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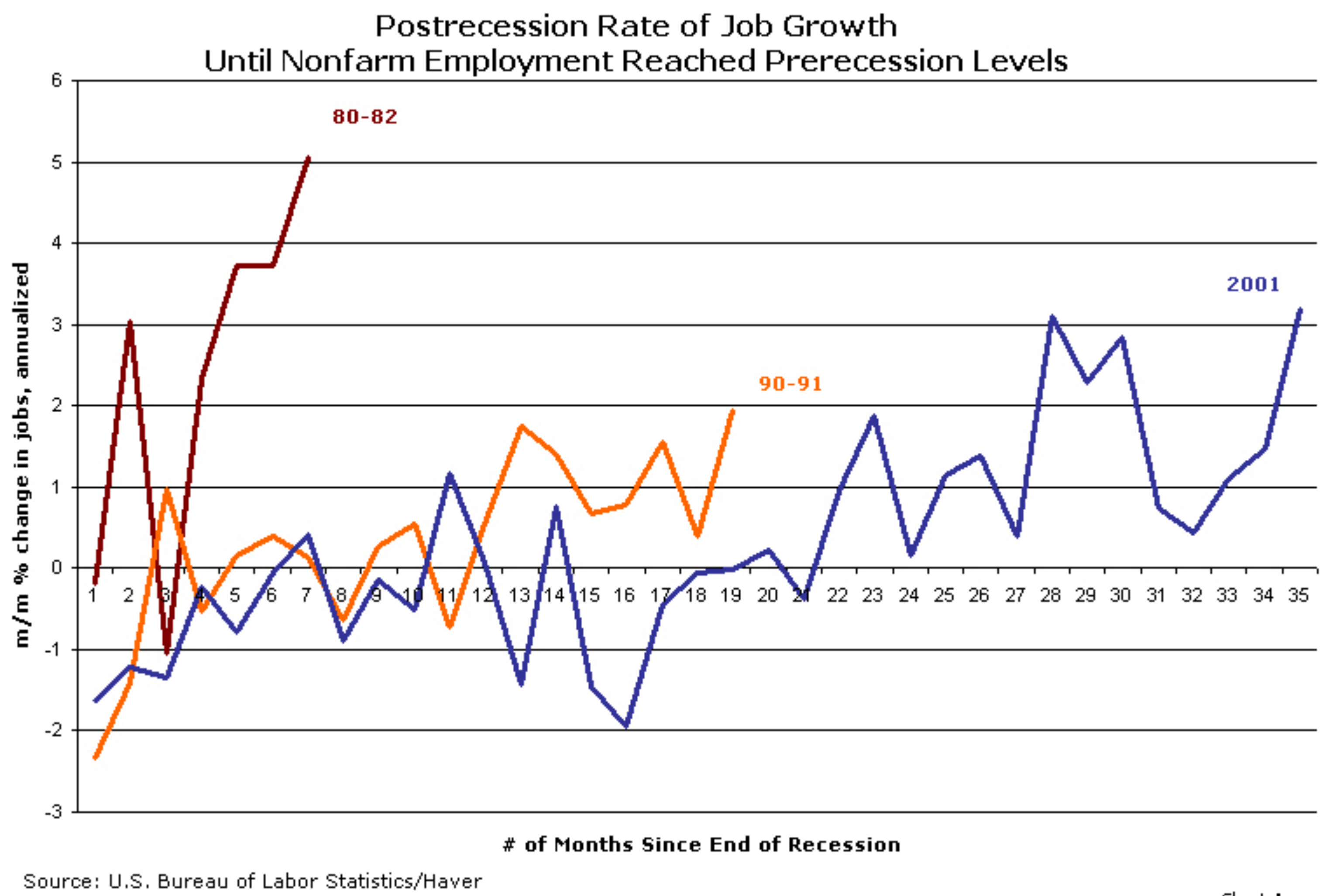
A look at postrecession employment trends

Recent Blue Chip survey forecasts gross domestic product growth turning positive in the third quarter of 2009. But for those individuals who have lost jobs, what is foremost on their minds is when the labor market will recover. An examination of labor market performance during and after previous recessions suggests the employment recoveries vary in length, and the employment downturns are generally much longer than the actual recessions.

There have been large differences in employment patterns over previous recessions. For example, over the combined 1980 and 1981–82 recessionary periods the payroll employment loss amounted to 1.3 percent of the average employment level in the 12 months preceding the beginning of the 1980 recession. The share of employment lost was less in the 1990–91 and 2001 recessions, with 0.41 percent and 0.89 percent of jobs lost, respectively. In contrast, the share of employment lost during the current recession has been very large. Even if the recession ended today the share of jobs lost would be 2.7 percent.

Just as there has been volatility in the share of jobs lost, the time until employment has fully recovered (returned to prerecession levels) has also varied across past recessions, as shown in the chart below. The two most recent recessions, which had relatively low rates of job decline, had very drawn-out employment recoveries. In 2001, employment—growing at an average annualized rate of 0.3 percent—took 35 months (nearly three years) to return to prerecessionary levels. The average rate of employment growth was also approximately 0.3 percent after the 1990–91 recession. But because the share of employment lost was less, employment returned to prerecession levels in 19 months. Interestingly, the 1980–82 recessionary period, which had a much larger share of jobs lost, also had the quickest rate of recovery. Postrecession employment grew at an annualized rate of more than 2 percent and took just seven months to reach prerecession levels.



The question then becomes, what does previous experience imply for the path of employment after the current recession? If the current recession ended today with a 2.7 percent job decline, and postrecession employment growth resembled the recovery from the 1981–82 recession, then employment would return to prerecessionary levels in approximately 14 months. But if the employment growth path is more similar to the two most recent recessions, then it would take well over eight years for employment to return to prerecession levels. Of course, history is unlikely to repeat itself exactly, but what history does tell us is that the employment recovery will lag the recovery in overall economic activity, and possibly by a lot.

By Melinda Pitts, research economist and associate policy adviser at the Atlanta Fed

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