Economic Update

HOUSE COMMITTEE ON THE BUDGET
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Special Analysis

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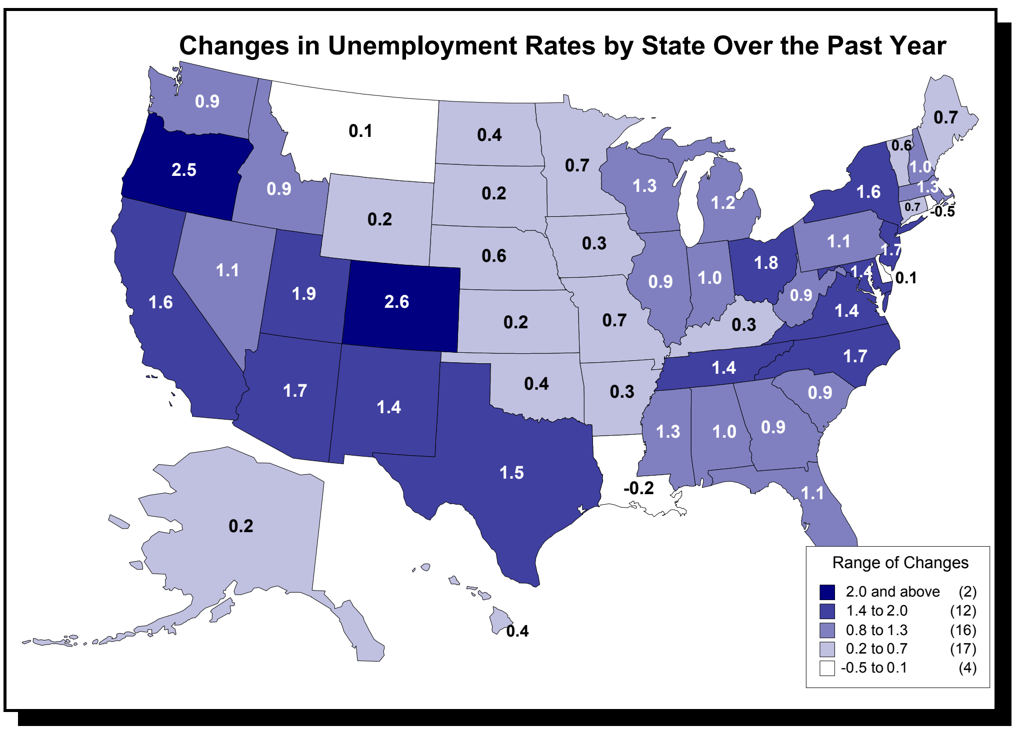
Recession Effects in Labor Markets Vary Across the Nation

As noted in a previous *Economic Update* (10 April 2002), although evidence increasingly suggests the U.S. economy is now in a recovery from the recession that began in March 2001, the effect on the job market has continued to lag. As a followup, this Special Analysis edition examines more closely the distribution of changes in unemployment across various regions of the country.

On 5 April, the Bureau of Labor Statistics [BLS] reported the unemployment rate for the Nation as a whole rose to 5.7 percent in March, up 1.4 percentage points from March 2001. Although this increase during the recession is mild by historical standards – increases in the unemployment rate for post-World War II recessions averaged about 3 percentage points – it still represents a significant loss of jobs and economic security for the Nation's workers and families. The enactment of extended unemployment benefits earlier this year helped to alleviate some of the costs realized by unemployed workers and their families.

The decline in economic activity and increases in unemployment during the recent recession were not evenly distributed across the States and regions of the Nation. On 19 April, the BLS released unemployment rate data by region and State for March. The chart below shows the changes in unemployment rates by State over the past year –



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the 12 months since the beginning of the recession in March 2001. States with above-average increases are shown in darker shades; those with below-average increases are shown in lighter shades to white.
The distribution largely reflects the concentrated decline in manufacturing during the recession, as well as the post-11 September effects in New York and neighboring States. To summarize the data:

- The States with the greatest increases in unemployment rates are: 1) a stretch of States from Texas across the Southwest to the Pacific Coast, and notably Oregon and Colorado; 2) New York and New Jersey in the Northeast; (3) Maryland, Virginia, and North Carolina in the Mid-Atlantic; and 4) Ohio and Tennessee.

- Changes in unemployment rates ranging from small, to no change, to slight declines were observed over the past year for the central to northern Plains States, and a smattering of others.

- States in the Southeast and in the industrial heartland, along with several other States, have experienced increases in unemployment rates similar to that of the national average.

Although various industries were adversely affected across the States, a large decline in manufacturing payroll jobs appears to be the one common denominator. With the initial evidence of a rebound in manufacturing production suggested by the Federal Reserve's estimates of industrial production released earlier this week, the labor market situation in these States, and in the Nation as a whole, should be expected to begin to improve.

In the mean time, efforts by the President and Congress to reduce taxes, provide investment incentives, and extend unemployment benefits – as noted in the *Economic Update* of 10 April 2002 – appear to have eased the economic downturn and provided support for those still facing unemployment problems.

This Special Analysis is an interim edition of the Budget Committee's monthly publication, *Economic Update*.