FRBSF WEEKLY LETTER

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Where's the Recovery?

Technically, the U.S. has been in an economic recovery for a year and a half. After a contraction in GDP that lasted from 1990.Q3 through 1991.Q1, real output expanded in the subsequent six quarters at an annual rate of 1.5 percent. But this is a weak performance compared to the previous six recoveries, when the annual growth rate for the first six quarters of expansion averaged 4.1 percent. Employment growth has been even more sluggish, making the current expansion the weakest in job performance of any postwar recovery. The number of jobs actually fell at a 0.3 percent rate since the second quarter of 1992, compared to an average 2.0 percent expansion seen in earlier recoveries.

A previous *Weekly Letter* (91-40) argued that the recession was unusually concentrated in a few key regions. This *Weekly Letter* follows up that analysis by identifying which regions are adding jobs and which regions are holding down employment growth during the expansion period. We find that while job gains are occurring in a majority of states, far fewer states than usual are reporting gains at this stage of a recovery. Moreover, the states that have continued to suffer job losses during the expansion tend to be the same ones that accounted for unusually large shares of the job losses during the earlier contraction in output.

Concentrated recession: July 1990–May 1991

The Business Cycle Dating Committee at the National Bureau of Economic Research (NBER), which has been dating peaks and troughs of recessions back to 1950, set the peak of the most recent business cycle in July 1990, but it has not yet dated the trough. Nevertheless, based on the growth in real output, a case can be made that the expansion began during the second quarter of 1991. Accordingly, this analysis uses May 1991 as the trough month, and we examine the regional pattern of employment growth both before and after that month.

The period of economic contraction between July 1990 and May 1991 showed an unusual degree of regional variation in economic performance. During this period, 22 states actually had job *gains* that totaled 190,000. This is the *largest* number of states with job gains (and consequently the *fewest* number with job losses) of any postwar recession. In the 1981–1982 recession, for example, only four states recorded job gains.

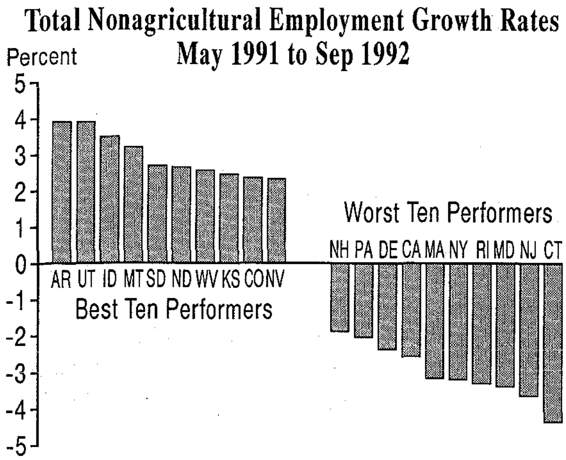
Of the 28 states that recorded employment declines, a few key states accounted for a large portion of the 1,890,000 jobs lost. For example, New York, New Jersey, and Massachusetts accounted for 30 percent of the job losses. Adding in the rest of New England raises the job losses accounted for by the Northeast to 38 percent. California accounted for 16 percent of the national job losses. As a result, the Northeast and California combined accounted for over half of the jobs lost in the recession, even though they accounted for only 28 percent of the employment at the beginning of the period—a further reflection of the concentrated nature of this recession.

Unbalanced recovery: May 1991–September 1992

The pattern of regional concentration of weakness has persisted during the period of expansion from May 1991 to September 1992, the last period for which data are available. In total, employment grew in some 30 states during this period, adding 601,000 jobs nationally. As shown in the figure, the top ten performing states each enjoyed employment growth of over 2 percent, with Arkansas, Utah, and Idaho expanding by over 3.5 percent. In general, the Plains and Rocky Mountain states have performed well, accounting for most of the job growth over the period.

In contrast, some 20 states (and Washington, D.C.) have lost employment during the expansion, for a

THE WESTERN ECONOMY *The Western Economy* is a quarterly review of economic conditions in the Twelfth Federal Reserve District.



total job loss of 1,266,000. The ten worst performing states continued to suffer severe employment losses ranging from 1.9 percent to 4.4 percent since May 1991. Except for California, all are Northeast or Mid-Atlantic states. New York lost 252,000 jobs, accounting for 20 percent of the total jobs lost. Adding New Jersey and New England to the New York total brings the Northeast total to 563,000 jobs lost during the period, or 44 percent of the continued employment decline. California suffered the largest number (though *not* the largest percent) of job losses: 321,000, which accounts for a quarter of the total jobs lost.

Thus the regions most responsible for job losses during the contraction (the Northeast and California) continue to drive employment losses during the expansion, accounting for almost two-thirds of the gross job loss. With the job losses outweighing job gains, the state-level employment figures reveal a net national job loss of 665,000. Were it not for the losses in the Northeast and California, however, this expansion would show a net job gain of 219,000. This analysis suggests that continued economics stress in these regions is dragging down the national recovery.

How does this pattern of recovery compare to past recoveries? To answer this question, we examined the corresponding sixteen-month periods following the troughs of the six previous recessions. In all but one of the previous recoveries almost all states enjoyed job growth. For example, sixteen months after the trough of the 1982–1983 recession, 48 out of 50 states recorded expanding employment, and in the same period after the trough of the 1974–1975 recession, 49 states enjoyed job growth. The one exception is the period following the 1980.Q1–1980.Q3 recession, and that is because the economy expanded for only 12 months before dipping back into recession beginning in July 1981. Except in the period between the back-to-back recessions then, the large number of states suffering employment losses in the current expansion is unprecedented in postwar history.

Does it matter?

The continued concentration of job losses in a few states during the current economic expansion suggests that many of the regional economic problems that helped push the nation into the recession are still with us and therefore still work as a drag on the economy. The stress in states still experiencing job losses are related in part to adjustment to problems in specific sectors like commercial real estate and development, defense-related industries, and aerospace. The adjustment of regional economies to the problems in these sectors can be expected to be drawn out over a number of years. The slow process of adjustment of regional economies would account in part at least for the failure of the national economy to bounce back as smartly from the recent economic downturn as it has following previous recessions.

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DISTRICT INDICATORS
(Seasonally Adjusted)

	92Q3	92Q2	92Q1	91Q4	91Q3	91Q2	91Q1	90Q4	% Change From: 92Q2	% Change From: 91Q3
AGRICULTURE										
U.S. crop prices, 1985=100	107.9	108.2	109.6	111.0	114.5	116.1	113.3	114.7	-5.83	-6.98
District crop prices, 1985=100	111.6	102.2	113.7	108.4	120.7	129.1	107.4	113.0	-7.53	-21.74
Farm cash receipts, million $	2529.4	2477.9	2500.4	2694.2	2529.5	2698.3	2529.0	2629.7	-0.01	-12.45
Cattle-on-feed, 1985=100	91.3	86.9	86.1	80.8	84.4	92.0	92.1	87.2	8.29	-5.39
Cattle prices, California, $/Cwt.	60.5	58.4	60.9	62.1	62.6	66.4	64.5	63.9	-3.46	-13.46
FORESTRY										
Lumber production, millions board feet	1381.1	1287.1	1417.9	1351.8	1428.7	1467.7	1359.0	1360.5	-3.33	-18.48
Northwest lumber inventory, millons board feet	2233.2	2283.1	2185.7	2302.6	2411.0	2307.8	2388.9	2340.3	-7.38	-1.99
U.S. lumber prices, 1986=100	147.3	154.4	157.1	137.2	131.2	138.3	113.8	120.6	12.27	11.64
ENERGY										
Spot price of oil, $/barrel	21.7	21.1	18.9	21.8	21.6	20.8	22.1	32.1	0.13	1.61
U.S. rig count	681.6	696.0	650.9	789.1	802.6	924.3	951.1	1096.3	-15.08	-24.71
District rig count	59.7	68.9	55.6	60.9	73.3	83.8	73.2	74.5	-18.59	-17.74
Fuel mining employment, 1985=100	68.3	70.3	70.1	69.9	72.7	73.6	74.8	73.9	-6.06	-4.44
U.S. seismic crew count	71.2	81.3	80.2	89.7	98.4	110.2	117.9	120.3	-27.62	-24.67
MINING										
Mineral prices, 1986=100	106.9	107.7	105.3	103.2	105.6	109.2	108.2	112.2	1.26	-1.40
Metal mining employment, 1985=100	175.2	177.4	180.9	180.7	184.1	185.9	193.1	195.9	-4.87	-4.86
CONSTRUCTION										
Nonresidential awards, 1985=100	95.5	104.1	115.0	103.7	93.4	103.1	106.3	101.1	2.28	0.96
Residential permits	19586	19182	19780	19496	18524	19833	17667	18524	5.74	-3.29
Western housing starts, thousands	26.3	26.7	21.9	19.5	24.1	25.5	15.6	18.6	9.27	5.37
Construction employment, thousands	893.1	906.6	906.9	912.1	929.3	938.8	957.7	1002.0	-3.90	-3.26
MANUFACTURING										
Wages, California, $/hour	12.3	12.2	12.1	12.0	11.9	11.8	11.8	11.7	3.28	3.50
Employment, thousands	2871.1	2908.6	2948.0	2956.4	2982.4	3005.8	3050.3	3102.4	-3.73	-3.20
Durables, 1985=100	90.2	91.7	93.0	93.9	95.3	96.3	97.9	100.0	-5.28	-4.82
Construction durables, 1985=100	91.2	93.4	94.3	93.7	95.4	95.6	97.7	104.0	-4.41	-2.27
Aerospace, 1985=100	95.9	99.1	103.1	105.6	107.0	109.4	111.9	114.0	-10.46	-9.45
Electronics, 1985=100	86.0	87.3	87.8	88.5	90.6	92.2	92.8	92.4	-5.02	-5.30
Semiconductor orders, mil. $, not s.a.	1694.0	1540.6	1438.7	1387.3	1267.0	1297.0	1215.8	1203.8	33.70	16.28
Whls/retail trade employment, thousands	4652.4	4675.7	4701.4	4693.0	4713.4	4725.7	4725.7	4791.9	-1.30	-1.04
Retail sales, Pacific District, mil. $	25848	25696	25881	25078	25445	25321	24655	25101	1.59	N/A
Services employment, thousands	5510.9	5502.6	5497.4	5488.5	5471.9	5445.0	5404.5	5441.2	0.71	1.09
Health care, 1985=100	133.0	132.5	131.8	131.2	129.8	128.9	127.6	127.6	2.44	2.81
Business services, 1985=100	112.7	113.5	113.4	112.0	112.7	113.6	113.1	112.6	0.03	0.10
Hotel, 1985=100	130.8	132.3	133.3	134.5	131.7	132.1	132.1	135.4	-0.71	0.13
Recreation, 1985=100	140.7	139.6	139.5	140.7	139.1	140.1	138.2	139.6	1.16	-0.51
Finance, insurance, and real estate empl., thousands	1234.4	1239.2	1244.3	1242.3	1245.0	1247.2	1247.9	1258.8	-0.85	-0.65
GOVERNMENT EMPLOYMENT, THOUSANDS										
Federal government	602.7	601.6	609.7	611.5	614.1	610.7	614.5	618.8	-1.86	-1.55
State and local	2946.4	2906.0	2901.6	2883.8	2888.9	2863.2	2851.0	2842.2	1.99	1.47

Data are weighted aggregates of available 12th District data constructed by FRBSF staff from public and industry sources.

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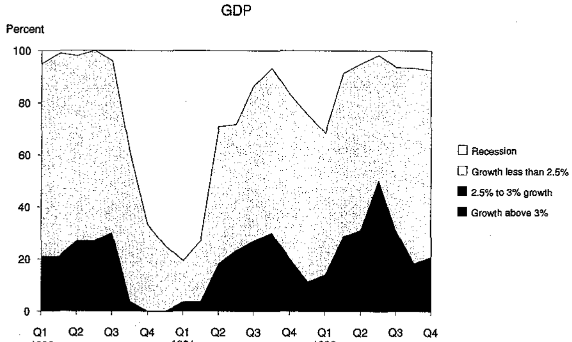
PERSONAL INCOME
Annualized Percent Growth Rates

	92Q2	92Q1	91Q4	91Q3	91Q2	Annual Growth 1992*	1991	1990
Alaska	1.2	13.2	4.8	5.0	-0.8	7.0	4.1	6.7
Arizona	4.4	7.2	5.6	1.9	4.8	5.8	4.2	5.7
California	4.3	3.0	1.6	4.2	5.5	3.7	1.7	7.4
Hawaii	4.0	10.8	2.2	3.8	1.4	7.4	2.2	11.3
Idaho	5.3	4.6	13.9	2.3	12.0	4.9	4.7	7.9
Nevada	6.1	11.0	4.1	6.2	4.1	8.5	4.3	10.6
Oregon	4.4	9.1	5.2	6.9	4.5	6.7	4.7	7.1
Utah	6.8	10.6	6.3	5.3	7.1	8.7	5.8	8.2
Washington	3.4	9.6	7.6	5.9	5.8	6.5	5.7	9.1
12th District	4.3	5.0	3.1	4.4	5.4	4.7	2.7	7.6
U.S.	3.9	6.2	5.4	3.5	4.8	5.1	3.4	6.3

* Year-to-date

Twelfth District Business Sentiment*
GDP



* Expectations for GDP growth during the next four quarters based on a survey of approximately 75 business leaders in the 12th Federal Reserve District.

NON-AGRICULTURAL EMPLOYMENT
Annualized Percent Growth Rates

	92Q3	92Q2	92Q1	91Q4	91Q3	Annual Growth 1992*	1991	1990
Alaska	-0.5	-7.3	3.5	7.3	0.6	-1.5	2.1	5.2
Arizona	4.1	-1.2	0.6	-0.2	2.8	1.1	0.6	1.6
California	-1.6	-1.7	-0.5	-3.4	-1.1	-1.3	-2.9	0.4
Hawaii	-3.5	-1.3	1.2	1.4	2.6	-1.2	1.0	3.8
Idaho	1.8	-2.9	5.9	5.9	3.1	1.6	3.5	4.9
Nevada	0.7	-1.6	4.2	4.2	2.2	1.1	1.5	5.3
Oregon	-0.2	0.1	3.6	1.5	1.2	1.2	-0.1	2.5
Utah	4.3	1.9	3.0	2.0	3.4	3.1	2.3	4.4
Washington	-1.6	-2.3	1.8	2.9	1.6	-0.7	1.0	3.3
12th District	-0.8	-1.5	0.6	-1.3	0.1	-0.6	-1.4	1.4
U.S.	0.2	1.1	-0.2	-0.2	0.1	0.4	-1.0	0.3

* Year-to-date

UNEMPLOYMENT RATES
Average Quarterly Data

	92Q3	92Q2	92Q1	91Q4	91Q3	Annual Average 1992*	1991	1990
Alaska	9.4	9.1	9.1	9.8	8.8	9.2	8.6	7.0
Arizona	6.4	7.3	8.7	7.3	5.6	7.5	5.7	5.3
California	9.4	8.7	8.4	7.7	7.6	8.8	7.6	5.6
Hawaii	4.6	4.0	3.5	3.0	2.7	4.1	2.7	2.8
Idaho	6.2	6.2	6.3	6.2	5.7	6.2	6.1	5.9
Nevada	7.2	6.2	6.6	5.7	5.5	6.6	5.5	5.0
Oregon	7.0	6.7	8.1	6.5	5.9	7.3	6.0	5.5
Utah	5.1	4.8	4.6	5.3	5.1	4.8	4.9	4.3
Washington	6.8	6.8	7.3	6.8	6.5	7.0	6.3	4.9
12th District	8.4	7.9	8.0	7.2	6.9	8.1	6.9	5.4
U.S.	7.6	7.5	7.2	7.0	6.8	7.4	6.7	5.5

* Year-to-date