



Laboring to recover

As the nation's economy rebounds, unemployment continues to rise



Although John-Paul Maxfield lost his job at a private equity firm during the most severe economic recession of his lifetime, the 29-year-old has a different view than most who have also been looking for work in the midst of escalating unemployment.



his is the best thing that's ever happened to me," Maxfield (pictured left) says. "In this recession, I saw an opportunity."

After weeks of scouring a "dismal job market" in the fall of 2008 didn't turn up any interviews, Maxfield tried a new approach: "I was writing my business plan at night and searching for work during the day."

He was told he was crazy to start a business in such an economy, but Maxfield cashed in his retirement fund; traded his Volvo for a truck; and, by February '09, opened Waste Farmers, a commercial recycling and composting business in Denver.

So far the operations are small—just Maxfield; his wife, Carrie, who is a third-grade teacher; and his business partner. Clients include hospitals, hotels, schools and the like. Maxfield not only wants to expand the business, but also change the way companies handle their waste, which often can be recycled rather than dumped in a landfill. He wants to make a difference.

Still, with Waste Farmers less than a year old, Maxfield's entrepreneurial vision is lined with a little self-doubt about being his own boss.

"I put everything we have into this business," he says.

And times are tough. It is uncertain how quickly jobs lost during the most recent recession will come back—or whether some of those lost jobs will ever return. Although Federal Reserve Chairman Ben Bernanke said in mid-September the downturn was "very likely over," he added that "it's still going to feel like a very weak economy for some time."

By November—almost two years after the recession began in December '07—the unemployment rate was 10 percent, according to the Labor Department. The typical rate of unemployment when the economy is not in recession is about 5 percent.

It may seem counterintuitive that the economy is rebounding yet unemployment continues to rise. The economy and unemployment have recovered simultaneously

following some past recessions—but not all, says Ed Knotek, a senior economist at the Federal Reserve Bank of Kansas City, who recently researched how unemployment will fare in the aftermath of the most recent recession. He examined changes in the labor market during the past 20 years and the effects of banking crises on unemployment.

“These two factors raise the likelihood that unemployment will recover much more slowly this time compared with past severe recessions,” Knotek says. “For some workers, this may mean a longer period of unemployment, especially for those looking for employment in a new field. For others, this could mean postponing retirement and staying in the workforce longer.”

Many are trying to make the most out of a bleak situation. Data for the past few years show increased enrollment at community colleges and more small-business start-ups, like Waste Farmers.

“It’s all about perspective,” Maxfield says. “Challenging times are opportunities.”

A look back

Historically, severe recessions were followed by strong recoveries and mild recessions were followed by weak recoveries.

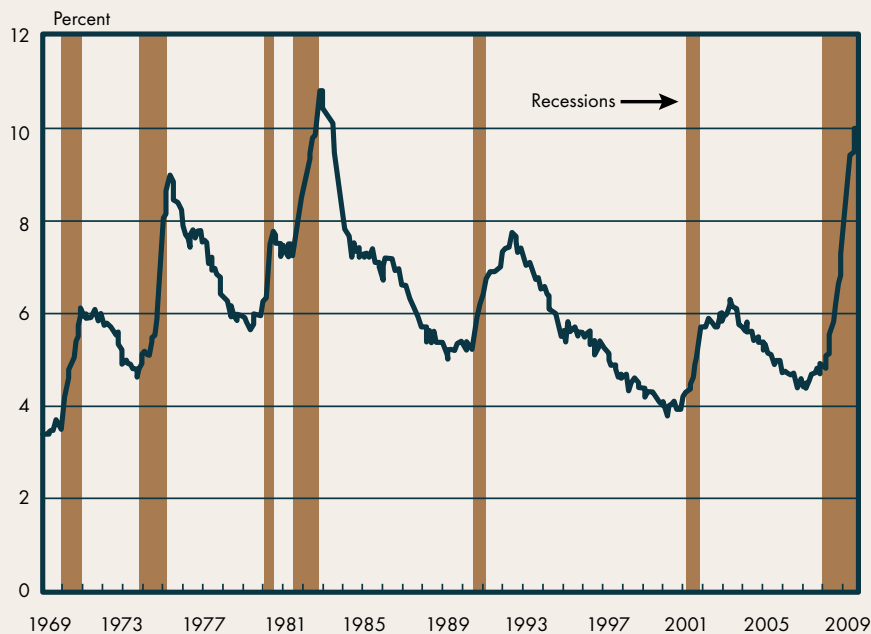
“In general, the more unemployment increased during a recession, the more it fell the year afterward,” Knotek says.

In many ways, the most recent recession has been similar to two of the most severe U.S. downturns: the recessions of 1973-75 and 1981-82. Each of these three recessions:

- lasted longer than the average downturn of 10 months;
- experienced greater drops in the nation’s gross domestic product (GDP) than the average 1.7 percent decline; and
- saw strong increases in unemployment during the recession.

“Following the recessions of ’73 and ’81, unemployment fell sharply within a year after the recession’s end and then drifted down slowly for several years,” Knotek says. “These similarities could mean unemployment will

U.S. Unemployment Rate



The nation’s jobless rate was 10 percent in November 2009, according to the Labor Department. Although the economy is thought to be recovering from the recession that began in December 2007, unemployment is still on the rise. In the aftermath of past severe recessions, the economy recovered quickly and unemployment declined quickly. This time may be different because of changes in the labor market and the coinciding banking crisis.

take a similar path during this recovery. But there are other factors affecting unemployment, too.”

Changes in the labor market

The two recessions prior to this one (in 1990-91 and 2001) raise the possibility that unemployment is less likely to fall quickly during the current economic recovery.

“Changes in labor markets since the 1980s may have altered the behavior of unemployment after recessions,” Knotek says. “This could be something unique to these two recessions, or a new trend.”

During the '90 and '01 recessions, unemployment continued to rise substantially long after the recessions ended and GDP resumed growing. An economic recovery paired with an increase in unemployment—known as a jobless recovery—may occur for several reasons:

- Long economic expansions—such as those during the '80s and '90s—give businesses incentives to delay organizational restructuring until the next recession. Because the '90 and '01 recessions were relatively short, firms may have needed more time to complete their restructurings, leading to a period in which unemployment was still increasing even though the economy had resumed growing.

- Mild recessions, like those in '90 and '01, are often followed by weak recoveries.

- Labor market trends since the early '80s—including shifting from temporary to permanent layoffs, and relying more on overtime, part-time and temporary workers as well as outsourcing—have made firms more cautious to hire permanent, full-time workers following recessions.

“The nature of layoffs distinguishes recent recessions from earlier ones,” Knotek says. “During the three most recent recessions, layoffs have been mostly permanent whereas earlier recessions experienced a split between permanent and temporary layoffs.”

This is significant because unlike temporary layoffs, permanent layoffs can't be



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reversed quickly, which delays hiring during a recovery as firms search for new employees. An increase in permanent layoffs can slow the overall recovery because consumers, especially those who aren't working, will be cautious with their spending.

“However, in spite of the parallels between the most recent and past recessions,” Knotek says, “one key difference remains: the ongoing banking crisis.”

Banking crises, looking abroad

The most recent recession is somewhat unique for the United States because it coincides with a banking crisis. Because this country has not had many banking crises (the most recent was the less severe credit crunch during the Savings and Loan Crisis in the '80s and the Great Depression decades earlier), Knotek took a look at unemployment in the aftermath of banking crises in many foreign countries.

“Looking abroad, banking crises that coincide with recessions typically have an even worse outcome for unemployment than other recessions,” Knotek says.

The United States' experience somewhat resembles those of other countries in that they

were preceded by easy access to credit, high levels of consumer spending, low levels of personal saving and fast asset appreciation. Once the crisis hit, these imbalances reversed, and the countries saw large increases in unemployment for some time after the downturn. For example, in Sweden after a severe banking crisis in the early '90s, unemployment increased by 8 percentage points and remained high for 10 years.

Banking crises tighten access to credit, which may prompt businesses to conserve cash flow, in part, by not rehiring permanent employees although the economy is showing signs of recovery. Knotek explains that from a household perspective, the loss of wealth not only means reduced consumer spending and a slower recovery, but also may mean a delay in retirement in some cases. This, in turn, doesn't

free up jobs for new workers, who already face reduced hiring in general.

Effects

More than seven million jobs have been lost nationwide since the beginning of the recession. In the Tenth Federal Reserve District, which includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico, major employers were no exception. Sprint Nextel Corp., based in Overland Park, Kan.; Harley-Davidson Inc., which has a plant in Kansas City; Colorado computer technology company Sun Microsystems Inc.; and Tulsa-based aerospace manufacturer NORDAM Group recently have all laid off workers.

Analysts say some jobs are gone for good. Others that have proven strong historically, like

SUSAN AND RON BRUNSVOLD shop for Christmas gifts for their grandchildren at U.S. Toy in Leawood, Kan. The couple is cautious with their spending, diligently budgeting and waiting for sales. Ron retired prior to the most recent recession, but after the downturn began and their savings took a hit, Susan, 66, decided to delay her retirement. "I think there's a lot of people hanging on a little longer, just waiting to see what will happen with the economy," she says.



health-care and education positions, likely will continue to grow, and sectors that have taken a hit, such as construction, may take years to recover. Many are waiting out the job market slump as students, or have returned to the classroom with the intent to switch fields.

In Kansas City, Mo., enrollment at the Metropolitan Community College's five campuses increased by 10 percent this fall, says Tom Vansaghi, associate vice chancellor of college and community relations. The student body is nearly 19,000.

"We've experienced across the board increases in all of our programs, but mostly general education, or the classes that students would transfer to a four-year university," he says. "Because of budget cuts, we weren't able to hire any full-time staff, but we have hired additional adjunct faculty to teach the additional classes."

Others are trying self-employment. The number of new business start-ups increased in 2008 from the year prior, according to research from the Ewing Marion Kauffman Foundation. However, according to the Small Business Administration, the majority of existing small businesses report declining profits.

And for some, economic conditions are keeping them punching the clock after they had planned to retire. According to the U.S. Bureau of Labor Statistics, two-thirds of those ages 55 to 64 currently are in the workforce. This is the highest rate since the bureau started tracking in 1948.

Years ago, 66-year-old Susan Brunsvold of Topeka, Kan., thought she would've retired from her job as a service representative with AT&T by now. But that could still be months or even years away.

"After the stock market really started to tank, we lost about a third of what we had saved," Brunsvold says. "So why leave (the workforce)? It's about finances, plain and simple."

That means not joining her husband, Ron, who retired prior to the recession, and postponing her plans to spend extra time with

their grandchildren, or other activities she enjoys, like sewing, knitting and reading.

Meanwhile, Brunsvold carefully spends discretionary money, actively manages the couple's stock portfolio and dutifully stays apprised of the economic climate. She says she's not bitter though.

"I would rather be in this job than out and looking" for work.

What lies ahead?

Considering the length, depth and breadth of the most recent recession, the downturn has been severe, although it is likely over, Knotek says. However, two factors—labor market trends and international evidence on banking crises—suggest that unemployment could remain high as the economic recovery progresses.

He projects unemployment will continue to rise into 2010 and drift down a little in 2011 before the recovery begins to pick up speed. However, unemployment may not return to pre-recession levels until 2015 or later. That said, several factors could expedite the turnaround: the United States' labor market is more flexible than that of other countries; the government's fiscal and monetary response have been considerable; and jobless recoveries after a recession are a relatively new phenomenon.

"Still," Knotek says, "it's likely the labor market is on a long road to recovery."



BY BRYE STEEVES, SENIOR WRITER

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