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First Trust

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Economic Commentary

This Recovery Won't Be Jobless

After the recession in 1990-91, companies kept cutting payrolls and the unemployment rate continued to rise. As a result, that recovery came to be known as a "jobless recovery." Private-sector payrolls did not start increasing on a consistent basis until more than a year after the recession was over. The jobless rate did not peak until late 1992, eighteen months after the recession had ended.

Another "jobless recovery" emerged after the 2001 recession. The economy hit bottom in November 2001, but the jobless rate continued to go up until early 2003 and private-sector payrolls kept falling until later that year.

Both of these recoveries stood apart from previous business cycles, in which the end of recessions were soon followed by lower unemployment and positive job growth.

Based on the two most recent recessions, many analysts assume the current recovery will also be jobless, that the unemployment rate will keep rising and payrolls will keep falling, deep into 2010. But a closer look at what happened in the early 1990s and the early 2000s shows that these recoveries were not that different from the historical norm. The reason the labor market took so long to turnaround after the end of the 1990-91 recession and the 2001 recession was not that the relationship between economic growth and the labor market had changed so substantially but that the economic growth that followed these two recessions was unusually soft.

As shown in the table to the right, what seems to matter for the labor market is whether real GDP grows consistently above a 3% annual rate. Below 3% the unemployment rate will keep going up and payrolls will keep going down; above 3%, unemployment goes down and payroll growth turns positive.

The table lists the five recessions before the most recent one, the quarter in which the real GDP growth rate for two quarters hits 3%+ (labeled "Consistent 3%"), the quarter when the unemployment rate hits its peak, and the first quarter in which private sector payrolls expand.

In all of the previous five recoveries, private-sector payrolls have started to increase either before or in the same exact quarter as real GDP growth has gotten up to a consistent 3%. This suggests real GDP growth at a 4% annual rate in the second half of 2009, as we are forecasting, means payrolls will start to rise in the fourth quarter of this year.

Recession	Consistent 3%	Unemp Peak	Job Gains
1973-75	Q3.75	Q2.75	Q3.75
1980	Q1.81	Q3.80	Q3.80
1981-82	Q2.83	Q4.82	Q1.83
1990-91	Q2.92	Q2.92	Q2.92
2001	Q3.03	Q2.03	Q3.03

Meanwhile, the unemployment rate has traditionally peaked sometime between the real GDP growth rate getting to a consistent 3% or two quarters before that. This suggests if real GDP grows at a 4% annual rate in the second half of 2009, that the unemployment rate has either already peaked at 9.5% or will peak before year end.

The one wild card is that late in July, the minimum wage went up to $7.25 from $6.55. The timing of this increase was not good. The August employment situation (data on which will be released this Friday morning) will be the first month influenced by the increase in the minimum wage. It is possible that this wage hike will temporarily postpone the recovery in the labor market. But if it does, this delay is likely to be short.

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