

The following articles are from the 2009 State of the State's Economy issue of *Minnesota Economic Trends*. The entire issue is available on-line at <http://www.deed.state.mn.us/lmi/publications/trends.htm> and will be available in print next month.

The Great Recession? Time Will Tell

The current recession is the worst economic downturn in the United States since World War II, but it's too early to say whether it will be significantly worse than two other severe recessions that have occurred since then.

[By Dave Senf](#)

The 2008-09 recession – 18 months long as of June – has already topped the 16-month recessions of 1973-75 and 1981-82 as the longest postwar downturn. Other measures, such as the decline of gross domestic product (GDP), rising unemployment and job losses, have been extensive enough this time around for many to label this contraction the Great Recession. But the Great Recession label, while a welcome upgrade from the Great Depression II moniker feared by many late last year, might be a bit overstated and premature.

This U.S. recession in terms of duration, depth and dispersion – the three D's of recessions – has been far worse than the two most recent recessions. As of June, however, it only matched or slightly exceeded the severity of other deep downturns since World War II. Minnesota, meanwhile, seems to be doing slightly better than the country as a whole during this recession, at least through June.

That is the good news. The bad news is this: While the rate of contraction has slowed in recent months, economic growth isn't expected until the third quarter of this year and will be sluggish well into 2010.

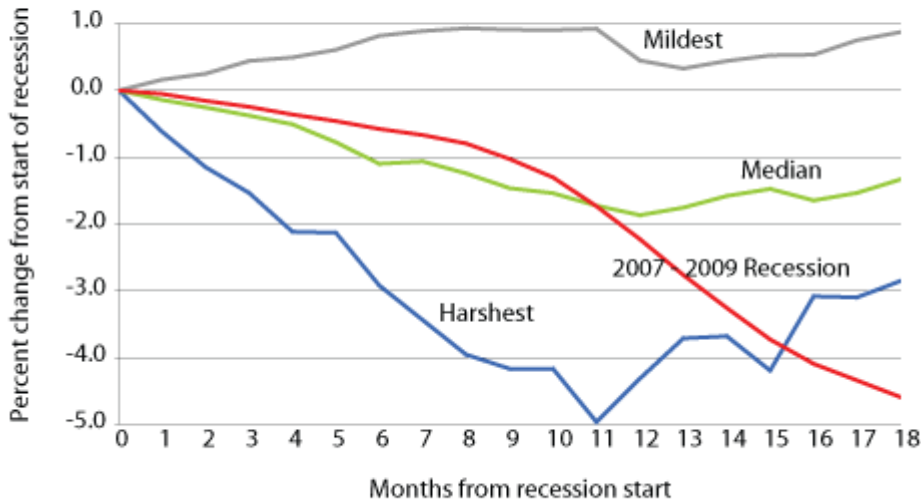
A handy scorecard on the recession is available on the Minneapolis Federal Reserve Bank's Web site. [1] The Web site, which is updated monthly as new data are released, compares this recession with the 10 previous postwar recessions using monthly national and state employment and quarterly GDP estimates indexed to the start of each recession.

Cumulative employment and GDP declines since December 2007 are compared with the smallest, median and largest declines experienced across the 10 other postwar recessions during corresponding months. While perusing the charts, keep in mind that the current recession's numbers will likely be revised over the next year. This recession's place in history won't be known for sure until all the revisions are in.

Figure 1 re-creates one of the charts at the Fed's Web site updated through June. The 18 months of mildest, median and harshest payroll employment declines during the other recessions do not reflect specific individual recessions but provide a range of how mild and harsh recessionary months have been over the past 60 years during and right after recessionary periods.

Figure 1

Change in U.S. Employment: Current Recession vs Summary of 10 Postwar Recessions



Source: Minneapolis Federal Reserve Bank and author's calculations.

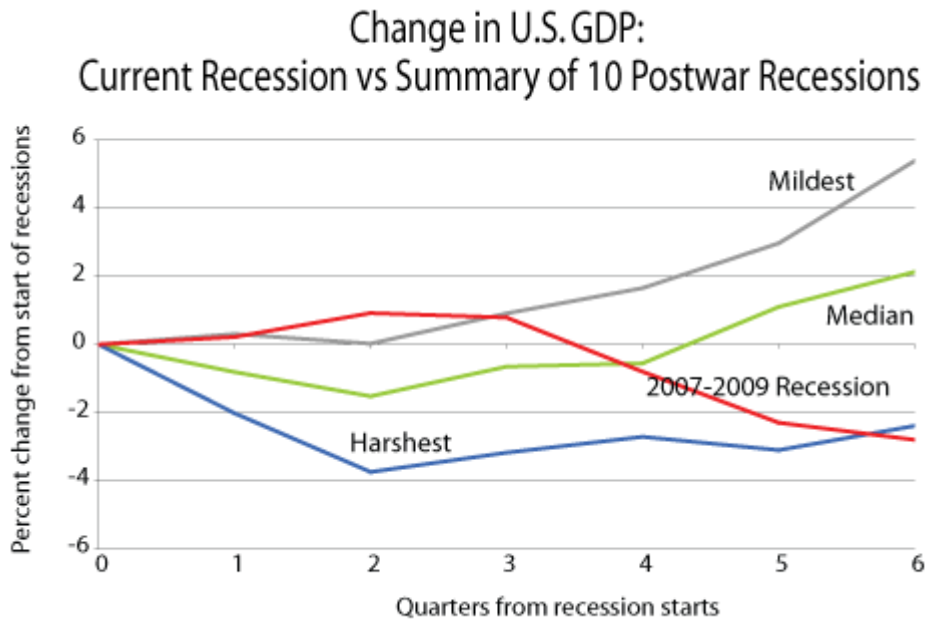
Job declines during the current recession were less than the median decline of the other 10 recessions through October. The economy started to nose-dive in November after last fall's financial meltdown and ensuing credit crunch. As credit dried up, households and businesses cut spending, setting off a vicious downward spiral. Job losses totaled 1.8 million from January to October last year but escalated to 4.7 million from November through June, leaving payroll numbers 4.7 percent below December 2007.

The 4.7 percent employment decline is more than three times the median decline of the other postwar recessions after 18 months, but it is only slightly worse than the 4.2 percent employment plunge experienced 15 months after the start of the 1948-49 recession.

Unlike in 1949, however, when the job market rebounded robustly after the recovery began, few expect a rapid job recovery when this downturn ends. Instead, the current recession's job rebound is likely to look more like the jobless recoveries of the last two recessions when peak pre-recession employment levels weren't topped again for two and three years, respectively, after the downturns officially ended.

A similar conclusion can be made about the severity of this recession when judged by GDP decline (see Figure 2). Output actually increased during the early part of the recession, keeping GDP decline ahead of the median GDP decline experienced during the other postwar recessions until the last quarter of 2008. The credit crunch sent GDP crashing along with employment during the fourth quarter, and the steep slide continued through the first quarter of this year. Economic activity as measured by GDP was down 2.3 percent from the fourth quarter 2007 level, the last quarter before the recession began.

Figure 2



Source: Minneapolis Federal Reserve Bank and author's calculations.

GDP decline was deeper after five quarters during the 1973-75 (3.1 percent drop) and 1981-82 (2.6 percent drop) recessions, but the economy resumed expanding during the sixth quarter after the start of each of these two recessions. GDP is expected to slip again during the second quarter in 2009, the sixth quarter of this recession, making this recession the first postwar recession with four consecutive quarters of declining production.

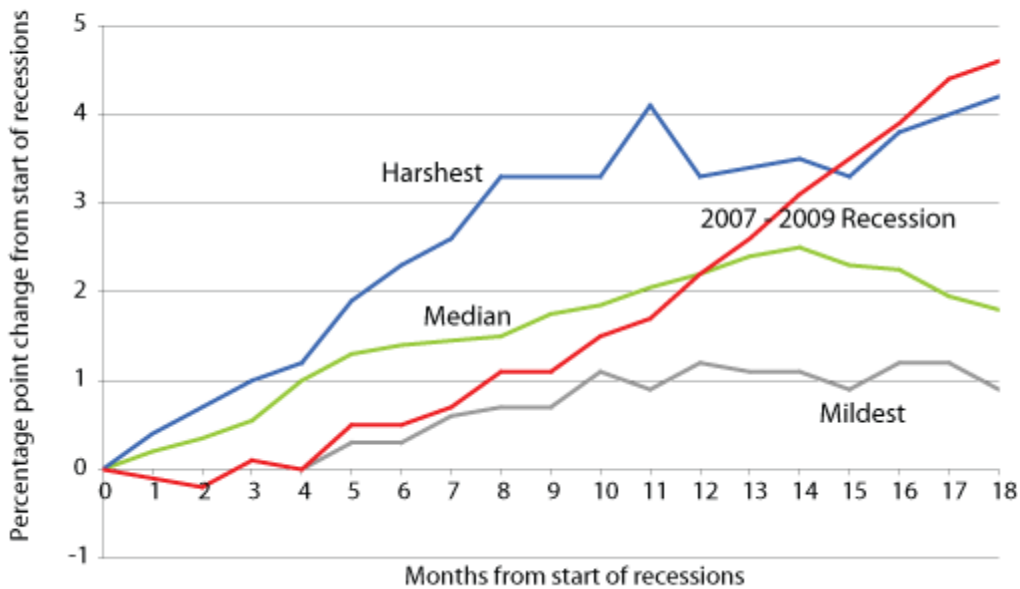
The economic free fall between November and April slowed considerably in May and June, so GDP decline is likely to be somewhere in the neighborhood of 3 percent on an annual average basis for the second quarter. A 3 percent annual average GDP decline in the second quarter would push the cumulative GDP drop to 3 percent since the onset of the recession. The previous worst GDP drop six quarters after the start of a recession was 2.3 percent after the 1973-75 recession.

Growth is expected to resume during the second half of the year, but the recovery will be rocky with GDP growth expected to run below 3 percent for 2010. Rebounds following the 1973-75 and 1981-82 recessions were much more robust with GDP expanding 5.3 percent in 1976 and 4.5 percent in 1983.

The unemployment track of this recession is a carbon copy of employment and GDP decline. The unemployment rate initially increased less than the median of other recessions but quickly ratcheted up to a 26-year high as layoffs mounted over the last seven months (see Figure 3). June's 9.5 percent U.S. unemployment rate was last seen in August 1983 when the job market was improving from the postwar high of 10.8 percent recorded in November and December 1982.

Figure 3

Change in U.S. Unemployment Rate: Current Recession vs Summary of 10 Postwar Recessions



Source: Bureau of Labor Statistics (BLS), U.S. Department of Labor.

The 10.8 percent rate in 1982 occurred 17 months after the 1981-82 recession commenced, a spike of 3.6 percentage points. Unemployment was already at 7.2 percent in July 1981 when the 1981-82 recession started with the economy still on the mend from the six-month recession in 1980. This recession's unemployment rate climbed by 4.5 percentage points over 18 months, from 5 to 9.5 percent, which is slightly steeper than the 4 percent spike suffered during the later stages of the 1973-75 recession.

If unemployment continues to climb for another year before peaking just north of 10 percent, as expected by many analysts, this recession's unemployment spike might eventually exceed 5 percentage points. That would clearly place unemployment this time around as the deepest and longest spike since World War II.

The third D of recessions, dispersion, considers how widespread the economic fallout is across the nation. The Minneapolis Fed's recession Web site again comes to the rescue by providing employment changes for each state over all postwar recessions. A quick scan of the states' charts shows that the current employment drop is clearly or nearly the deepest drop experienced over the last 60 years in 21 states.

Among the states easily setting job loss records are the big four foreclosure states – Arizona, California, Florida and Nevada. Arizona's payroll numbers were down 9 percent between December 2007 and June 2009, far more severe than the previous worst, a 2.2 percent decline 16 months into the 1973-75 recession. Florida also recorded its previous deepest employment decline during the 1973-75 recession when employment loss was 3.2 percent after 16 months. Florida's current 18-month employment drop is 7.2 percent.

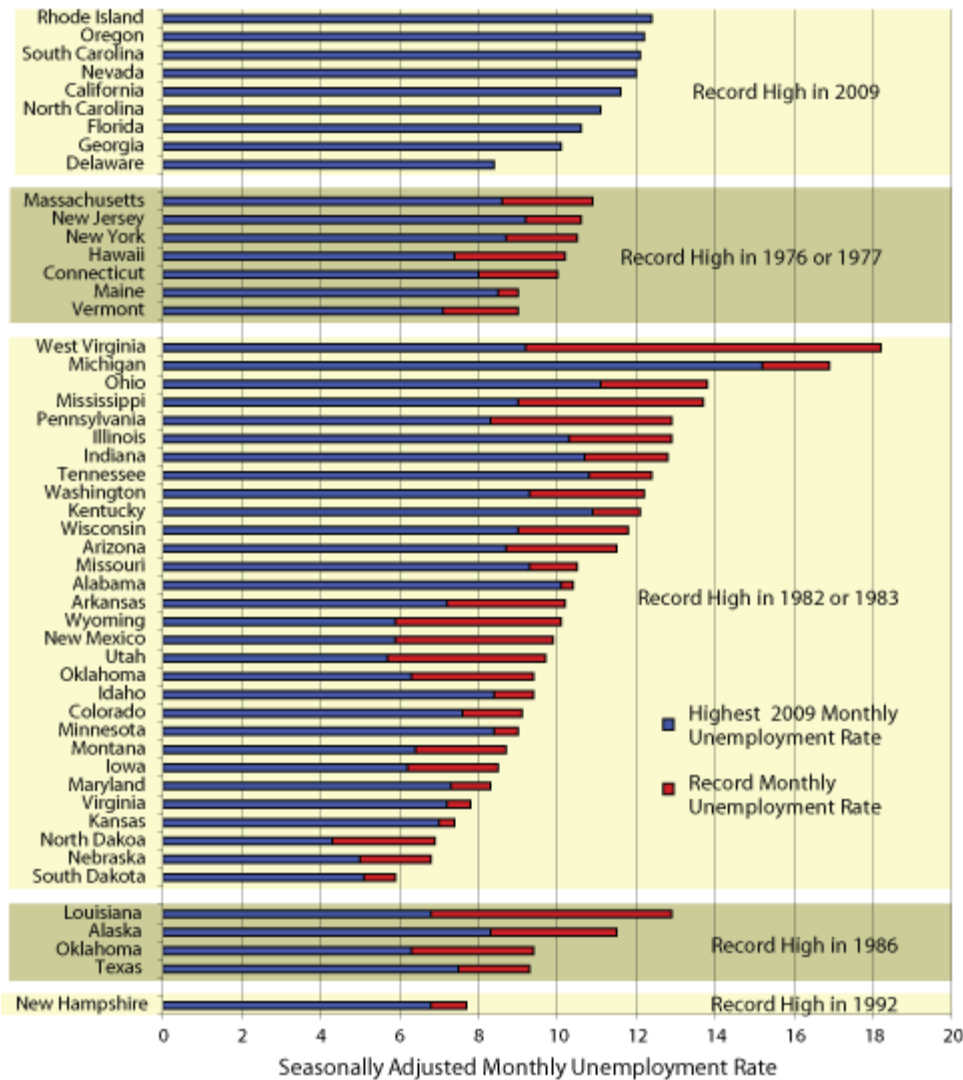
Minnesota joined the ill-fated club of states setting postwar records for job loss in June. Minnesota's payroll employment decline since the recession started stands at 4.4 percent through June, which is slightly worse than the 4.3 percent decline endured during December 1983, 17 months after the start of the 1982-83 recession.

Most of the states that have experienced deeper job loss during previous recessions are Midwest or East Coast states. These states saw their manufacturing bases permanently diminished during the 1973-75, 1981-82 and 1990-91 recessions. Job loss also has been lower in these states this time because their housing bubbles were less inflated than in other parts of the country, leading to more moderate home-building busts.

Nine states – California, Delaware, Florida, Georgia, Nevada, North Carolina, Rhode Island, Oregon, and South Carolina – have already hit record-high unemployment rates during the first half of 2009 (see Figure 4). The previous record unemployment rates for all these states except Florida and Delaware were set during the 1981-82 recessions. The previous record jobless rates for Florida and Delaware were set in 1976. The 1981-82 recession spawned record-setting unemployment rates in 37 states in either late 1982 or early 1983. The pandemic of record state unemployment rates during late 1982 added up to the postwar U.S. record unemployment rate of 10.8 percent during the last two months of 1982.

Figure 4

Recent and Record Unemployment Rates



Source: Bureau of Labor Statistics, U.S. Department of Labor, updated through June 2009

Reliable unemployment rates for the country go back to 1948, but only to 1976 for states. Four oil-producing states – Alaska, Oklahoma, Louisiana and Texas – saw their highest jobless rates during 1986 when oil prices crashed, sending the economies in these states into deep tailspins. Seven other states besides Florida and Delaware also suffered through their highest unemployment rates as a result of the 1973-75 recession.

Unemployment is expected to continue to climb in most states through the rest of the year, adding to the list of states setting historical high jobless rates. Oregon and Nevada appear fated to be the next record setters as their April rates were just 0.1 percent below their historical highs. In eight other states, including Minnesota, unemployment rates in 2009 have climbed to within 1 percent of record highs.

Minnesota's jobless rate climbed back to 8.4 percent in June, the highest rate since May 1983. The highest ever jobless rate was 9 percent in November 1982. The state's unemployment rate has soared by 3.6 percentage points since the recession started, slightly above the 3.5 percentage point run-up 17 months after the 1981-82 recession commenced. Fortunately, Minnesota's 3.6 percent spike has been less dire than the nation's 4.5 percent spike.

A more precise gauge of the spatial range of recessions is a dispersion index of state economic activity produced by the Philadelphia Federal Reserve Bank based on its monthly state coincident indexes.[\[2\]](#)

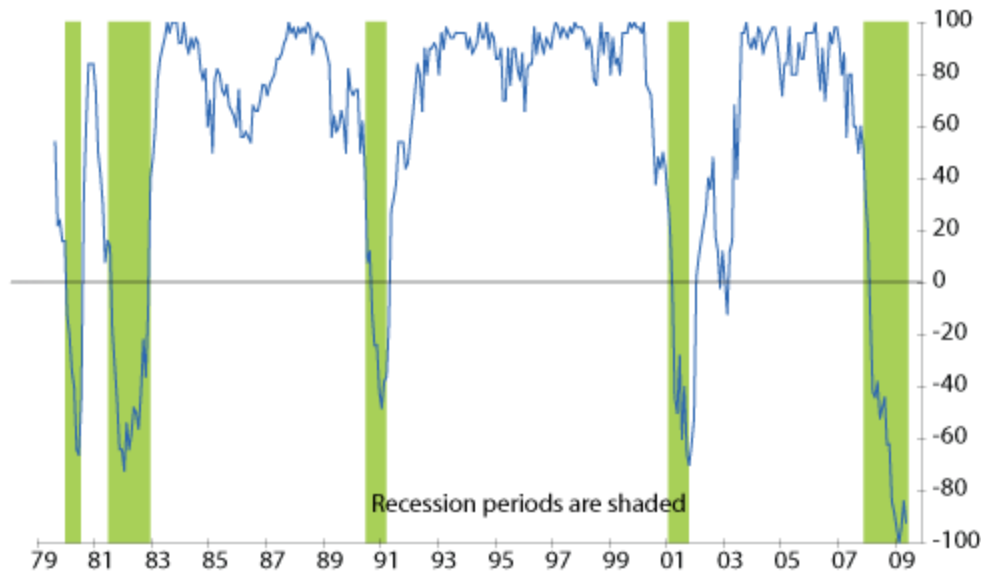
The Philly Fed calculates a monthly coincident index for each state by statistically combining changes in nonfarm payroll employment, average hours worked in manufacturing, unemployment rate, and inflation-adjusted wage and salary disbursements. Month-to-month changes in a state's coincident index serve as proxy for changes in a state's level of economic activity.

Tallying the percent of states with increasing indexes versus the percent of states with decreasing indexes into what is termed a diffusion index provides a monthly measure of how widespread the changes in economic activity are across the nation. The diffusion index can range from 100 (indicating economic expansion in all states) to -100 (indicating that every state's economy is shrinking).

The Philly Fed's one-month diffusion index, which is available going back to 1979, reached -100 for the first time in February, suggesting that no state was avoiding this downturn (see Figure 5). The previous worst reading, -74, was back in January 1982 when just seven states were showing signs of economic growth. The diffusion index has been below -74 for six months now, which is a clear-cut indicator of the breadth of this recession compared with previous contractions. No region has been spared this time around.

Figure 5

Philly Fed's One-month Diffusion Index



Source: Philadelphia Federal Reserve Bank

The diffusion index turned slightly upward in March (when the North Dakota and Rhode Island increased) and advanced again in April as coincident indexes for North Dakota, Missouri, Montana and New Mexico all advanced but retreated in May with only our neighbor to the west, North Dakota, recording growth. Minnesota's index has been falling for the last nine months, but the rate of decline has slowed substantially over the last few months. The two-month uptick in the index is encouraging, considering a turnaround in the index has occurred at the end of three out of the last four recessions.

Until the last few months, this recession's decline in GDP and jobs and the spike in the unemployment rate were not unique when compared with the worst of other postwar recessions. But, as the economy has continued to weaken over the last few months, albeit at a slower rate, the duration, depth and dispersion of this recession has moved beyond the worst of other postwar recessions.

This recession may go down as the Great Recession eventually, but for now it is just, the worst postwar recession, slightly deeper and more severe than any downturn experienced by the past three generations, but not drastically so. Perhaps the right title for now is the Big Recession.

[1]The Web site is at www.minneapolisfed.org/publications_papers/studies/recession_perspective/index.cfm.

[2]The Philadelphia Fed's state coincident index Web site is www.philadelphiafed.org/research-and-data/regional-economy/indexes/coincident/. A time-lapse picture of how this recession spread across the nation can be seen by clicking through the monthly coincident maps.