



## New Mexico Fiscal Policy Project

### THE GREAT RECESSION: HOW NEW MEXICO WORKERS ARE FARING EXECUTIVE SUMMARY

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The onset of the 'Great Recession' in late 2007 shifted the economic landscape in the state of New Mexico and working families felt it. The hectic job growth of the 2001 to 2007 period could not continue. In fact, the rise in employment during this time frame was in large part the result of the housing bubble and high oil and natural gas prices. So when those bubbles collapsed, our employment scene did too.

According to the Current Employment Survey (CES) program of the US Bureau of Labor Statistics (BLS), employment in New Mexico enjoyed strong annual growth of about 2.1 percent from 2001 to 2007. Total employment was up by 86,500 jobs, with 77,200 of those jobs in the private sector.

Because of the energy and housing bubbles, employment growth among sectors was uneven, with construction and energy (mining) employment far outpacing other sectors at nearly twice the state's overall growth rate. Overall employment was still growing slightly in 2008, but the trend had turned negative by 2009. Some 36,000 private-sector jobs were lost between 2008 and 2009. Slight growth in the public sector kept the state's net loss to about 34,300 jobs (about 4 percent). According to the FOR-UNM economic forecasting service, non-farm employment in New Mexico will not reach 2008 levels again until the fourth quarter of 2013.

The BLS's Quarterly Census of Employment and Wages (QCEW) data show that average wages were rising for workers who still had jobs in 2009. Private-sector average weekly wages increased by 0.6 percent in 2009, while public-sector wages were up by 1.8 percent. History shows that wages are often 'sticky' in a downturn, meaning they don't usually fall in a recession. Again, though, changes in wages varied tremendously by sector.

#### EMPLOYMENT TRENDS BY SECTOR

The recession greatly impacted employment in the goods-producing sector, as mining, manufacturing and construction were hit hard.

Construction employment was the 'tail that wagged the dog' in the 2001-07 economic expansion in New Mexico, as the relatively small sector (just 6 percent of total employment in 2001) accounted for one-eighth (or 12 percent) of total growth. Transportation followed a trajectory similar to the construction and manufacturing sectors

Financial services are closely tied to the housing industry and so were adversely affected by the collapse of the housing bubble.

Health care and education employment provided stability to New Mexico's employment growth between 2001 and 2007, in part because of increases in spending on public health care programs such as Medicaid and Medicare. These programs pay for services provided by private-sector health care workers, so growth in public financing propels private health care employment.

### **EMPLOYMENT IMPACT BY ETHNICITY**

Just as economic downturns impact different employment sectors differently, they also have disparate effects on different gender and ethnic groups.

Overall, Hispanics have lower labor force participation, lower employment rates and higher unemployment rates than whites and the overall population. Both Hispanic men and women have higher unemployment rates than whites and the total population.

### **UNEMPLOYMENT AND EMPLOYMENT SINCE DEC. 2007: NOT OVER YET**

As of March 2010, the New Mexico unemployment rate had risen by 5.2 percentage points since December 2007, placing New Mexico near the middle of the state ranking of unemployment rate increases. The New Mexico unemployment rate was 8.8 percent in March 2010. The highest state unemployment rate was 14.1 percent in Michigan, while the lowest was 4 percent in North Dakota.

In absolute terms, New Mexico employment has dropped by 47,300 jobs (3.1 percent) since December 2007. Given that population growth in persons over age 16 has been 2.4 percent since December 2007, a significant gap has opened between current employment and the level required to keep up with labor force growth. The level of employment in March 2010 was 801,700, but the level needed to keep up with population growth was 869,800. The jobs gap, or the difference between the current level and the level needed from work force growth, was 67,600 jobs.

### **COMPARING RECESSIONS**

One method of assessing the damage that the current recession has caused to the labor force is to look at unemployment and job losses at 25 months from the

beginning of the recession. This measure compares the four recent recessions (1981, 1990, 2001, and 2007). According to this metric, the unemployment rate was highest in the 1981 recession at 9.5 percent, compared to the 8.5 percent rate in the current recession. Measured by impact on employment, however, the current recession is the most severe.

### **GROSS EMPLOYMENT CHANGES**

An exclusive focus on net employment change, which can be relatively smooth, can mask a labor market with severe up and down movements. Changes in gross employment tend to be far larger than the net movements. Gross job gains and gross job losses in each quarter, if combined, would make up more than 14 percent of the New Mexico's non-farm employment each quarter

The instability facing New Mexico's workforce is far larger than that implied by the net loss of 35,000 jobs over the year in the second quarter of 2009, at the peak of the current recession. For four of the five most recent quarters, gross job losses were at or near 50,000 from quarter to quarter. Job losses and job gains of this magnitude illustrate the insecurity facing workers in New Mexico's economy, as one-eighth of the workforce is subject to this churning each quarter.

Forward momentum in terms of employment should begin in the third quarter of 2010, but the pace of recovery will be feeble. This means that New Mexico employment will be nearly dead in the water for four years.

### **UNEMPLOYMENT INSURANCE**

The Unemployment Compensation program is a counter-cyclical mechanism—meaning unemployment insurance (UI) counteracts the effects of job and wage losses in the downturn of the business cycle, helping to keep the economy from a downward spiral. However, at any point in the business cycle, only a minority of unemployed workers are receiving UI benefits. Still, the UI system is a very good gauge of the business cycle.

All measures of employment activity from the Unemployment Compensation program showed that the demand for labor was strong between 2001 and 2007. By the fourth quarter of 2007, applications (or initial claims) for UI were rising, weeks of UI claimed were increasing, and the number of workers exhausting (or running out of) UI benefits was up dramatically. By 2009, record levels of sustained initial claims were being seen. Historically high levels of initial claims led to an unprecedented high number of weeks claimed. The tide started to subside in the second half of 2009 and the first quarter of 2010. Since then, the labor market has been gradually recovering.

The UI ‘recipiency rate,’ or the percent of unemployed workers receiving unemployment compensation, rose from only a quarter of unemployed workers in 2005 and 2006 to one-third in 2007, then one-half in 2008, and three-quarters in 2009. UI payments also increased.

## **THE PERSONAL IMPACTS OF A RECESSION**

The human cost of the recession should not be overlooked. The most obvious effects of a recession are unemployment, lost wages and other income, and lost opportunities for economic mobility. The loss of a job also leads to the loss of employer-provided health insurance. These relatively short-term effects can have very long-term consequences.

Reduced income often leads to food insufficiency, poor nutrition, and, in extreme cases, homelessness, all of which can impact a child’s elementary education. Food and nutrition insufficiency impede healthy brain development and learning. Children who are experiencing homelessness struggle against numerous obstacles—from elevated levels of chronic stress to not getting enough sleep or having a quiet place to do homework.

The current recession will also affect the next generation of workers. College graduates beginning their first job search during a recession will not only have difficulty finding a job, but, when they do enter the labor force, can expect to have lower wages even after the end of a recession. Opportunities for workers with less education are fewer during a recession. Unemployment and underemployment rates are always higher for workers with less education and a recession intensifies this problem.

Recessions are also times of reduced support for research and development and reduced business investment, which effects the prospects for entrepreneurs and impedes small business start-ups. Start ups are often the path through which innovations gain wider acceptance, leading to improved productivity.

## **CONCLUSION**

The New Mexico workforce has been hammered by the current recession, with job losses beginning in 2008. Non-farm employment in New Mexico peaked in the fourth quarter of 2008 and will not reach that level again until 2013. While wages increased slightly overall, workers in sectors like construction and mining saw large decreases in their wage levels. Employment trends also varied by sectors, with big job losses in goods-producing services and gains in health care.

The countercyclical effect of the UI program did have the intended effect of softening the impact of the recession on unemployed workers. While the worst may be behind us, the effects of joblessness will be long-lasting on the families that experienced it, particularly for those who lost their health insurance and/or their home.

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