

An Economy on the Edge: Fragile Recovery or Recessionary Relapse?

by Gregory DeFreitas and Bhaswati Sengupta

As the nation approaches the fourth anniversary of the onset of the Great Recession, most economists' mid-year forecasts have displayed an overwhelming sense of caution in predicting the future. The first half of the year was not kind to economic projections; Gross Domestic Product, adjusted for inflation, grew by less than one percent and debt-burdened consumers showed scant ability to increase spending enough to warrant much new business hiring. While some of this worsening has been attributed to short-term increases in food and energy prices, as well as disruptions caused by the earthquake in Japan and the Arab Spring rebellions, the overall weakness of the recovery and fears of a recessionary relapse dominate the general assessment of the economy. Many economists predict that it will be hurt still more by the deep government spending cuts included in the last-minute August agreement in Washington to raise the federal debt ceiling. The agreement imposes over \$2 trillion in government spending reductions over the next ten years, with no increases in tax revenue. A new Congressional committee must come up with deficit-reduction proposals by November, raising the possibility of still more spending cuts.

Public opinion concurs with the increasingly gloomy forecasts of economists. According to a nationwide CBS News/NY Times poll conducted August 2–3, some 86% of those surveyed rated “the condition of the national economy these days” either “fairly bad” or “very bad,” and none rated it “very good.” When asked to prioritize two national policies, cutting government spending or creating jobs, 62% thought creating jobs was the top priority versus 29% who favored spending cuts and 8% who said “both.” And 63% said that taxes should be increased on households earning \$250,000 or more to help reduce the budget deficit.¹

Nationally, the job count was up by about 1.2 million over the 12 months through June: a modest 0.9% improvement (Table 1). The average unemployment rate – 9.1% in June – has remained at least 9% in 23 of the past 25 months. Youth, racial minorities and the non-college-educated have been hit especially hard. The figures in Table 2 show that the overall black unemployment rate (16.2%) is twice the white rate and has kept rising over the past 12 months. Among teenagers, 21.2% of whites are jobless compared to nearly 40% of black youth.

In addition to the 14 million officially unemployed this June (double the number at the same time in 2007) 8.5 million are underemployed in part-time jobs because they cannot find the full-time work they want. Another 3 million jobless people are not even counted in the official labor force: discouraged jobseekers and others available for work but now marginally attached to the weak labor market. Altogether, the fraction underemployed now stands at 16.1% of American adults. More than two of every five unemployed Americans have been looking for work for over a half a year.

Such persistently high and long-term underemployment, coupled with employer resistance to wage and benefits improvements among the employed, have resulted in declines in average household income. The annual Census Bureau report on income and poverty trends, released in September, found that median household income fell by 2.3% in 2009–2010. And the fraction of Americans below the poverty line (\$18,310 for a family of three), rose for the third consecutive year, to 15.1%. Among children under age 18, 22% are now living in poor households. Over the prior year, nearly one-fourth of the country's population experienced a poverty spell of two months or more.²

Corporate profits have, in sharp contrast, been soaring for the past two years: they increased another 10.8% in 2010, according to the U.S. Commerce Department.³ Profits now account for 14% of all national income, breaking records stretching back over a half-century. Many (if still too few) firms have been using some of their cash mountain to hire more. In fact – contrary to claims that “overregulation” has stifled job growth – gains in the number of private sector jobs in the past two years have outpaced those recorded in the first two years of the 2001 recovery.⁴ But in that and earlier postwar recoveries, government employment expanded rather than contracting as it is today. And the economic record shows clearly that deep financial crises like that of 2008 pose much longer-lasting burdens on job growth than less severe recessions.⁵ With private sector job gains still inadequate to substantially counter widespread austerity policies in the public sector, labor market conditions have worsened once again, forcing us to re-evaluate our economic trajectory out of the recession.

Table 1
Number of Nonfarm Jobs (in thousands) by Place of Work:
New York City, Long Island & All U.S., June 2010–June 2011
(in thousands, not seasonally adjusted)

	June 2011	June 2010	June 2000	2000-2011	% Change 2010-2011
U.S.	132,144.0	130,908.0	132,998.0	-0.6	0.9
NY State	8,702.9	8,650.3	8,719.3	-0.2	0.6
NYC	3,753.6	3,731.9	3,738.0	0.4	0.6
Long Island	1,245.4	1,252.2	1,240.1	0.4	-0.5

Table 1 source: Establishment survey data from US Department of Labor.
 Note that data reflect regular revisions by Dept. of Labor.

Table 2
Unemployment Rates & Duration, 2000–2011
(national estimates for June, seasonally adjusted)

	2011	2010	2000
ALL	9.2%	9.5%	4.0%
Age and Race/Ethnicity			
White	8.1	8.6	3.4
Black	16.2	15.4	7.8
Hispanic	11.6	12.4	5.6
All, ages 16–19	24.5	25.8	12.3
Whites 16–19	21.8	23.2	10.4
Blacks 16–19	39.9	40.4	26.0
Education::			
HS grad, no college	10.0	10.7	3.4
College grad, BA	4.4	4.4	1.6
Duration:			
Unemployed over 26 weeks (as % of unempld.)	44.4	45.2	11.6

Table 2 Notes: Estimates for civilian, noninstitutional pop. ages 16 and over, except for education subsets (ages 25+) Table 2 Source: U.S. Bureau of Labor Statistics.

At the regional level, the assessment is somewhat mixed. New York’s recovery appears to be more robust than the nation’s - its job losses have not been as severe or as sustained, and in having a more mature economy than most parts of the country, it has not experienced as pronounced a housing boom and bust cycle. Still, compared to the last two recessions, when it fared much worse than the national average, the city’s relative standing is more reassuring, though it still remains quite a distance from reaching even its mid-recession unemployment rate.

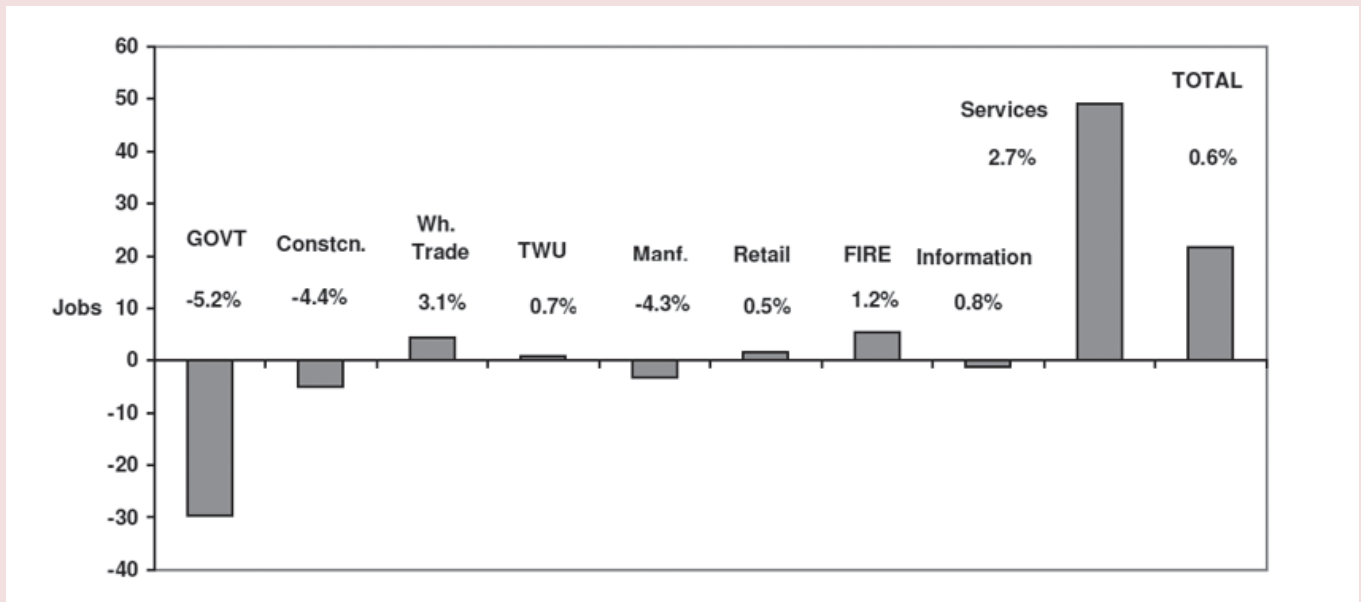
One glaring reason for this high unemployment is the alarming rate at which New York’s government has cut jobs, both at the local and at the state level. While New York’s economy gained 13,600 private sector jobs in June, job cuts in the public sector dampened the net increase in total (non-farm) jobs to a mere 2,900. Over the last year, we find the same broad trend – the private sector added 113,600 jobs, while the public sector lost 61,000 (See Table 1).

The labor market dynamics of growing and shrinking sectors are often obscured by aggregate numbers, especially in times when overall employment growth is sluggish. Within the private sector

for the state as a whole, Professional and business services showed the highest job gains, followed by educational and health Services. Zooming in on New York City and Long Island, we see a similar pattern in the former, while the picture in Long Island is even bleaker (Figures 1 & 2). The city gained a net of 21,700 jobs over the 12 months through June, the result of 51,400 private sector hires over the same period that federal jobs here were cut by 20,300 and state/local jobs by 9,400. Nearly all the private sector job growth was in professional and business services (+21,300) and educational and health services (+23,700). The leisure and hospitality sector added another 6,900 more jobs. With the US dollar weak relative to key foreign currencies, tourism-related spending in hotels, restaurants and retail outlets has been strong. The long-running European debt crisis and austerity policies could endanger a major source of that spending in coming months. Among industries losing jobs, the worst impacts were on construction (-5,000) and manufacturing (-3,300), each shrinking by more than 4%.

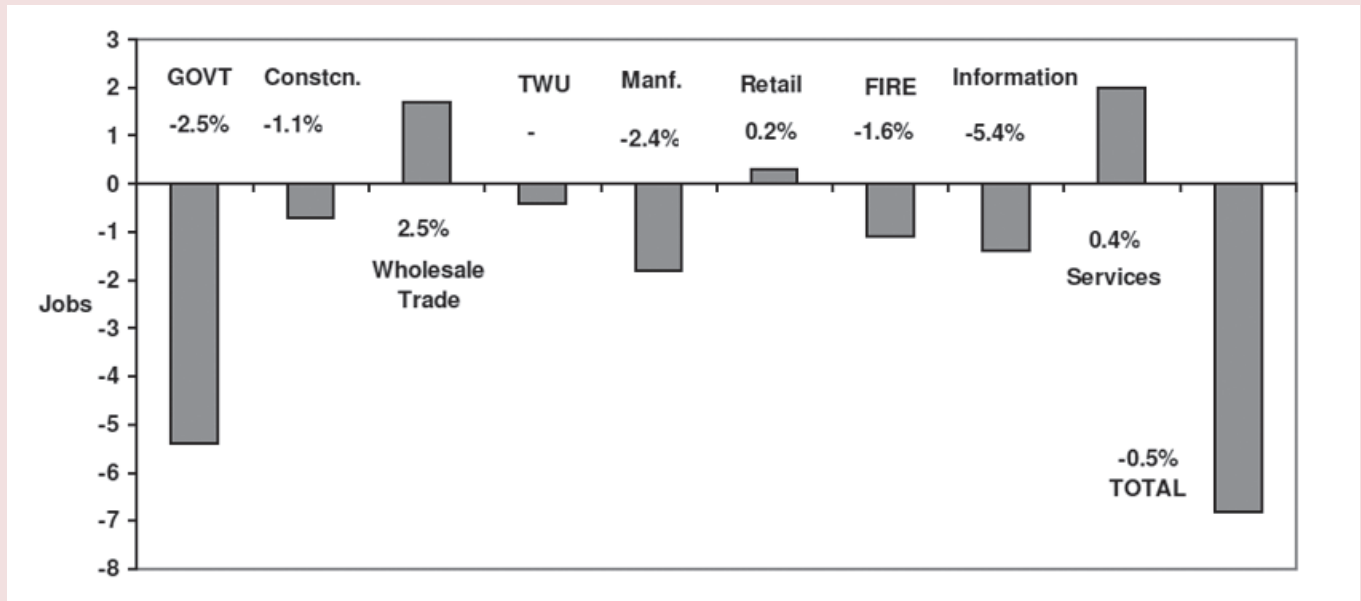
The number officially counted as unemployed declined slightly (-27,400) over this same period, reflecting both more jobs and more

Figure 1
NYC Job Growth by Industry: June 2010 – June 2011
(in thousands of jobs, and percent change)



Figs. 1 – 2 Source: NYS Dept. of Labor: nonfarm payroll job data from CES establishment survey in Nassau and Suffolk counties. Year-to-year changes, not seasonally adjusted. Note: FIRE = Finance, Insurance & Real Estate; TW U= Transport, Warehousing & Utilities.

Figure 2
Long Island Job Growth by Industry: June 2010 – June 2011
(in thousands of jobs, and percent change)



discouraged labor force dropouts (Table 3). This pushed the city's unemployment rate down from 9.4% last summer to 8.8% in June 2011. But the inter-borough differences within the city are stark: only 7.3% of Manhattan residents are jobless compared to 12% in the Bronx. The black-white gap is even wider than the national norm: the unemployment rate for all last year averaged 5.7% for whites, but 14.9% for blacks. And New Yorkers suffer above-average long-term unemployment: 57.1% of jobseekers were out of work in 2010, compared to just 28.8% before the recession began in 2007 (Table 4).

On Long Island, the unemployment rate remains – at 7.1% – well below the city's rate, consistent with long-standing trends. But both the private and public sectors shrank, and Nassau and Suffolk counties lost a combined total of almost 7,000 jobs over the year. Job growth was tepid or nonexistent in nearly all sectors. As in the city, professional and business services, as well as educational and health services added jobs. But the island's leisure and hospitality sector lost rather than gained jobs. The fact that there was no evident change in the unemployment rate over the year through mid-summer seems largely the result of discouraged labor force dropouts. The number of Long Islanders counted as unemployed

barely budged over the past 12 months, slipping from 107,300 to 105,000. But the number actively searching for work fell far more, shrinking the labor force by 22,500.

In a very recent study, the Federal Reserve Bank of New York finds an interesting distinction between the current recovery, and those from the (relatively shallow) last two recessions. Job growth comes from two sources, the first from new jobs in structurally expanding industries such as Health Services, and the second from "recovering" industries that had faced contractions during the recessionary period. In the last two recessions, the first source contributed a much larger share to overall job growth, while the current recovery exhibits a more even balance between the two types of jobs. If these trends continue, a larger proportion of unemployed workers would be going back to jobs similar to those they lost during the downturn, a factor that bodes well for the adjustment process in a recovering economy, due to an easier matching of skills to jobs. Old jobs being slowly restored come mainly from administrative support and retail and wholesale trade, while manufacturing (both durable and non-durable) and construction continue their downward slide. The more long-term creation of new jobs originate mostly in Health and Education services, that has seen sustained growth over the last few

years. They conclude “the areas with a higher preponderance of new jobs are undergoing more rapid transformations that could position them well for growth going forward. As a result, these areas could face a particularly strong need to retrain and educate their workers.”

The patterns in this internal churning of the workforce would not only determine the future pace of the recovery, but also have longer term effects on intra-regional development in New York.

Gregory DeFreitas is Professor of Economics at Hofstra University, Director of its Labor Studies Program, and Director, Center for the Study of Labor and Democracy. Bhaswati Sengupta is Assistant Professor of Economics at Hofstra.

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NOTES

- 1 The New York Times/CBS News Poll,” *NY Times* (8/06/2011).
- 2 U.S. Bureau of the Census, *Income, Poverty and Health Insurance Coverage in the U.S.: 2010* (9/2011).
- 3 U.S. Commerce Dept. figures, cited in: Norris, Floyd, “As Corporate Profits Rise, Workers’ Income Declines,” *NY Times* (8/05/2011).

- 4 Mishel, Lawrence, “Regulatory Uncertainty: A Phony Explanation for Our Jobs Problem,” *EPI Briefing Paper* (9/27/2011): www.epi.org.
- 5 Reinhart, C. and Rogoff, K. *This Time Is Different: Eight Centuries of Financial Folly* (Princeton U. Press, 2010).
- 6 “Job Creation in the Region,” *New York Federal Reserve Press Briefing* (9/12/2011): http://www.newyorkfed.org/newsevents/events/regional_outreach/2011/rpb_aug11.pdf and <http://www.newyorkfed.org/newsevents/speeches/2011/dud110812.html>

Table 3
Civilian Labor Force, Employment & Unemployment
(in thousands, not seasonally adjusted)

AREA	Labor Force		Employed		Unemployed		Unemp. Rate	
	June 2011	June 2010	June 2011	June 2010	June 2011	June 2010	June 2011	June 2010
U.S.	154,538.0	154,767.0	140,129.0	139,882.0	14,409.0	14,885.0	9.3%	9.6%
NYC	3,963.1	3,992.1	3,615.7	3,618.1	347.4	374	8.8	9.4
Brooklyn	1,121.9	1,130.2	1,015.4	1,016.1	106.5	114.1	9.5	10.1
Bronx	537.5	541.1	472.8	473.1	64.7	68.0	12.0	12.6
Manhattan	928.2	933.2	858.7	859.3	67.5	73.9	7.3	7.9
Queens	1,130.4	1,138.9	1,041.4	1,042.1	89.0	96.8	7.9	8.5
Staten Island	247.1	248.8	227.4	227.6	19.7	21.2	8	8.5
LONG ISLAND	1,479.4	1,501.9	1,374.4	1,394.6	105.0	107.3	7.1	7.1
Nassau Co.	690.6	701.7	642.8	652.2	47.8	49.5	6.9	7.1
Suffolk Co.	788.8	800.2	731.6	742.4	57.2	57.8	7.3	7.2

Table 3 source: CPS household survey data from NYS Department of Labor.
 Note that data reflect regular revisions by Dept. of Labor.

Table 4
NYC Unemployment by Age, Race/Ethnicity & Education, 2007-2010
(4th quarter each year)

	2010	2009	2008	2007
ALL	8.6%	10.1%	6.9%	5.0%
Age and Race/Ethnicity				
White	5.7	7.5	3.9	3.1
Black	14.9	14.6	12.7	7.2
Hispanic	9.8	11.9	7.1	6.0
All, ages 16–24	11.9	22.4	11.2	13.5
Ages 25–54	8.7	9.3	6.5	4.4
Ages 55 & over	6.0	5.7	5.7	2.6
Education::				
No HS Diploma	13.7	12.5	9.0	10.8
HS grad, some college	9.4	12.1	8.7	5.1
College grad, BA	.6.0	7.1	4.1	2.9
Duration:				
Unemployed over 26 weeks (as % of unempld.)	57.1	46.5	27.1	28.8

Table 4 Source: CPS microdata analysis by NYC Comptroller's Office (4/2011). Not seasonally adjusted.