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California Crisis: Unemployment Outpaces U.S. in Recession

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The current economic downturn, which began in December 2007, is now in its second year and is on track to be longer and deeper than anything the U.S. has experienced since the Great Depression of the 1930s. Even the recession of 1981 to 1982, which until now held the record for the worst recession since the Great Depression, was not as protracted as the current contraction. Unemployment has risen rapidly, from 4.9% at the start of the recession to 8.9% in April 2009 (see Table 1 below). California's unemployment rate has reached double digits and is not expected to improve before the middle of next year.

Stresses on working families are mounting. The economic downturn of the early 1980s led to a flurry of research examining the effects of unemployment on individual well-being. Researchers have demonstrated general decreases in well-being and increases in psychological illnesses such as depression and anxiety. In addition, increases in deaths due to cardiovascular problems, cirrhosis, and suicide as a result of unemployment have been reported. Increases in arrests, assaults and psychiatric hospital patients have also been associated with increases in unemployment. This research has shown that the negative effects of unemployment extend beyond the unemployed themselves, reaching the families of the unemployed as well as the community in general.[1]

This research brief examines the economic dimensions of the recession for workers in the U.S. and in California, which is among the states most severely impacted by the downturn. Future research will look at the physical and psychological impacts of what some have called the "great recession."

[1] Brenner, M. H. (1979). Influence of the social environment on psychology: The historical perspective. In J. E. Barrett (Ed.), Stress and Mental Disorder. NY: Raven University Press.
See Journal of Social Issues (1988). Vol 44, No. 4. The theme of this issue is psychological effects of unemployment.

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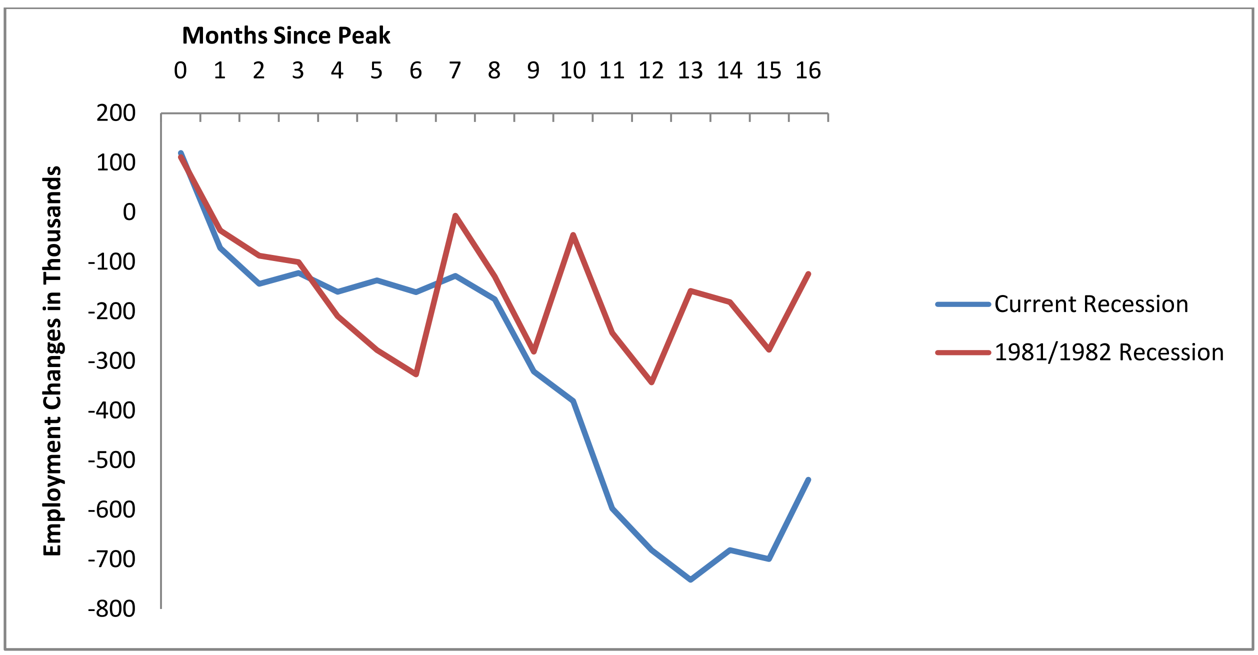
U.S. Job Losses – How Bad Is It?

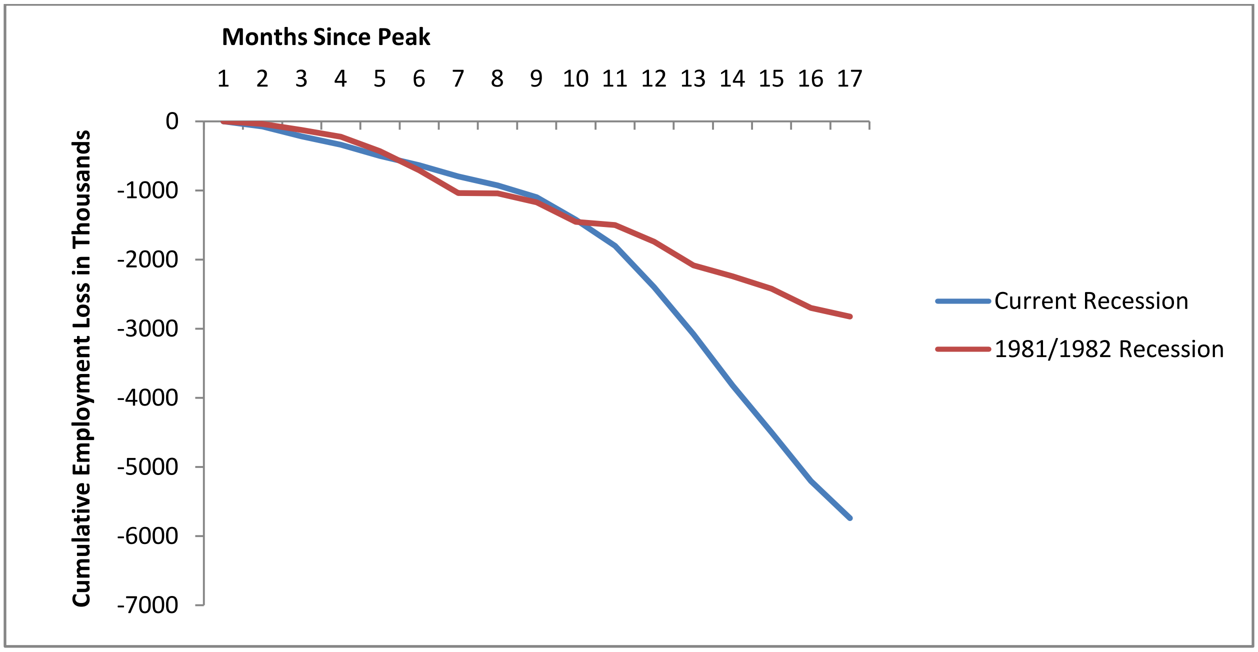
The U.S. economy has seemed to be in free fall after Lehman Brothers was allowed to fail in October 2008 and financial markets here and around the world imploded. The collapse of the housing bubble and the loss of retirement savings had already caused U.S. households to cut back on consumption. Turmoil in financial markets meant that lending also dried up. As a result, the economy lost 680,000 jobs a month on average in the five months spanning November 2008 to March 2009. Job losses moderated somewhat in April, but the economy still shed more than half a million -- 539,000 – jobs. To grasp the severity of the current downturn, it is useful to compare it to the last severe post-World War II contraction in 1981-1982. The 1981-1982 recession lasted 16 months, although it took several years for employment to recover to its pre-recession level. In 1982, at the end of the recession, employment had dropped by 2,824,000 jobs or by 3.1% of payroll employment. The U.S. is now 16 months into the current "great recession" and the economy has already shed more than twice the number of jobs lost in that earlier recession. Employment has dropped by 5,738,000 jobs or 4.2% of payroll employment.

Figure 1. U.S. Monthly employment changes 16 months from the start of the current recession compared to 16 months from the start of the recession in 1981-1982.



Source: Bureau of Labor Statistics.

Figure 2. Cumulative employment losses 16 months from the start of the current recession compared to 16 months from the start of the recession in 1981-1982.



Source: Bureau of Labor Statistics.

In contrast to the 1981-1982 recession, at 16 months from the start of the current contraction jobs continue to be lost. Although fewer jobs were lost in April than in the four previous months, the private sector of the economy shed 611,000 jobs and overall job loss, even taking into account temporary hiring by the federal government for the 2010 Census, exceeded half a million jobs. It seems unlikely that this trend will end in the next few months. Even after the employment rate begins to increase again, it will still take many months before it returns to pre-recession levels. Moreover, about 127,000 jobs need to be added each month to account for population growth. Thus, even if the economy were to stop losing jobs right now, 7.8 million new jobs would be needed to bring the unemployment rate back to pre-recession employment levels.[2] The outlook for workers is likely to look bleak for some time to come.

This recession is not only longer, but it is deeper in terms of job losses than any in the last 60 years. Young workers, lower income workers, and people of color continue to be the hardest hit in this recession, as they have in the past. However, this economic downturn is different from previous recessions. In terms of the increase in unemployment, more college educated, professional workers, and white workers are affected this time by the massive loss of jobs. Table 1 compares changes in unemployment rates by demographic group in the 1981-1982 recession and in the current recession. In addition, there are many more older workers, women and immigrants in the work force today than there were 25 years ago. These demographic factors may affect the nature of job loss and may also affect the ways in which the current economic situation impacts the lives and well-being of workers and their families.

[2] Mishel, L., & Shierholz, H. (2009). Seven million jobs needed to return to pre-recession employment levels. Retrieved May 12, 2009 from www.epi.org/publications/entry/jobspict_200905_preview/.

Table 1. Unemployment by group in the current and 1981 recessions.

	1981 Recession[a]			Current Recession		
	Start	After 16 Months	Change	Start	After 16 Months	Change
Total	7.2%	10.8%	3.6	4.9%	8.9%	4.0
White[b]	6.3	9.6	3.3	4.4	8.0	3.6
Black[b]	15.0	20.2	5.2	8.9	15.0	6.1
Hispanic	10.0	15.2	5.2	6.2	11.3	5.1
High school	5.3	9.0	3.7	4.6	9.3	4.7
College or more	2.7	3.5	0.8	2.1	4.4	2.3
Blue-collar	8.8	15.0	6.2	6.7	14.4	7.7
White-collar	4.2	6.1	1.9	3.0	5.6	2.6

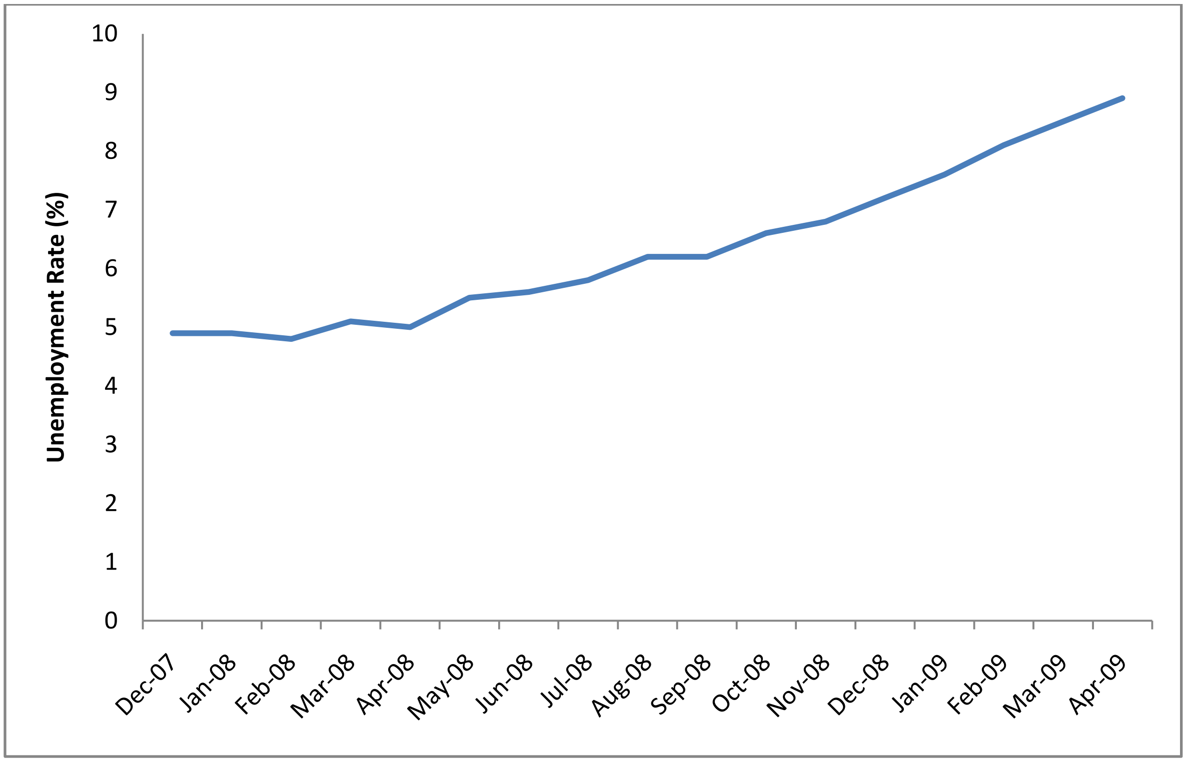
Note: [a]1981 Recession unemployment by education data not seasonally adjusted.
[b] Includes Hispanics.

Source: Economic Policy Institute. Mishel, L., & Shierholz, H. (2009). Seven million jobs needed to return to pre-recession employment levels. Retrieved May 12, 2009 from www.epi.org/publications/entry/jobspict_200905_preview/ and personal conversation with Heidi Shierholz.

While the rate of job loss has moderated somewhat, the unemployment rate continues to rise.[3] As can be seen in Figure 3, unemployment is still rising at an alarming rate. The unemployment rate in December, 2007, at the start of this recession was 4.9%. The national unemployment rate for April of this year had risen to 8.9%. Unlike previous recessions, the current economic contraction began in the midst of the bursting of the housing bubble and a wave of foreclosures and is occurring in tandem with a major financial crisis. Not since the Great Depression have the housing market, financial market, and jobs market done so poorly all at the same time.

[3] Unemployment is derived from a monthly survey of a sample of 60,000 households. To be counted as unemployed, you must be without a job and have actively looked for work in the past 4 weeks. You do not have to be collecting unemployment benefits to be counted as unemployed. Job loss figures come from a monthly survey of employers and record declines in payroll employment at a sample of about 160,000 businesses and government agencies.

Figure 3. U.S. unemployment rate since the beginning of current recession.



Source: Bureau of Labor Statistics.

Furthermore, people who lose their jobs are unlikely to find jobs quickly. Table 2 shows how long people had remained unemployed by April 2009. The average length of time of unemployment was

Table 2. Unemployed persons by duration of unemployment.

	Percent Distribution April, 2009
Total unemployed	100.0
Less than 5 weeks	24.7
5 to 14 weeks	29.4
15 weeks and over	45.9
15 to 26 weeks	18.7
27 weeks and over	27.2

Source: Bureau of Labor statistics.

21.4 weeks or almost 5 months. Over one-quarter of unemployed people nation-wide were still unemployed six or more months after becoming unemployed. Nearly half of people who have lost their jobs were still unemployed after more than three months. The extreme nature of the current recession is likely to have greater effects on individual stress levels than any economic downturn in the last 60 years.

Another group of people likely to be experiencing the economic problems and psychological distress of the recession are those that the Department of Labor considers to be marginally attached to the labor force. The unemployment rate includes only those people who would like to work and who have actively sought employment during the past four weeks. However, there are many people who have become discouraged and given up looking for work, although they are available to work and would work if offered a job. Others have stopped looking for work because of family responsibilities or transportation problems. These groups of people are considered to be marginally attached to the labor force. As can be seen from Table 3, the number of marginally attached workers has nearly doubled since the start of this recession.

There are also many people who are working part-time jobs involuntarily. They have been forced by economic conditions to work reduced hours on their current job or to take part-time employment even though they would prefer to have a full-time job. The number of involuntary part-time workers has also nearly doubled since the recession began 16 months ago. When a broader definition of unemployment that takes into consideration the marginally attached and those employed involuntarily as part-time workers as well as those who are unemployed is used, the number of people severely impacted by the recession is nearly twice what it is when the unemployment rate only counts unemployed people who are actively seeking employment. At 15.8% the underemployment rate in April was nearly double the unemployment rate (see Table 3).

Table 3. Underemployment rate over current recession.

	December, 2007	April, 2009
Underemployed	13,498	24,788
Unemployed	7,541	13,724
Involuntarily part-time	4,638	8,910
Marginally attached	1,319	2,154
Underemployment rate	**8.7%**	**15.8%**
Unemployment rate	4.9%	8.9%

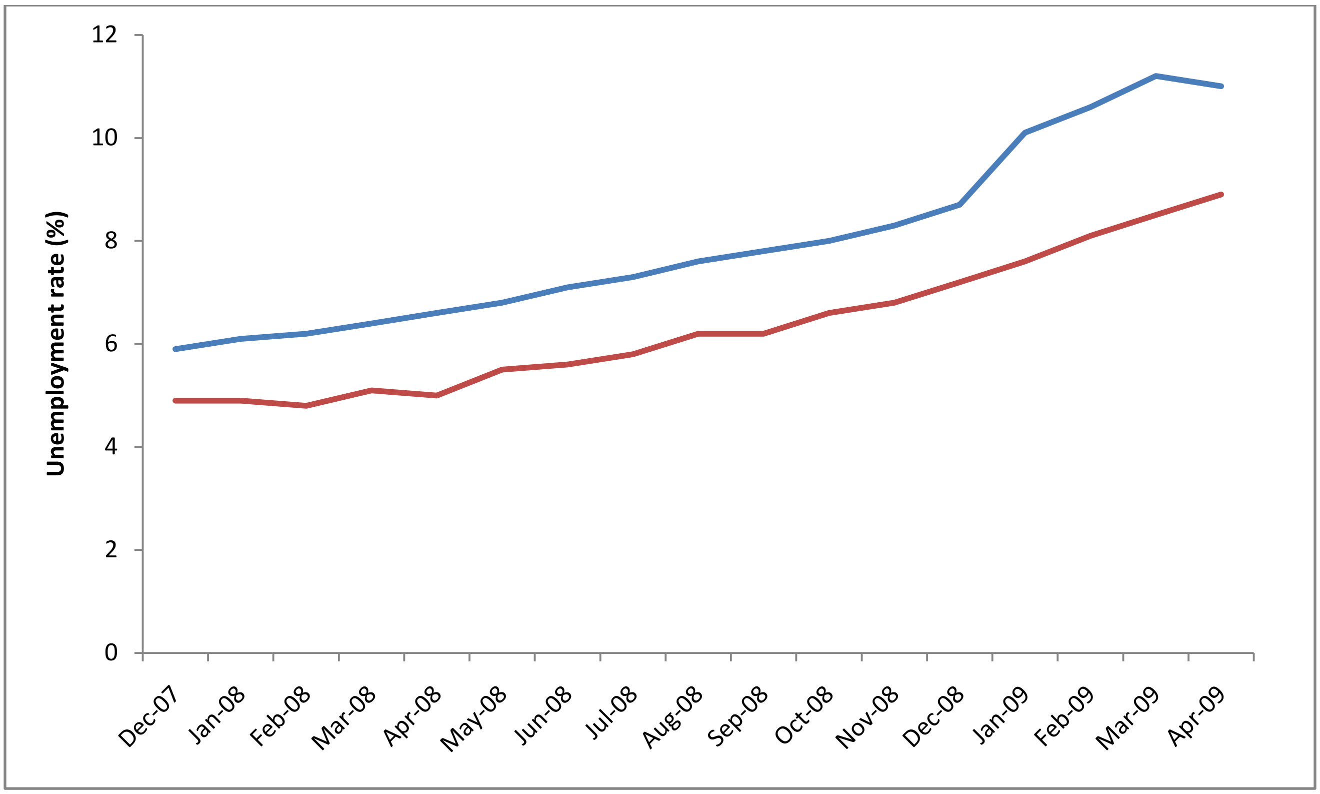
Source: Economic Policy Institute. Mishel, L., & Shierholz, H. (2009). Seven million jobs needed to return to pre-recession employment levels. Retrieved May 12, 2009 from Bureau of Labor Statistics. www.epi.org/publications/entry/jobspict_200905_preview/.

The California Experience

California is faring worse in this recession than it did in earlier recessions. In the 1981-1982 recession, unemployment in California tracked the national unemployment rate. In that recession, California unemployment peaked at 11.0%. The California unemployment rate reached 11.2% in March 2009 and is unlikely to show a significant decrease in the next several months.

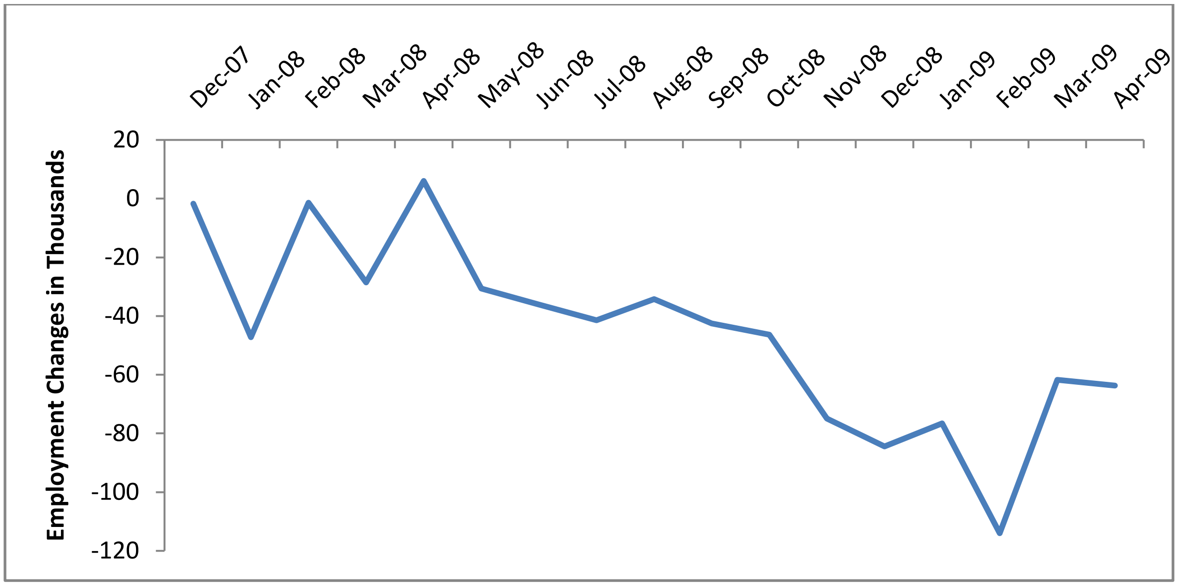
Figure 4 shows how unemployment in California has fared over the course of the current recession. In this recession, unemployment rates in California have been higher than those for the country as a whole. In April, the unemployment rate for California was 11% compared with 8.9% for the country as a whole. Employment continues to decrease, with a cumulative job loss of 777,900 jobs since the start of the recession (see Figures 5 and 6). With nearly 64,000 jobs lost between March and April, California had the largest decrease in employment of any state. The cumulative job loss in California accounts for over one-eighth of the job loss in the country as a whole.

Figure 4. Unemployment rate in California and the U.S. over the course of the current recession.



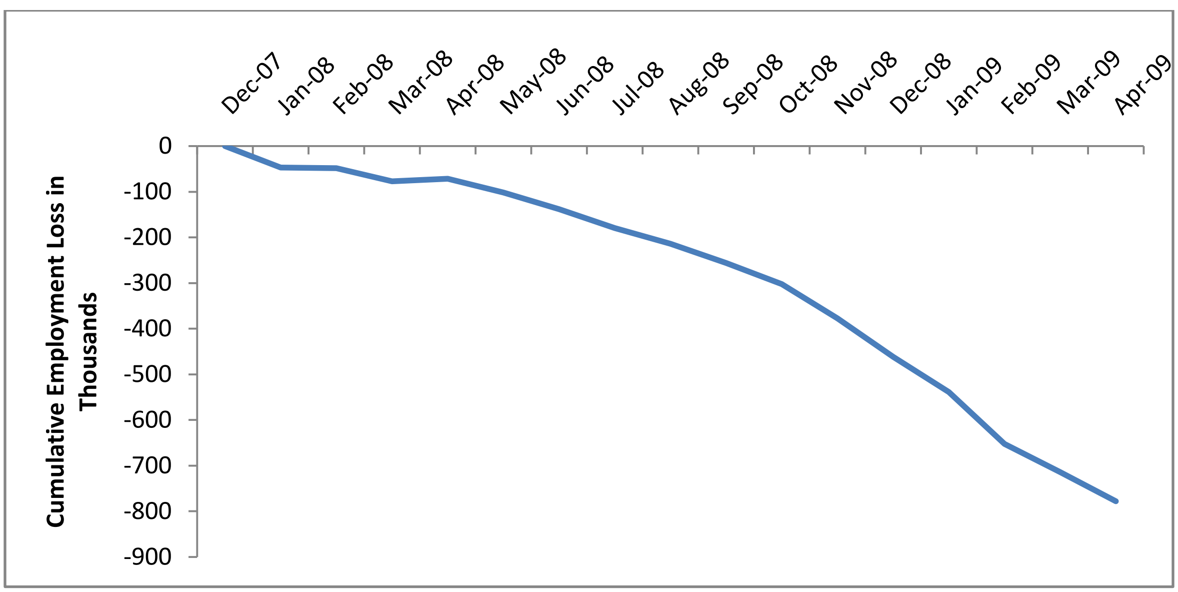
Source: Bureau of Labor Statistics.

Figure 5. California monthly employment changes 16 months from the start of the current recession.



Source: Bureau of Labor Statistics.

Figure 6. California cumulative employment losses 16 months from the start of the current recession.



Source: Bureau of Labor Statistics.

Only four states – Michigan, Oregon, South Carolina, and Rhode Island – had higher unemployment rates than California.[4] Furthermore, unemployment rates are variable across California. Table 4 shows unemployment rates in 26 metropolitan areas within California.[5] In El Centro, for example, unemployment was 25.1% in March; in Merced the unemployment rate was 20.4%; while in Santa Barbara-Santa Maria-Goleta, the unemployment rate mirrored the national rate in March at 8.5%. Higher levels of unemployment are generally associated with higher levels of underemployment. Thus the stress impact of the current economic downturn is likely to be even more evident in California than in the country as a whole and more problematic in those counties in California with the highest unemployment rates.

Table 4. March 2009 unemployment rates in California, by metropolitan area.

	Unemployment Rate
California	11.2%
Bakersfield	15.9%
Chico	13.3%
El Centro	25.1%
Fresno	17.0%
Hanford-Corcoran	16.7%
Los Angeles-Long Beach-Santa Ana	10.6%
Madera-Chowchilla	15.3%
Merced	20.4%
Modesto	17.5%
Napa	9.0%
Oxnard-Thousand Oaks-Ventura	9.6%
Redding	16.8%
Riverside-San Bernardino-Ontario	12.9%
Sacramento--Arden-Arcade--Roseville	11.3%
Salinas	15.7%
San Diego-Carlsbad-San Marcos	9.3%
San Francisco-Oakland-Fremont	9.5%
San Jose-Sunnyvale-Santa Clara	11.0%
San Luis Obispo-Paso Robles	8.7%
Santa Barbara-Santa Maria-Goleta	8.5%
Santa Cruz-Watsonville	13.6%
Santa Rosa-Petaluma	9.8%
Stockton	16.4%
Vallejo-Fairfield	10.9%
Visalia-Porterville	7.7%
Yuba City	19.5%

Note. Metropolitan area unemployment rates are not seasonally adjusted.

Source: Bureau of Labor Statistics. www.bls.gov/news.release/pdf/metro.pdf.

[4] Source: Bureau of Labor Statistics.

[5] The latest data available are for March 2009. April data will be available on June 3.

Conclusion

The outlook for the U.S. and California economies looks bleak. While steps taken by the Obama administration appear to have halted the free fall, the weak economy is still rapidly rolling downhill. Household consumption continues to be constrained by job loss, shrinking wages, and declines in home prices and retirement savings. The financial system continues to hold trillions of dollars worth of so-called toxic assets that constrain banks' ability to create credit and make lending to businesses difficult. California's future, and that of the nation, remains highly uncertain. More will be required in the way of stimulus spending by the federal government and revenue sharing with California and other states to yield an economic revival capable of creating the millions of new jobs needed to restore economic prosperity.