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Fact Sheet

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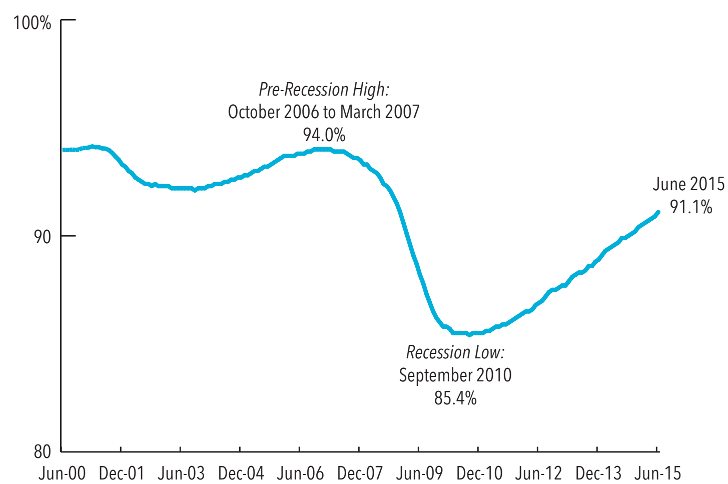
California's Labor Market Has Not Yet Fully Healed From the Great Recession

The California job market is getting closer to recovering from the Great Recession, but workers still face a difficult hiring environment. After losing 1.3 million jobs between July 2007 and February 2010, California has since added more than 2 million jobs.[1] Despite this progress, the labor market is not yet back to pre-recession strength.

One measure of labor market health – the utilization-to-population (ZPOP) ratio – highlights how much progress has been made but also underscores the challenges that remain (see chart). Rather than looking at just the number

California's Labor Market Is Slowly Returning to Pre-Recession Strength, but More Progress Is Needed

The Share of the Population Whose Labor Is Fully Utilized (Utilization-to-Population Ratio)



Note: Those who are fully utilized are employed full-time, employed part-time voluntarily, or both not working and not currently wanting a job. Data reflect 12-month averages ending in the month displayed and are for the civilian population over the age of 15.
Source: Budget Center analysis of US Census Bureau data

of jobs in the California economy, the ZPOP ratio shows the share of Californians who are either working at their desired capacity or do not want a job. This is done by identifying Californians over the age of 15 whose labor is "fully utilized."[2] People's labor is fully utilized when they are:

- **Gainfully employed.** This includes individuals who are working full-time as well as those who are working part-time because they prefer a part-time schedule. Those who are working part-time but actually want full-time work are *not* considered fully utilized.

- **Not working and do not currently want a job.** Many individuals who are not working are voluntarily in this position. These Californians – such as retirees or students – are considered fully utilized. People who report that they are unable to work because of a disability or other reasons are also fully utilized. In contrast, unemployed job seekers and those who have recently given up their job search but would still like a job (often called the "marginally attached") are *not* considered fully utilized.

The share of Californians whose labor is fully utilized is gradually returning to where it was prior to the start of the Great Recession. The ZPOP ratio fell sharply during the Great Recession: It dropped from its pre-recession high of 94.0% during the six-month period from October 2006 to March 2007 to 85.4% in September 2010.[3] As the chart on the preceding page shows, this decline was far deeper than that following the start of the 2001 recession, another indication of the severity of the Great Recession and its impact on California's job market. After September 2010, California's ZPOP ratio began to rise again amid an improving labor market and has since reached 91.1% as of June 2015.

It's important to note that the ZPOP ratio may overstate the health of California's labor market because it assumes that someone's willingness to return to the labor force would be unaffected even if hiring picked up further. In fact, a strong labor market recovery would likely bring some people back into the job market, whether they currently want a job or not.[4] Moreover, other key indicators also show that the job market still has a ways to go to recover from the Great Recession. For example:

- **The unemployment rate is very high in some California regions.** Unemployment varies substantially across California regions, with counties such as Colusa, Merced, Tulare, Kern, and Imperial all having nonseasonally adjusted unemployment rates that are significantly higher than the statewide rate of 5.5% (as of September 2015).
- **Wage growth is weak.** A stronger labor market recovery would generate stronger wage gains for workers across the wage distribution. However, wage growth since the Great Recession has so far remained weak, with California's median wage still 6.2% below its pre-recession value.

State policy must reflect the economic realities faced by workers and their families. The ZPOP ratio and other labor market indicators, taken together, illustrate the clear need to boost support for the public services and systems that help those still struggling in the current economic recovery.

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1 US Bureau of Labor Statistics. The number of jobs refers to nonfarm jobs.

2 The utilization-to-population (ZPOP) ratio has a number of advantages over traditional measures of labor market health, such as the unemployment rate or the employment-to-population ratio (EPOP). First, unlike the unemployment rate, the ZPOP ratio accounts for people who are underemployed or those who are discouraged from seeking work. Moreover, it can better account for demographic or structural changes in the composition of the labor force, such as the aging of the Baby Boomer generation, which affects the EPOP. For a discussion of the ZPOP ratio and its relative advantages, see John Robertson and Ellyn Terry, "The ZPOP Ratio: A Simple Take on a Complicated Labor Market," Federal Reserve Bank of Atlanta Macroblog (September 2015).

3 These data reflect 12-month averages ending in the month displayed. This is done because monthly state-level labor force statistics can be volatile, and using a 12-month average helps highlight the underlying trend.

4 Other labor market measures attempt to account for the fact that a stronger economy would bring more people into the labor force. For example, the Economic Policy Institute (EPI) produces a national estimate of "missing workers," which is the difference between the actual labor force and the potential labor force. The national unemployment rate would be 7.4% instead of 5.1% as of September 2015 if "missing workers" were looking for work, according to the EPI.