
Business

AN EIGHTH DISTRICT PERSPECTIVE

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Employment Growth During the 1975-77 and 1982-85 Recoveries: A Comparison

The strength of the current recovery is a frequently debated topic. Some analysts have argued that this recovery is stronger than average, while others have maintained that it is typical of recoveries in the postwar era. The difference of opinion hinges on which economic indicators are chosen as the basis for argument.

This issue compares the performance of one indicator of economic activity—employment—in the current recovery, to its performance in the 1975-77 recovery. Employment data are used because they are closely associated with trends in output. Moreover, employment is an indicator of economic activity that is available by state, which permits a comparison of the two recoveries on a regional, as well as a national, level.

The Recoveries: A General Overview

The current recovery is similar to the 1975-77 recovery in that each was preceded by a contraction of the same duration, 16 months from the previous peaks to the respective troughs of March 1975 and November 1982. To the extent that the length and vigor of a particular expansion is determined by the length and depth of the contraction that preceded it, this would suggest that the two expansions might be similar. A number of important differences exist, however, not the least of which are the relatively higher value of the dollar and lower inflation rate that have persisted during the current recovery.

A comparison of the growth in Eighth District and U.S. nonmanufacturing employment over the current and previous recoveries shows a similar performance (charts 1 and 2). Nonmanufacturing employment in the current recovery has grown at much the same rate as in the previous one in both the District and the nation. Manufacturing employment, however, has followed different paths across the two recoveries. This different behavior is explored further in this issue.

District Manufacturing Employment in the Two Recoveries

For the first 22 months of both recoveries, District manufacturing employment behaved similarly (chart 3). Manufacturing employment grew at approximately a 7 percent rate for the first 15 months of both recoveries, then slowed to roughly 2 and 1 percent rates for the next seven months in the 1975-77 recovery and the current one, respectively.¹

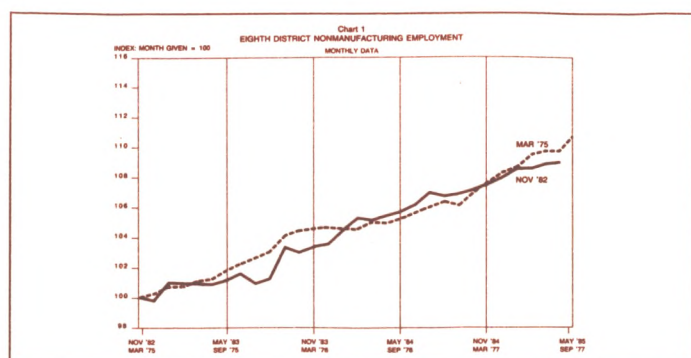
The marked divergence in the performance of District manufacturing employment began at the 22-month mark in the two recoveries; for the subsequent seven-month period, manufacturing employment resumed a more rapid 6.1 percent rate of growth in the earlier recovery, but has declined at a 1.6 percent rate in the current recovery.

U.S. Manufacturing Employment

U.S. manufacturing employment grew faster in the first two years of the current recovery than it did in the 1975-77 recovery (chart 4). After growing at identical 2.2 percent rates for the first six months of both recovery periods, manufacturing employment during the next seven months recorded a 7.6 percent rate of growth in the current recovery, but only a 5.7 percent growth rate in the previous one. In the following 10 months of the current recovery, U.S. manufacturing employment grew at a 3.8 percent rate, twice the 1.9 percent rate of growth registered in the same stage of the 1975-77 recovery. Since October of last year, however, manufacturing employment has slowed in the United States, as in the District, registering no growth in the current recovery while it had continued to rise at a 5.2 percent rate over the same period in the 1975-77 recovery.



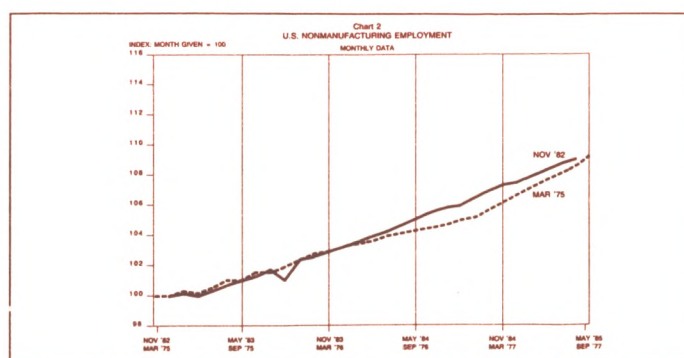
¹All growth rates are compounded annual rates of change.



Why the Recent Slowdown in Manufacturing Employment Growth?

Many analysts have argued that the appreciation of the dollar has had a strong detrimental effect on manufacturing industries because they are more sensitive than service industries to exchange rate effects on traded goods. Despite the fact that the real value of the dollar rose at a 10 percent rate from November 1982 through February 1985 (the first 27 months) of the current recovery, the data show that manufacturing employment in both the District and the nation performed as well or better over the first 22 months of this recovery, than it did over the corresponding phase of the previous recovery.² This is particularly interesting since over the same stage of the earlier recovery, the dollar rose at only a 1.6 percent rate in real terms. Moreover, the sharp appreciation of the dollar actually began in 1980.

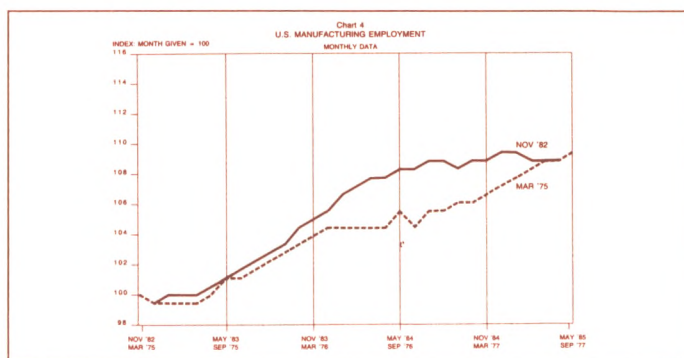
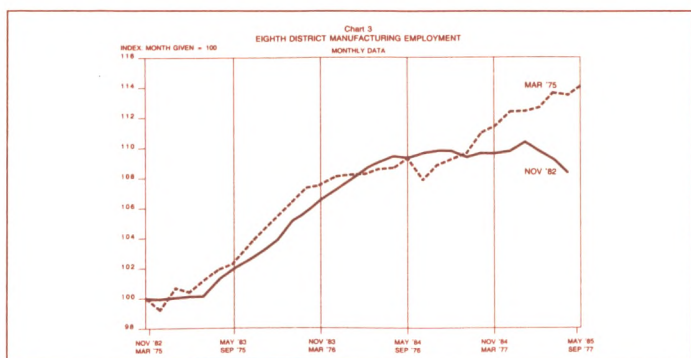
² Compounded annual rate of change in the real trade-weighted exchange rate.



Only in the last seven months has manufacturing employment in this recovery fallen behind its performance of the 1975-77 recovery.

It is possible that the recent slowdown in the pace of the economic expansion has resulted in a disproportionate slowing in the growth of manufacturing employment in both the District and the nation. From second quarter 1984 through first quarter 1985, real GNP grew at only a 2.2 percent rate, following a 7.1 percent rate of growth in the previous six quarters of the expansion. The earlier recovery exhibits a similar period of little growth in manufacturing employment in the second and third quarters of 1976, in both the District and the nation. From first quarter 1976 to third quarter 1976, real GNP expanded at a 2.5 percent rate, well below the 6.7 percent rate registered over the previous four quarters of that recovery.

—Catherine Axtell Bieber



Business—An Eighth District Perspective is a quarterly summary of business conditions in the area served by the Federal Reserve Bank of St. Louis. Single subscriptions are available free of charge by writing: Research and Public Information Department, Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, Missouri 63166. Views expressed are not necessarily official positions of the Federal Reserve System.

EIGHTH DISTRICT BUSINESS DATA

	Growth Rates ¹			
	Current Period	Year-to-Date 1985		1984
	Feb-Apr			
General Business Indexes ²				
	Feb-Apr			
Arkansas	-0.6%	0.7%		3.1%
Kentucky	4.0	4.7		5.0
Missouri	2.0	2.3		3.5
Tennessee	1.9	2.6		6.7
Retail Sales				
	Jan-Mar			
United States	6.3%	6.3%		7.6%
Arkansas ³	-5.6	-5.6		2.4
Kentucky ³	9.0	9.0		0.1
Missouri	11.2	11.2		9.0
Tennessee	-9.4	-9.4		10.9
Payroll Employment				
	Feb-Apr			
United States	3.1%	3.3%		4.1%
District	1.6	2.9		3.8
Arkansas	-1.4	0.1		4.6
Little Rock	-6.0	-4.9		3.7
Kentucky	6.2	8.5		4.0
Louisville	0.4	0.3		2.8
Missouri	0.5	1.2		3.3
St. Louis	0.8	1.0		3.7
Tennessee	1.1	2.3		3.9
Memphis	1.9	2.6		4.8
Average Hourly Earnings-Mfg.				
	Feb-Apr			
United States	4.8%	4.9%		3.7%
Arkansas	6.6	5.2		2.6
Little Rock	15.5	11.3		-1.7
Kentucky	5.2	3.0		3.5
Louisville	2.4	1.5		3.6
Missouri	0.2	-0.2		5.5
St. Louis	1.2	2.0		6.1
Tennessee	1.3	1.3		6.2
Memphis	10.8	9.3		5.7
Personal Income				
	4th quarter '84	Year-to-Date 1984		1983
United States	6.3%	9.2%		7.5%
District	5.7	9.9		6.8
Arkansas	3.9	8.7		7.9
Kentucky	4.6	11.1		4.5
Missouri	6.2	9.8		7.5
Tennessee	6.8	9.5		7.1
Key Industries				
	Employment ¹ (current period Feb-Apr)		Prices ¹ (current period Feb-Apr)	
	Year-to-Date 1985	Same Period 1984	Year-to-Date 1985	Same Period 1984
Fabricated Metal Products	1.9%	32.9%	0.7%	3.0%
Electrical and Electronic Equipment	-6.3	10.4	2.2	4.6
Nonelectrical Machinery	-3.2	16.4	2.7	3.2
Transportation Equipment	-4.2	13.9	3.4	2.4
Food and Kindred Products	-7.6	-5.3	-1.1	9.4
Textile and Apparel	-5.1	7.0	0.4	3.4
Printing and Publishing	1.9	6.3	8.6	9.5
Chemicals and Allied Products	-2.0	-31.3	1.7	3.1
Construction	-26.8	-13.0	0.9	5.6

EIGHTH DISTRICT BUSINESS DATA

	<u>Current Period¹</u>	<u>Previous 3 Months</u>	<u>Average Year- to-Date 1985</u>	<u>Average 1984</u>
Unemployment Rate	Feb-Apr			
United States	7.3%	7.2%	7.3%	7.5%
District	7.7	8.1	7.7	8.4
Arkansas	8.1	8.7	8.1	8.9
Little Rock	6.0	6.7	6.1	7.1
Kentucky	7.9	9.1	8.0	9.5
Louisville	7.6	8.3	7.8	8.6
Missouri	7.0	7.0	7.0	7.2
St. Louis	7.7	7.6	7.7	8.1
Tennessee	8.0	8.4	8.1	8.5
Memphis	6.2	6.7	6.3	7.2
Construction Contracts⁴ (millions of dollars)	Feb-Apr			
District	\$823.2	\$675.9	\$771.4	\$830.4
Arkansas	95.0	84.1	91.7	115.7
Kentucky	164.0	111.5	153.8	167.5
Missouri	237.5	210.8	215.5	251.4
Tennessee	326.7	269.5	310.4	295.7

NOTE: With the exception of construction contracts and employment and prices in key industries, all data are seasonally adjusted.

¹Data are presented as three-month averages to minimize distortions due to the large variability of monthly data. The current period growth rate is a comparison of the average of the current three months to the average of the previous three months. The year-to-date growth rate is from the average of the three months ended in December 1983. All growth rates are compounded annual rates of change.

²Sources: Arkansas and Missouri from Southwestern Bell, Kentucky and Tennessee from South Central Bell.

³Sources: Arkansas from Southwestern Bell and Kentucky from Kentucky Revenue Department; Missouri and Tennessee are seasonally adjusted by this Bank.

⁴Source: F.W. Dodge, Construction Potentials, McGraw-Hill Information Systems Company, proprietary data provided by special permission.