



January 11, 2010

## The Recession Hits Home

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### **How the southeast region is faring during the current economic crisis**

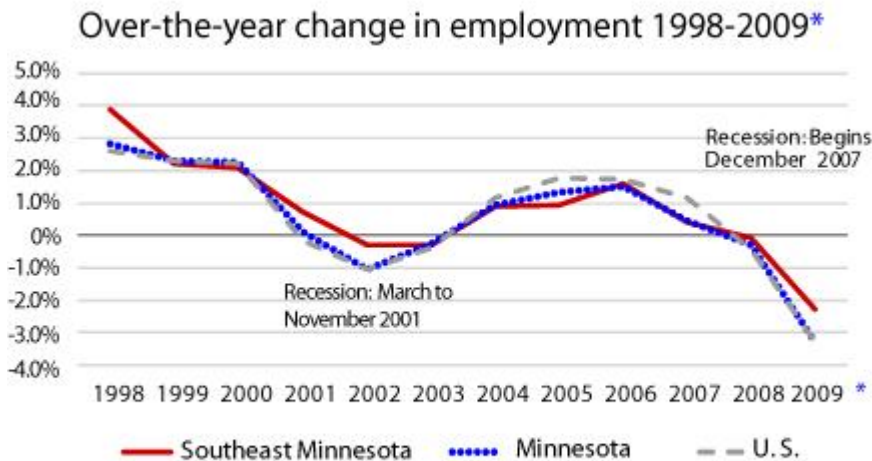
According to the National Bureau of Economic Research (NBER), the latest recession officially began in December 2007. Although the NBER has not named an end date, most economists are ready to declare that the recession will officially conclude during the third quarter of 2009.

That makes this recession the longest, broadest, and deepest in post-World War II years. There is evidence, however, that the recession started (and will likely end) at different times in different places across the nation. Depending on the industry base of an area, job losses may vary too. This article provides a broad overview of labor market conditions in the southeast region of Minnesota just prior to and during the 2007 recession.

#### ***Job growth since 2000 falls short of both highs and lows seen across the state and nation***

In the years preceding the 2001 recession, job growth in the southeast region was higher than the state and nation—nearly reaching 4 percent in 1998—but all three areas experienced job loss starting in 2001 (see Figure 1). Like the state of Minnesota and the U.S., employment levels in the southeast region and every county in the region continued to fall two years after the 2001 recession ended—thus 2001 to 2003 was termed a “jobless” or “jobloss” recovery. Rapid growth in health care helped offset losses in other regional industries, minimizing overall southeast region job losses during that period relative to the state and nation.

Figure 1



\*Data only available through 1st Q 2009

Source: MN Department of Employment and Economic Development, Quarterly Census of Employment and Wages

Since 2004, when employment rebounded, the rate of regional growth has lagged the state and nation in most years. Across the region, growth was most consistent in Steele, Wabasha, and Winona counties. Rice County was slower to rebound from the 2001 recession, but it experienced above-average growth after that.

Differences continued by county and industry through 2008 (see Table 1). Between 2006 and 2008 construction and manufacturing shed a large number of jobs, and job loss was slowly starting to spread across the majority of industries. Gains in the education and health services sector—more than half of which occurred in ambulatory health care (e.g., clinics) and hospitals—were again large enough to offset losses in other industries.

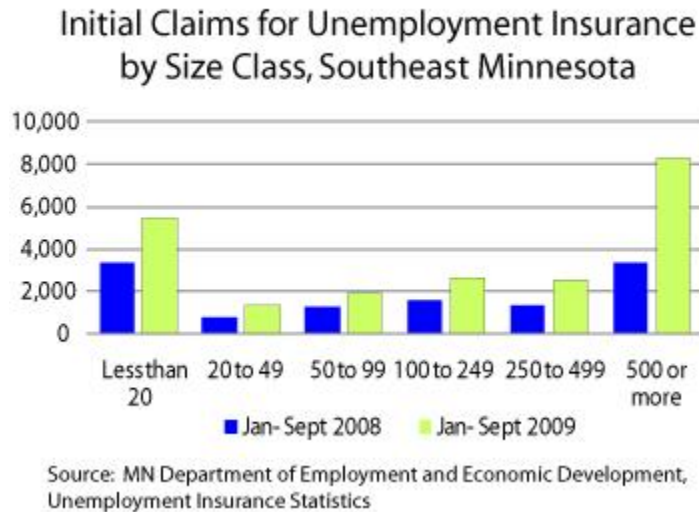
Job loss continued to spread across the region's counties and industries in early 2009, and job growth in education and health services started to slow, no longer able to offset widespread losses in other industries (see Table 1). During first quarter 2009 regional employment was down 2.3 percent (5,237 jobs) compared to a 3.3 percent drop for both the state and the nation. The largest losses were in manufacturing, down 2,694 jobs, but nearly every industry was losing jobs by early 2009.

According to data from Unemployment Insurance (UI), manufacturing layoffs continued in 2009. The largest number of claims came during the first quarter of the year when manufacturing initial claims totaled 3,555, a 300 percent increase from the 869 claims during the first quarter of 2008. Going into the final quarters of 2009 claims were still more than double what they were the year before. And no industry was spared layoffs. Even the health care and social assistance industry—an industry that averaged about 1,000 initial claims a year over the past decade—totaled 1,500 claims in just the first nine months of 2009.

A common perception is that large, well-known firms are responsible for the bulk of layoffs. News reports of layoffs at large companies in fact dominated headlines during

the late part of 2008 and for much of 2009. However, data from initial claims for UI show that while the largest number of claims were by workers in large firms (500 or more employees), a full 25 percent were from workers in firms with fewer than 20 employees, and increases were greater than 50 percent over the year in all sizes of firms (see Figure 2).

Figure 2



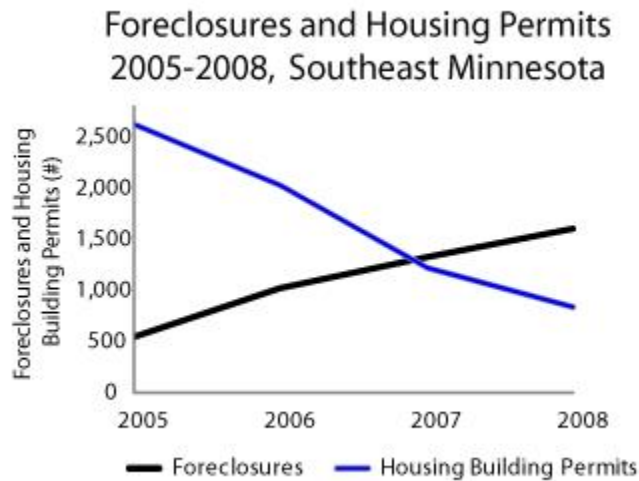
The rate of job loss exceeded the state and national average in five counties in early 2009. The largest county losses (in total number of jobs) were in Olmsted, Steele, and Wabasha counties, where manufacturing job losses were between 30 and 80 percent of the total drop in employment. In fact, the region's concentration of employment in manufacturing (17 percent of regional jobs and as much as 28 percent in some counties, versus the statewide average of 13 percent and the national average of 10) may play a significant role in how the region emerges from this recession and whether it can maintain a record of shallower job loss than the state and nation.

### ***Signs of improvement but labor market recovery still far off***

Estimates of economic growth, as measured by U.S. gross domestic product (GDP), suggest the economy is starting to recover. Real GDP (the output of goods and services produced by labor and property located in the United States) decreased at an annual rate of 0.7 percent in second quarter 2009, compared to the 6.4 decrease in the first quarter. Most economists foresee growth by the end of the year.

Housing markets, which have been an important factor in the collapse of the economy the past few years, seem to be slowly picking up steam too. There were 1,611 foreclosures in the 11-county southeast region during 2008—up 193 percent from 2005 levels. House-building permits also fell dramatically (see Figure 3).

Figure 3



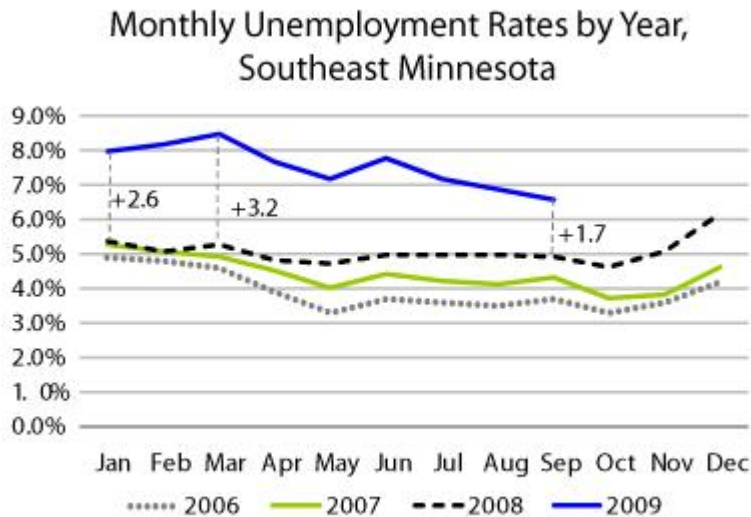
Sources: HousingLink and U.S. Department of Housing and Urban Development

After the first six months of 2009, foreclosure activity in the region was down 25 percent from the same period in the prior year, and foreclosure rates were down in nine of the 11 counties in the region.<sup>1</sup> Housing permits were still down in the first half of 2009, and they remained a fraction of what they were prior to 2007. Market analysis, however, from the Southeast Minnesota Association of REALTORS® shows new listings, pending sales, and closed sales up double digits from 2008.<sup>2</sup>

Even with optimistic signs in some areas of the economy, the national labor market is still stressed and far from recovering from the damage of this recession. Going into the final quarter of 2009, the state had erased all of the jobs gained since the 2001 recession and more. Several months of unemployment rates—the most recognized measure of the health of the job market—in 2009 reached points not seen since the early 1980s.

Typically in line with the state rate, the region's unemployment rate soared as the recession dragged into late 2008 and early 2009, surpassing peaks from the 1981-1983 period. However, even though unemployment rates are still much higher than before the recession, by September 2009 over-the-year increases in the unemployment rate were moving in the right direction. The regional rate was 1.7 percentage points higher over the year in September, compared to 3 percentage point increases earlier in the year (see Figure 4). By September only three counties in the region had rates higher than the state of Minnesota, and none had rates higher than the nation (see Figure 5).

Figure 4



Source: MN Department of Employment and Economic Development,  
Local Area Unemployment Statistics

Similar trends have started to appear in initial claims for Unemployment Insurance. Activity was still up 64 percent over the year in September, but the size of those increases are well below the 100-plus percent increases we were witnessing earlier in the recession.

For job seekers recent news on waning layoff activity and slowly receding unemployment rates does not mean hiring conditions will soon change. Job competition was fierce by mid-2009. According to the results of the second quarter 2009 Minnesota Job Vacancy Survey (online at [www.deed.state.mn.us/lmi/publications/jobvacancy.htm](http://www.deed.state.mn.us/lmi/publications/jobvacancy.htm)), job openings in the region were down 53 percent over the year, and the ratio of job seekers to openings hit nearly 10-to-1 compared to 3-to-1 the year before (see Figure 6).

After a recession as deep as this one, it will take considerable time to regain lost jobs. With the recovery just starting to take hold, employers will be cautious about adding jobs. The findings of the second quarter 2009 Minnesota Job Vacancy Survey show that the vast majority of regional employers are in a holding pattern when it comes to employment. Ninety-three percent of employers said they expected constant employment levels in the next six months, compared with 4 percent that planned to increase employment and 3 percent that planned to decrease it. Of course, those numbers are welcome news compared to the results of the fourth quarter 2008 survey where 17 percent of respondents planned for decreased employment levels. It could be a sign that a turnaround is near.

### ***What does it all mean?***

It has been difficult to find good economic news during the past year, even though we know that some firms are managing to grow. Broad economic indicators like the unemployment rate speak to the severity of this recession, and it will take time before employers start hiring at the pace necessary to bring relief to the labor market. At this

point, signs that we are moving in the right direction, while not as good as meaningful job growth, are welcome news.

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<sup>1</sup>HousingLink, “Foreclosures in Minnesota: A Report Based on County Sheriff’s Sale Data,” August 27, 2009 Supplement. Online at [www.housinglink.org](http://www.housinglink.org) .

<sup>2</sup>Based on market statistics compiled every two weeks for the Southeast Minnesota Association of REALTORS®. Online at [www.semnrealtors.org](http://www.semnrealtors.org) .