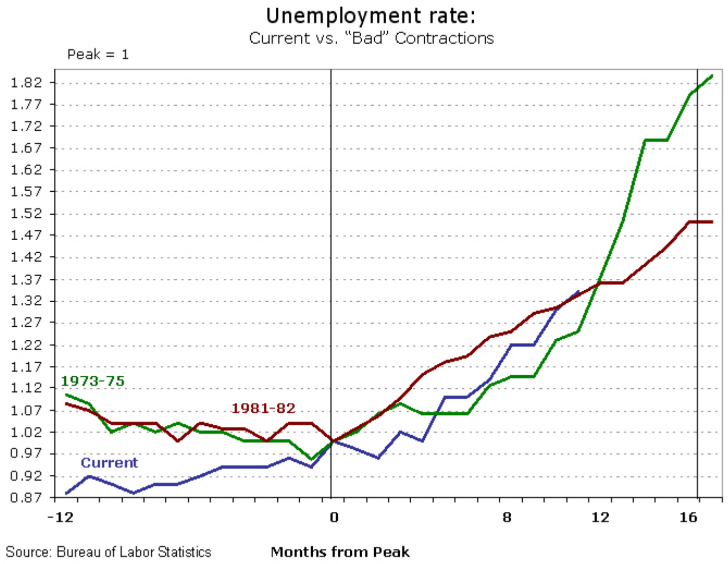


Not surprisingly, in the last two recessions, which were relatively short-lived, the employment situation had already stabilized twelve months after the onset of the downturn. So there may not be much comfort in noting that the employment losses are not yet out of line with experiences of those episodes (especially the 1990-91 version). The trajectories suggested by the relatively long-lived, more severe recessions of 1973-75 and 1981-82 are almost certainly more sensible comparisons at this point. And, as bad as it is right now, we are still a fair distance from the pace of relative employment losses in those episodes.

The story is similar if we adopt the vantage point of the unemployment rate:







It is not yet clear whether the acceleration in job loss is a new trend or the lingering impact of a very bad few months, of which the worst is passing. It's always important to monitor new data and anecdotal reports to determine which way the wind is truly blowing. But today's report raised the stakes on that activity by a considerable amount.

By David Altig, senior vice president and director of research at the Federal Reserve Bank of Atlanta

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