ISSUE BRIEF
ECONOMIC POLICY INSTITUTE | ISSUE BRIEF #307 JULY 6, 2011

TEN FACTS ABOUT THE RECOVERY

BY HEIDI SHIERHOLZ
with research assistance from Nicholas Finio

The Great Recession, which began in December 2007 and caused the most severe job loss this country has seen in seven decades, officially ended in June 2009. As we mark the two-year anniversary of the official end of the recession as determined by the National Bureau of Economic Research, the following 10 facts should be noted:

1. The real gap in the labor market is now around 11 million jobs.
2. Job growth this recovery outpaces that following the 2001 recession, but is still too slow.
3. The loss of public-sector jobs is a huge obstacle to growth in this recovery.
4. Most of the improvement seen this recovery consists of a decline in layoffs, not an increase in hiring.
5. The current problem is not that we lack the right workers, it's that we lack enough job openings.
6. The share of the working-age population with a job has not yet improved.
7. "Underemployment" has also improved very little in the recovery.
8. Unemployed workers continue to face near-record spells of unemployment.
9. Racial and ethnic minorities have fared worse than whites in both the recession and the recovery.
10. Wage growth remains extremely low.

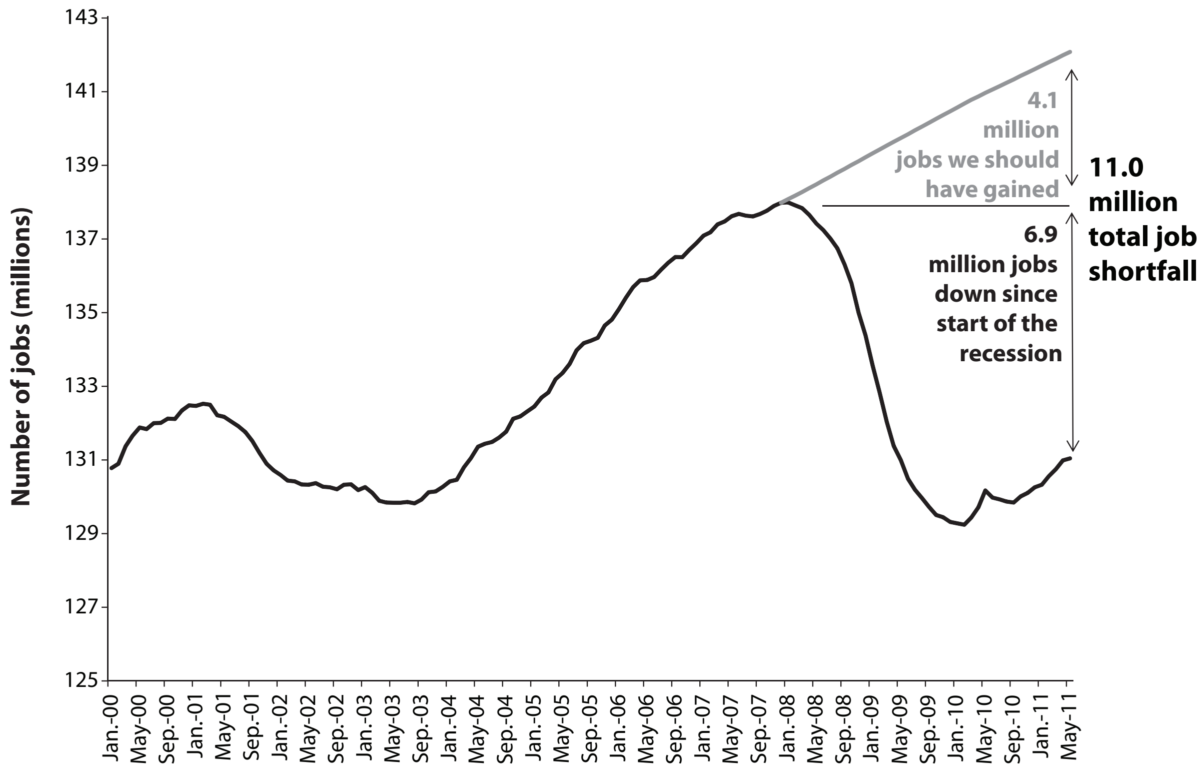
Details on these 10 facts are provided in the text and figures that follow.

1 The real gap in the labor market is now around 11 million jobs.

The economy currently has 6.9 million fewer jobs than when the recession started. But because the working-age population is naturally increasing all the time, in the three years and five months since the recession started we should have *added* around 4.1 million jobs to keep pace with population growth. This means the current gap in the labor market is roughly 11 million jobs (**Figure 1**). To close that gap within three years, we would have to add around 400,000 jobs every single month for 36 months. By comparison, over the last three months we added just 160,000 jobs per month on average. At that rate, it will take well over a decade to get back to the pre-recession unemployment rate. Two years out, this recovery is not yet producing close to the rate of jobs growth needed to dig out of the hole we are in any time soon.

FIGURE 1

The real gap in the labor market is 11 million jobs



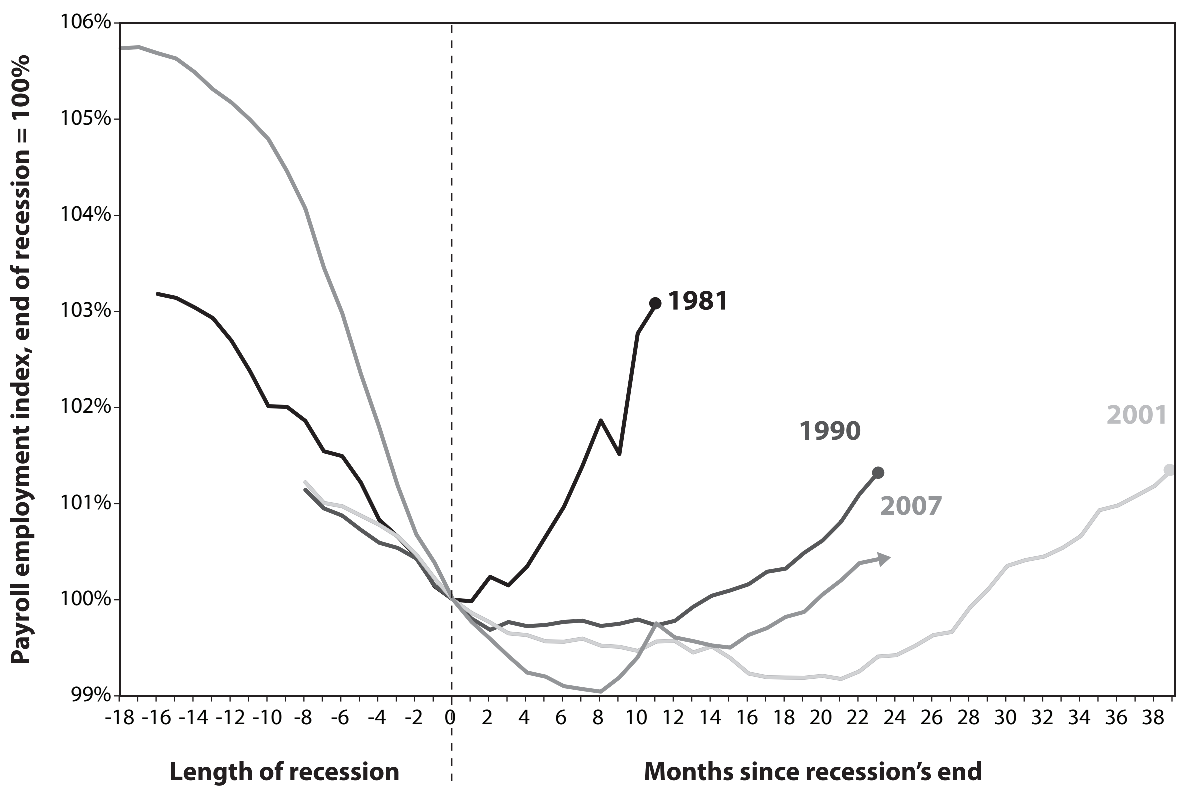
SOURCE: EPI analysis of Bureau of Labor Statistics data from the Current Establishment Survey and the Current Population Survey.

2 Job growth this recovery outpaces that following the 2001 recession, but is still too slow.

Figure 2 shows payroll employment in the Great Recession (labeled 2007) and the prior three recessions (indexed to 100 at the official end of each recession for ease of comparing their respective recoveries). In the 23 months since the official end of the Great Recession, payroll employment has grown by 550,000 jobs. Twenty-three months after the end of the 2001 recession, payroll employment was down an additional 773,000 jobs. However, as Figure 2 also demonstrates, the length and severity of the Great Recession means that we are in a much deeper hole. In fact, three years and five months from the official start of the Great Recession, we are still down a larger percentage of jobs (5%) as a share of pre-recession employment than at any single point of these or any other post-WWII recessions.

FIGURE 2

Job growth in the current vs. past recoveries



NOTE: The line for each recession begins at the official start of the recession, so the length of the line to the left of zero indicates the length of each recession. Except for the Great Recession, each line ends at the month when pre-recession payroll employment was regained.

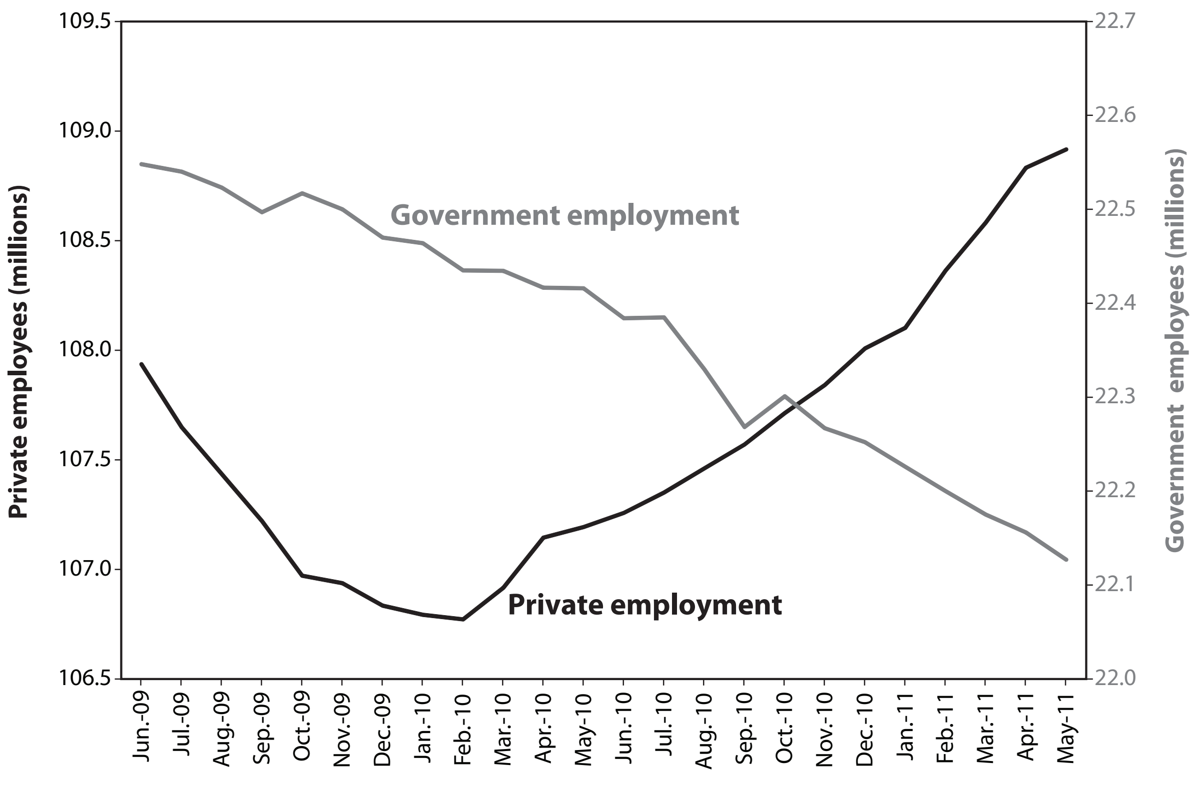
SOURCE: EPI analysis of Bureau of Labor Statistics, Current Establishment Survey data.

3 The loss of public-sector jobs is a huge obstacle to growth in this recovery.

The public sector is now shedding around 25,000 jobs per month, largely due to budget cuts at the state and local level. Since the official end of the recession, the public sector has lost 430,000 net jobs, while the private sector has added 980,000 net jobs (**Figure 3**). In other words, more than 40% of the private-sector job gains in this recovery have been canceled out by job losses in the public sector. And the loss of public-sector spending also hurts the private sector: For each dollar of state and local budget cuts, more than half of the jobs and economic activity lost are likely to be in the private sector.[1] By comparison, in the 23 months following the end of the 2001 recession, the public sector *added* 232,000 jobs, while the private sector lost one million jobs. For more on the decline of public-sector jobs in this recovery, see the EPI issue brief, *Historically Deep Job Loss, But Not an Unusual Recovery*.

FIGURE 3

Public- and private-sector employment in the current recovery



NOTE: Government employment excludes the more than half a million temporary workers who were hired to conduct the Decennial Census in the spring and summer of 2010.

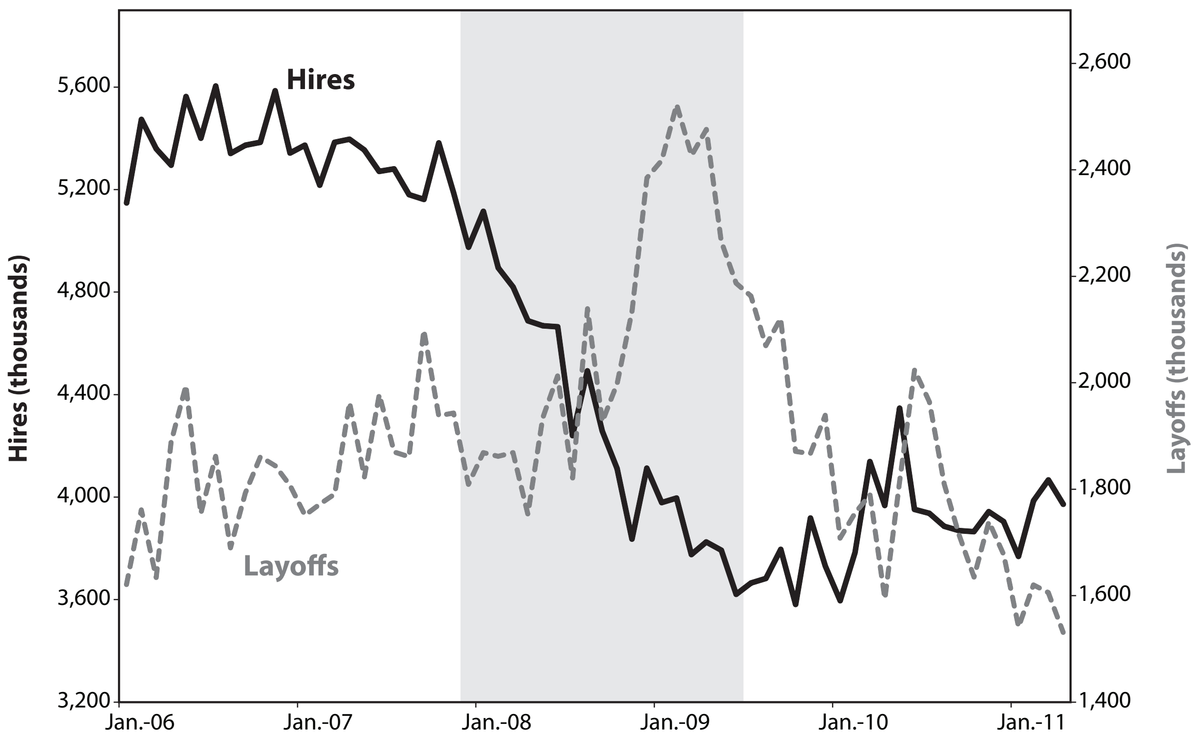
SOURCE: EPI analysis of Bureau of Labor Statistics, Current Establishment Survey data.

4 Most of the improvement seen this recovery consists of a decline in layoffs, not an increase in hiring.

As shown in **Figure 4**, layoffs spiked dramatically during the recession, but have substantially slowed in the recovery. At this point workers are no more likely to get laid off than they were before the recession started.[2] That is a very positive sign, but has a flip side in the trend in hiring. We have seen very little improvement in hiring, which is still roughly 25% below its 2007 average. It is extremely good news that at this point people with jobs no longer face an elevated risk of getting laid off, but the nearly 14 million unemployed workers in this country—including all new entrants to the labor market, such as the new crop of graduates this spring—need a pick up in hiring, which has barely gotten off the ground.

FIGURE 4

Layoffs back to normal, hiring still very depressed in current recovery



NOTE: Shaded area denotes recession.

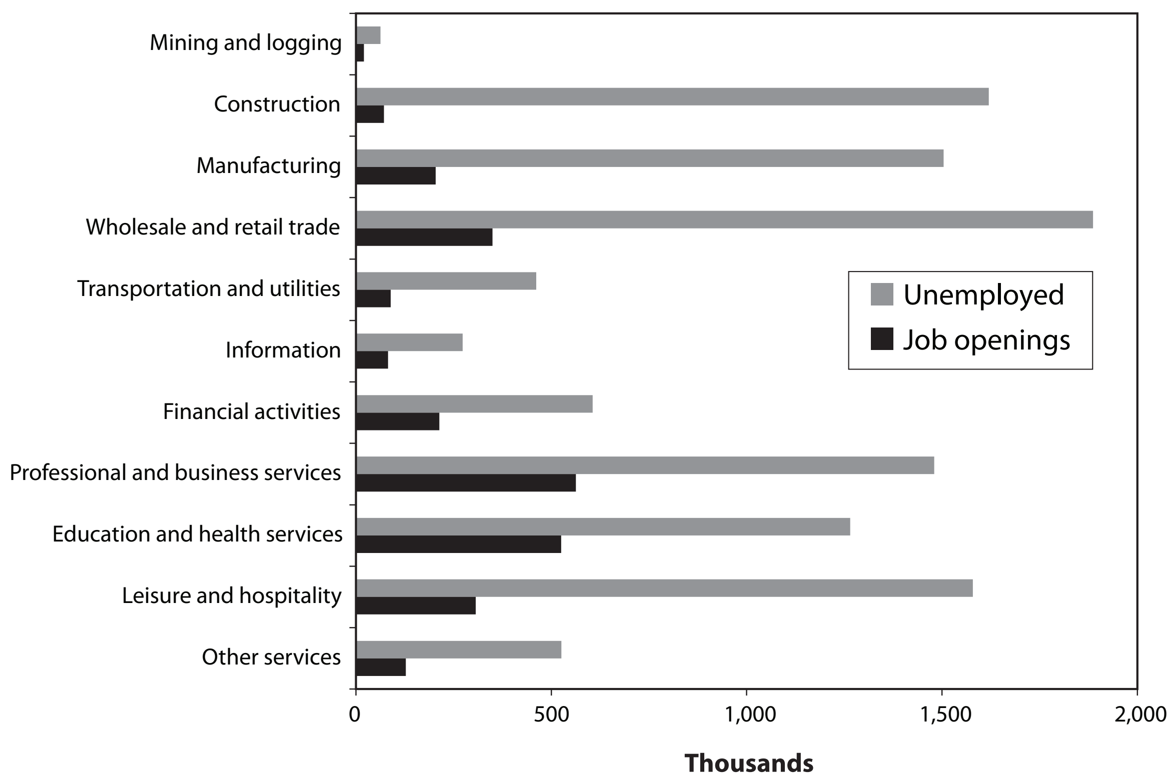
SOURCE: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey.

5 The current problem is not that we lack the right workers, it's that we lack enough job openings.

Some have claimed that hiring has not picked up substantially because employers can't find workers with the needed skills. **Figure 5** shows the number of unemployed workers and the number of job openings, by industry. If it were the case that employers couldn't find the right workers, we would expect some sectors to have more job openings than unemployed workers, or at least to have much more balance, as employers in those sectors struggle to find the workers they need. But there are no major sectors where that is happening. On the contrary, unemployed workers dramatically outnumber job openings in every industry. The data show that the problem in this recovery isn't a lack of the right workers, but rather an across-the-board lack of job openings.

FIGURE 5

Number of job openings and number of unemployed workers, by industry



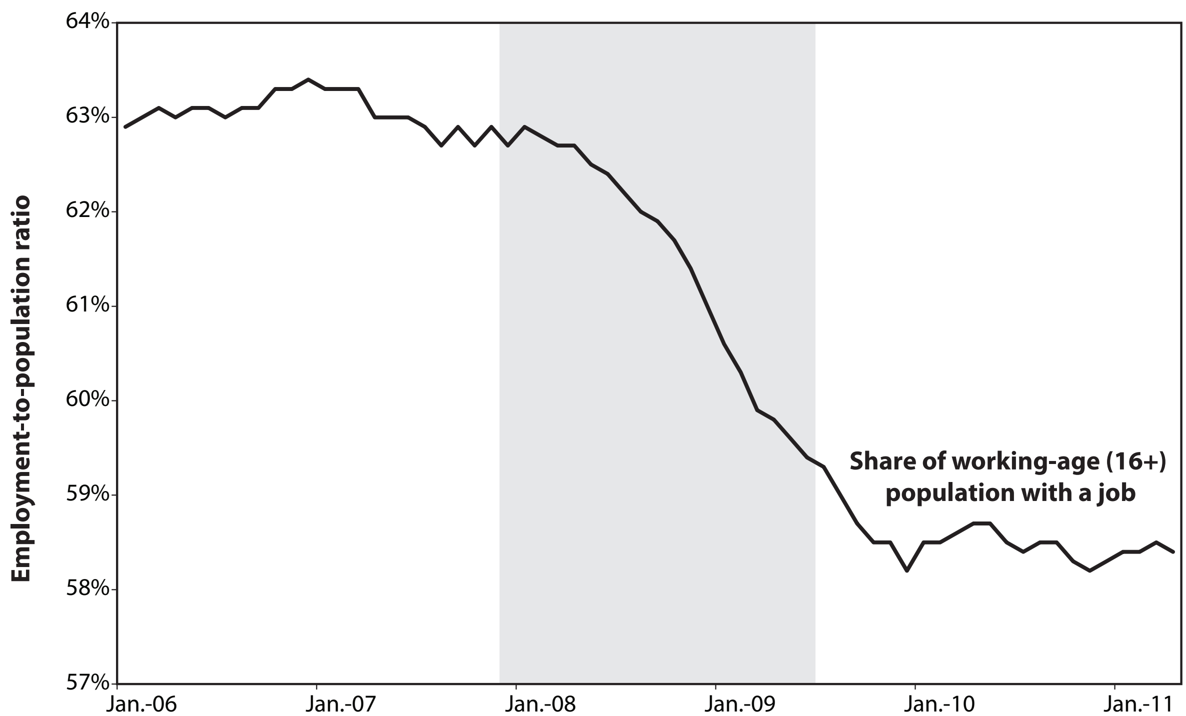
SOURCE: EPI analysis of Bureau of Labor Statistics data, 12-month averages (May 2010–April 2011).

6 The share of the working-age population with a job has not yet improved.

The fact that layoffs have abated but hiring has improved very little means that unemployment also has not improved substantially. The unemployment *rate*, of course, has dropped somewhat: It has fallen from its peak of 10.1% in October 2009 to 9.1% in May 2011. However, an improvement in the unemployment rate is only good news if a larger share of the potential workforce actually finds work, and that is not happening—the entire improvement in the unemployment rate over that period was due to would-be workers deciding to sit out the job search altogether (and thus not be counted among the officially unemployed). **Figure 6** shows that the share of the working-age population with a job (also known as the employment-to-population ratio) has not yet improved. So far in this recovery, we are still treading water near the bottom of a very deep hole.[3]

FIGURE 6

EPOP: Still treading water at the bottom of a very deep hole



NOTE: Shaded area denotes recession.

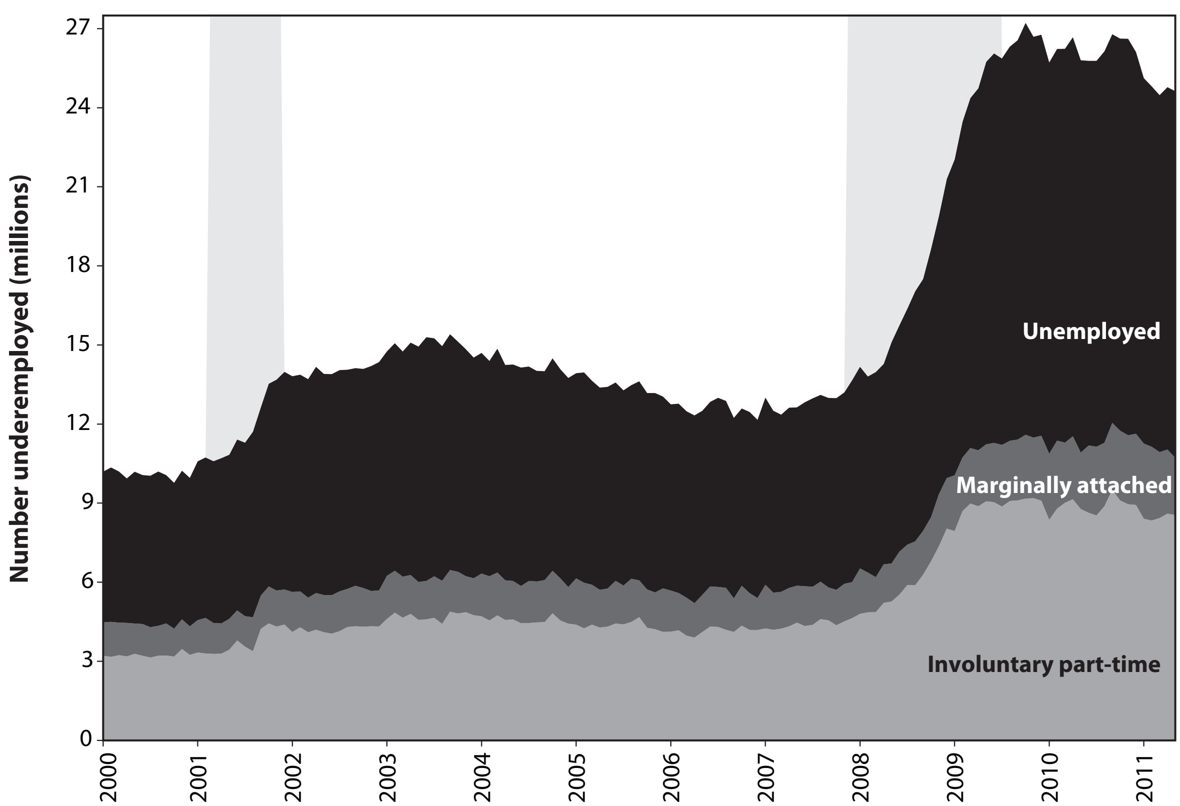
SOURCE: Bureau of Labor Statistics, Current Population Survey.

7 "Underemployment" has also improved very little in the recovery.

The number of "involuntary" part-time workers (those who want a full-time job but have had to settle for part-time hours) shot up from 4.3 million in the first half of 2007 to 9 million by the spring of 2009. But as **Figure 7** shows, this indicator has made very little progress in the recovery. The number of involuntary part-time workers hovered around the 9 million mark until the end of 2010, and has not improved much this year. Importantly, the fact that there has been so little improvement in the number of involuntary part-time workers belies the claim that businesses aren't hiring because they are wary of the potential burdens of laws like health care or regulatory reform. If businesses had work to be done but were wary of making new hires, then they would ramp up the hours of their existing workers. Instead, the number of involuntary part-time workers now stands at 8.5 million, still up nearly double from the first half of 2007. The number of "marginally attached" workers—those who want a job, are available to work, but have given up actively seeking work so are not counted as officially unemployed—has also seen very little improvement: At the end of the recession there were 2.3 million marginally attached workers, and now there are 2.2 million. In the 23 months since the end of the recession, the total number of un- or underemployed workers has decreased from 26.1 million to 24.6 million, a decline of only 1.5 million.

FIGURE 7

Underemployment shot up in recession and has seen very little improvement in recovery



NOTE: Shaded areas denote recessions.

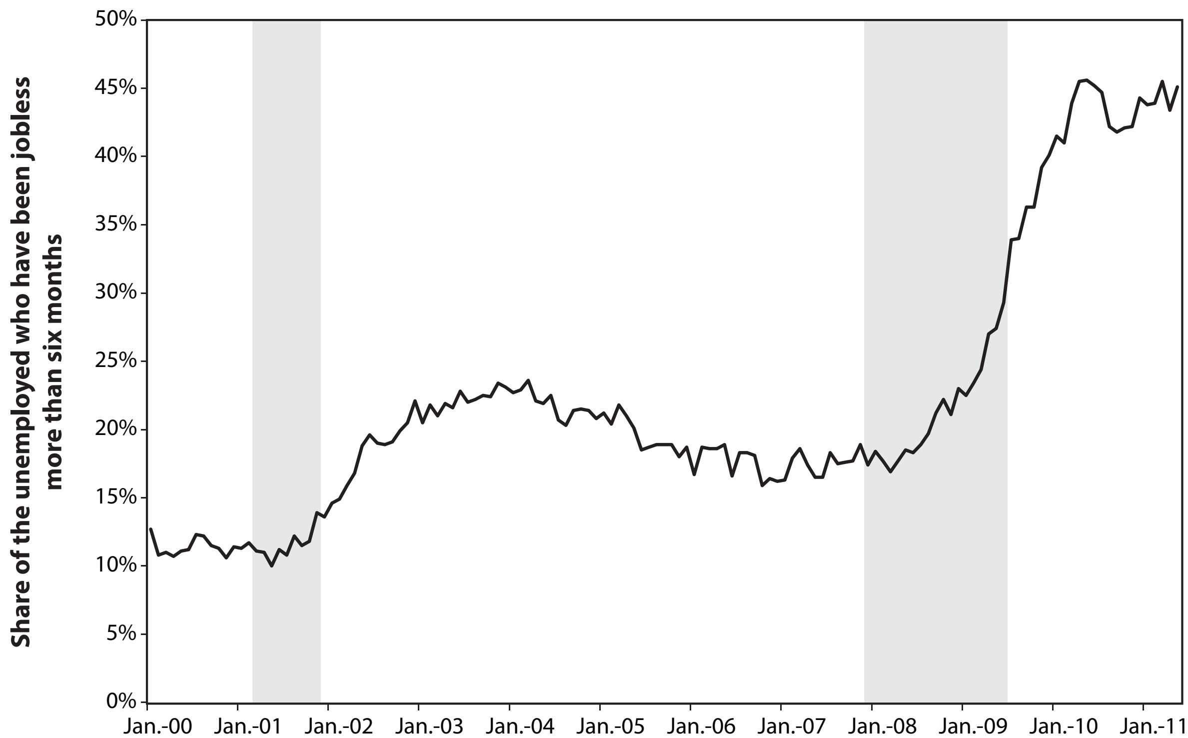
SOURCE: Bureau of Labor Statistics, Current Population Survey.

8 Unemployed workers continue to face near-record spells of unemployment.

The record length and severity of this downturn (as shown in Figure 2) means that it has shattered all records since the Great Depression for length of unemployment spells (**Figure 8**). The share of unemployed workers who had been jobless for more than six months shot up from 17.6% in the first half of 2007 to 29.3% at the official end of the recession to over 45.6% by the spring of 2010, an all-time record. It has bounced around 45% since then, and is currently 45.1%. The fact that layoffs have abated in the recovery provides little relief to the already unemployed—because hiring has not yet improved substantially, unemployed workers are continuing to remain unemployed for extremely long periods.

FIGURE 8

Job seekers continue to face near-record unemployment periods



NOTE: Shaded areas denote recessions.

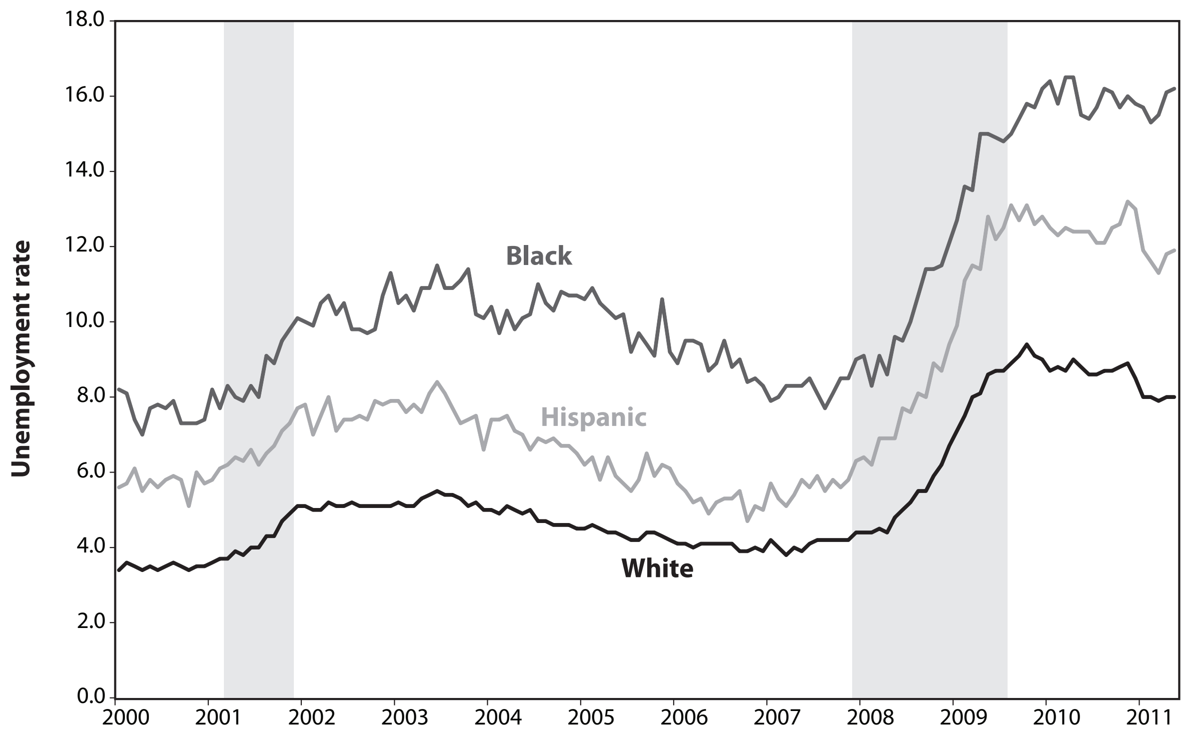
SOURCE: EPI analysis of Bureau of Labor Statistics Current Population Survey data.

9 Racial and ethnic minorities have fared worse than whites in both the recession and the recovery.

During the recession, unemployment rose faster for racial and ethnic minorities, and in the recovery, they have seen less improvement (**Figure 9**). At the official end of the recession, the unemployment rate for whites was 8.7%, which has declined somewhat to 8.0%. The unemployment rate for Hispanics at the end of the recession was 12.2%, which has declined by a lesser extent, to 11.9%. Black workers have been hit the hardest: At the end of the recession the black unemployment rate was 14.9%, and it has since *increased* to 16.2%. Black workers in this country have faced an unemployment rate of 15% or more for the last 22 months.

FIGURE 9

Minority workers hit harder in the current recession and recovery



NOTE: Shaded areas denote recessions.

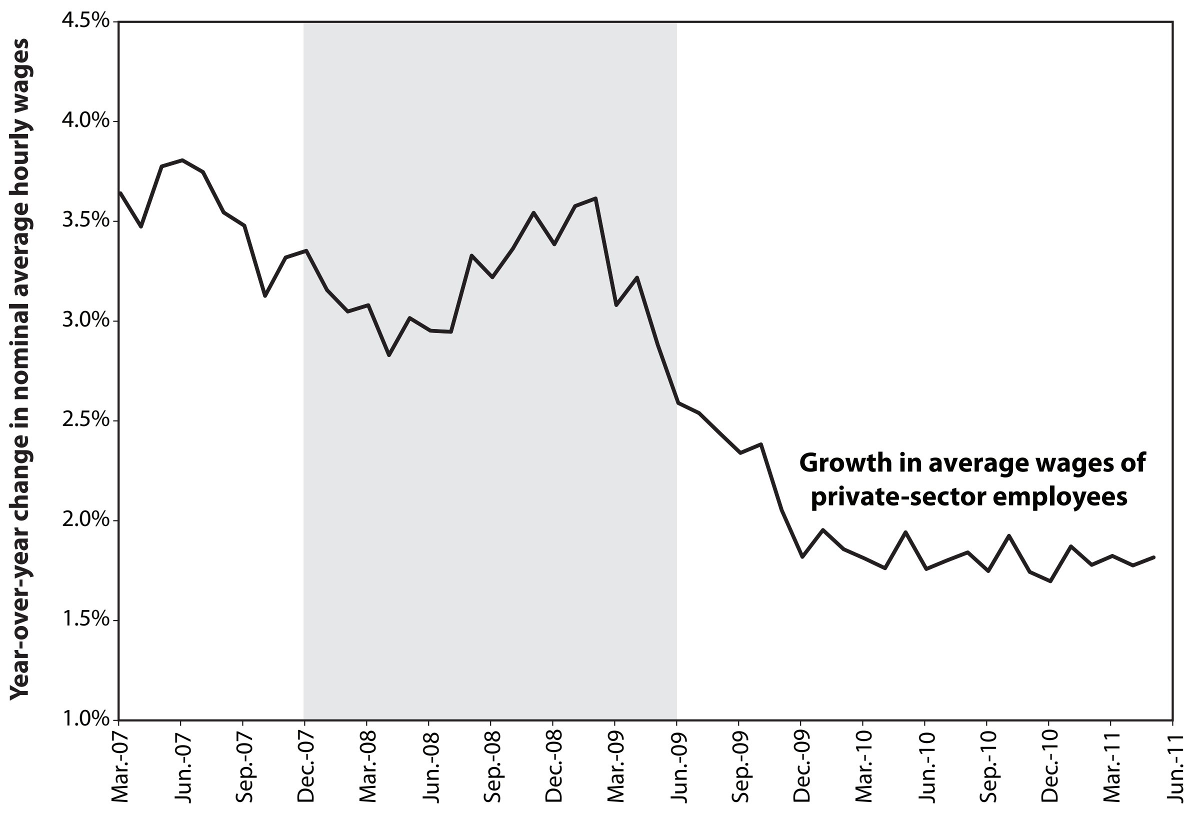
SOURCE: Bureau of Labor Statistics, Current Population Survey.

10 Wage growth remains extremely low.

Persistent high unemployment also hurts wage growth for workers with jobs. The reason is straightforward—employers don't have to pay substantial wage increases to keep their workers when they know their workers don't have good outside options. Nominal average hourly wages (i.e., wages not adjusted for inflation) have grown 1.8% over the last year, well below the growth rate of 2.6% at the end of the recession and about half the growth in the period before the recession started (**Figure 10**). Furthermore, with inflation growing faster on average than wages since the end of the recession, real wages are lower now than they were when the recession ended. The lack of hiring in this recovery hurts not just the unemployed and their families; it also means the paychecks of those with jobs take a substantial hit. Without substantial additional policy interventions to stimulate the economy, it will likely be at least five years before we get back to the pre-recession unemployment rate. This means that wage growth will likely be subdued for a very long time.

FIGURE 10

Wage growth remains extremely low



NOTE: Shaded area denotes recession.

SOURCE: EPI analysis of Bureau of Labor Statistics, Current Establishment Survey data.

Where to go from here

These 10 facts show that, while we have now officially been in a recovery for two years, the labor market has actually made little improvement since the depth of the downturn. Given this situation, it is extremely premature for policymakers to place their focus on deficits instead of jobs. It must be our top priority to do everything we can to stimulate demand and generate jobs. Critical actions would include providing fiscal relief to states; expanding the safety net (which, by getting money into the hands of people who will spend it, stimulates demand and generates jobs); approving additional spending on infrastructure; implementing direct job creation programs in particularly hard-hit communities; supporting work-sharing to avoid layoffs; having the Federal Reserve do more quantitative easing and/or target a somewhat higher inflation rate (e.g., 3-4%) to both reduce real interest rates and erode debt; and lowering the price of the dollar to boost net exports.

Endnotes

1. See "Dire states: State and local budget relief needed to prevent job losses and ensure a robust recovery," Ethan Pollack, Economic Policy Institute Briefing Paper #252, Washington, D.C.: EPI.
2. The general upward trend in initial unemployment insurance claims since late February is cause for concern that layoffs are again heading in the wrong direction, but so far this has not shown up in the Job Openings and Labor Turnover Survey data used here.
3. The lack of improvement in the employment-to-population ratio is also found among only prime-age workers (workers age 25–54), and therefore it is not, for example, the aging of the workforce that is driving this result; rather it is the lack of hiring.