CALIFORNIA BUDGET PROJECT

policy points

AUGUST 2008

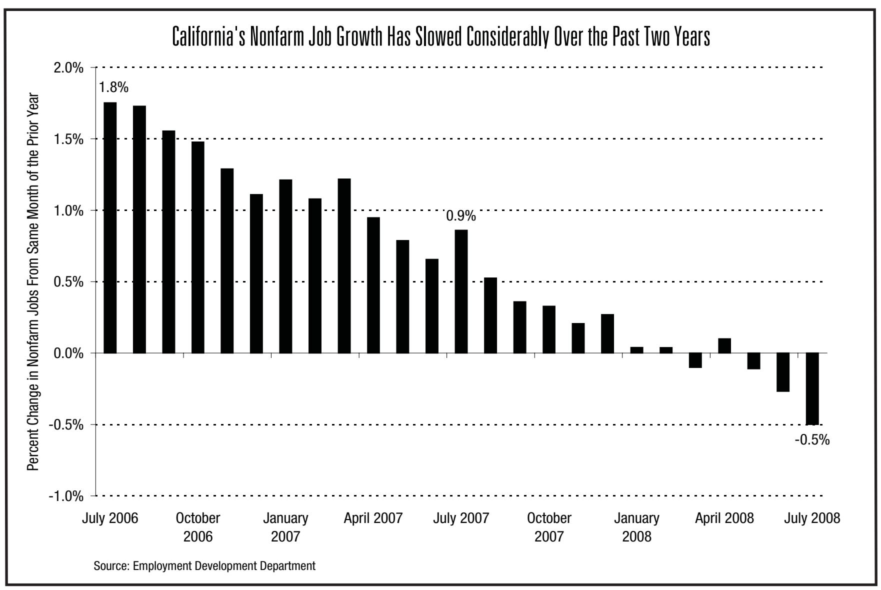
LABOR DAY 2008: LITTLE TO CELEBRATE

This Labor Day, California's workers and their families have little to celebrate. In recent months, the state's economy has slipped deeper into a downturn.[1] Unlike past downturns, this one comes after only a brief period of good economic times. The recession of 2001 gave way to a long, slow recovery. It took four years for California's job market to rebound, and six years for the typical household's income to regain lost ground. Now California faces what many economists expect to be an extended period of slow economic growth, if not an outright recession – a prospect that holds little promise for the state's workers and their families.

KEY FACTS

- **The job market had barely recovered from the 2001 recession when another downturn began.**

Although the 2001 recession officially lasted less than one year, it took four years for the number of jobs in California to surpass its prior peak.[2] Once the job market had fully recovered, however, the state sustained a healthy level of job growth for fewer than two years before the job market weakened again. The most recent data show a decline in the number of nonfarm jobs in the state of 0.5 percent (75,900) between July 2007 and July 2008, after an anemic 0.9 percent (129,500) increase during the previous 12 months. This trend contrasts sharply with a robust 1.8 percent increase in jobs between July 2005 and July 2006.



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- **The housing boom helped California recover from the 2001 recession, but the housing bust pushed the state into another downturn.**

Job gains during the recovery of the early 2000s were fueled largely by the housing boom. A full 59.4 percent of nonfarm job growth occurred in three key housing-related industries between 2000 and 2005, even though only 3.7 percent of the state's 2000 jobs were in these industries.[3] However, as the housing market weakened beginning in late 2005, the state began to lose jobs in housing-related industries. Between July 2006 and July 2008, California lost more than 113,000 housing-related jobs, a 14.8 percent decline.[4]

- **The slowdown in the housing market has spilled over into other sectors of the economy.**

Weakness in the job market was initially confined to housing-related industries. More recently, other sectors of the economy have been affected, as families and businesses have reduced spending on goods and services in response to increasing unemployment, falling home prices, and rising inflation.[5] For example, the number of retail trade jobs declined by 1.4 percent between July 2007 and July 2008, while the number of wholesale trade jobs rose by just 0.3 percent, down from a 2.0 percent increase during the previous 12 months.[6] Job growth in leisure and hospitality – the "tourism" sector – also weakened over the past year, driven largely by a slowdown in restaurant hiring.[7]

Weak Job Growth Has Spread Beyond Housing-Related Sectors

	Percent Change in July Jobs	
	2006 to 2007	2007 to 2008
Construction	-4.2%	-9.3%
Financial Activities	-2.9%	-3.9%
Manufacturing	-1.2%	-2.1%
Information	1.7%	-1.7%
Retail Trade	0.7%	-1.4%
Other Services	2.1%	-0.2%
Transportation and Warehousing	2.4%	0.0%
Professional and Business Services	1.1%	0.3%
Wholesale Trade	2.0%	0.3%
Leisure and Hospitality	2.4%	0.6%
Public Administration	1.7%	1.6%
Educational and Health Services	3.5%	2.8%
Total Nonfarm	0.9%	-0.5%

Source: Employment Development Department

- **As job growth has slowed, unemployment has increased steadily.**

California's unemployment rate hit 7.3 percent in July 2008 – its highest level in 12 years, up from a low of 4.8 percent in November 2006.[8] The state's unemployment rate is now the fourth highest in the nation – tied with that of Illinois – and 1.8 percentage points higher than that of the rest of the US.[9] In addition, the number of recently laid off California workers applying for unemployment insurance spiked in July, increasing by more than 14,500 (33.8 percent) from 52 weeks earlier – the largest year-over-year increase since early 2002.[10] Another indicator of the job market's weakness, the share of the unemployed without work for 27 weeks or more – at which time unemployment benefits typically run out – reached 17.8 percent in July 2008, up from a recent low of 15.9 percent in September 2007.[11] Another 16.0 percent of the unemployed have been jobless for 15 to 26 weeks.

- **Other indicators suggest that the unemployment rate underestimates the current weakness in the job market.**

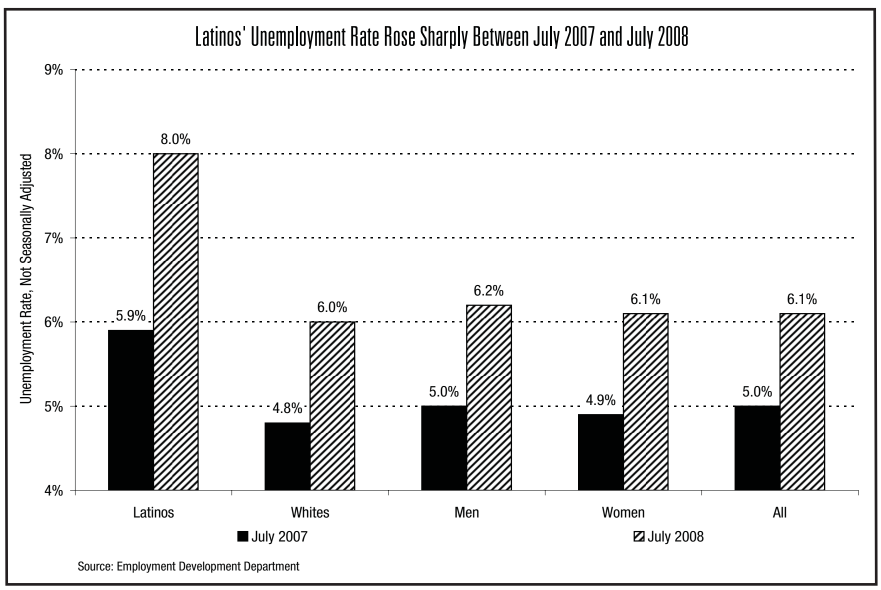
The share of Californians in the labor force – the employed plus the unemployed who have recently searched for work – failed to rebound to its 2000 level. Less than two-thirds of Californians (65.6 percent) were in the labor force in 2007, down from 67.1 percent in 2000.[12] This decline shows that some Californians simply stopped searching for employment during the recovery – a response to the weak job growth that persisted for many years. Since individuals are considered to be unemployed only if they have searched for work within the previous four weeks, when individuals stop looking for a job, they are no longer counted as part of the labor force. Consequently, the unemployment rate does not capture the more than 600,000 jobless Californians who want to work, but are not officially considered unemployed because they have not recently searched for employment.[13]

- **The unemployment rate underestimates weakness in the job market because it fails to account for a rise in "underemployment."**

In order to cope with the downturn, many employers reduced workers' hours, rather than laid off employees, as evidenced by a rise in the number of workers employed part-time, but who want full-time work. In July 2008, more than 800,000 California workers were employed less than 35 hours per week, but wanted to work more hours, up by 30.1 percent from 12 months earlier.[14] An alternative measure of weakness in the job market, which includes these workers – as well as those who want to work, but have not recently searched for employment – rose to 14.6 percent in July 2008, up from 11.8 percent one year earlier.[15]

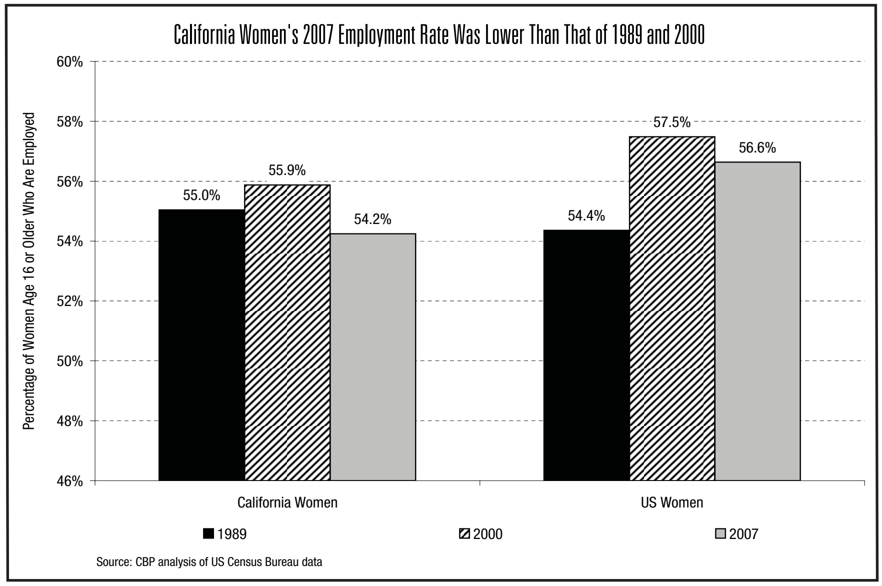
- **The economic slowdown has disproportionately impacted California's Latino workers.**

The unemployment rate for Latinos was 8.0 percent in July 2008, up by 2.1 percentage points from 12 months earlier. In contrast, the unemployment rate for whites increased by 1.2 percentage points during the same period, reaching 6.0 percent in July 2008. Unemployment has risen more for Latinos because they are disproportionately concentrated in construction, which has shed more than 100,000 jobs during the past two years.[16]



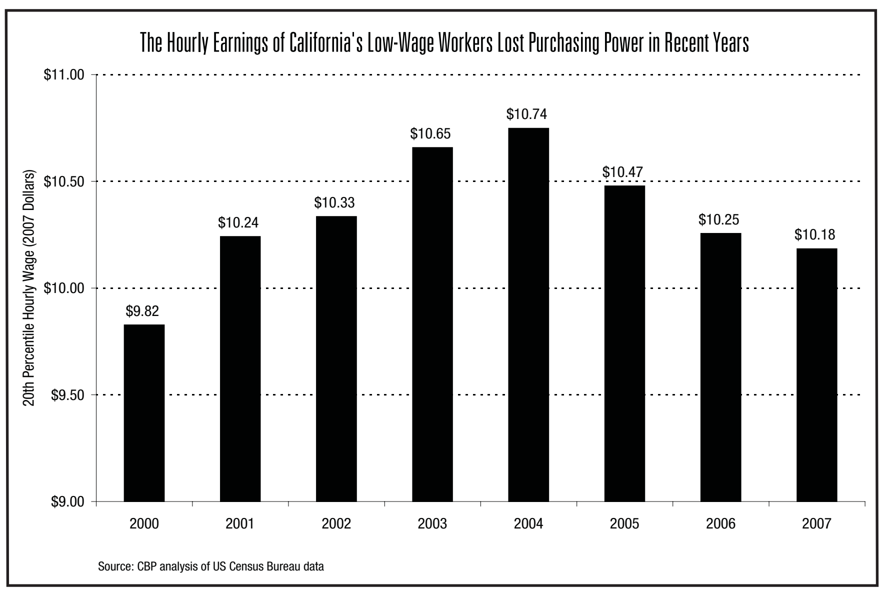
- **Recent downturns have diminished the employment gains of California's women.**

The employment rate for California's women was 54.2 percent in 2007, 0.8 of a percentage point lower than in 1989.[17] In contrast, the 2007 employment rate for US women was 2.2 percentage points higher than in 1989. This trend reflects the fact that the previous two recessions took a greater toll on California's women workers than on women in the nation as a whole. Women's employment declined to a much greater extent in California than in the US following the downturn of the early 1990s, and it failed to rebound as sharply during the boom years later that decade. Then, between 2000 and 2007, the employment rate for the state's women declined by 1.6 percentage points – twice the nationwide drop of 0.8 percent.[18]



- **Low-wage workers' hourly earnings have lost purchasing power in recent years.**

Since 2000, wage trends for California workers have followed two distinct patterns. First, between 2000 and 2004, hourly wages gained purchasing power across the earnings distribution. For example, the inflation-adjusted hourly earnings of the state's low-wage workers – those with earnings at the 20th percentile of the distribution – increased by 9.4 percent.[19] Since wage trends tend to lag job trends, this pattern may reflect the delayed effects of the tight labor market of the late 1990s boom. Then, between 2004 and 2007, the hourly earnings of many workers lost purchasing power, as the weak job market of the early 2000s began to take a toll on wages. During this period, low-wage workers' hourly earnings declined by 5.2 percent, after adjusting for inflation.[20]



- **A decline in average hours worked has reduced weekly earnings gains.**

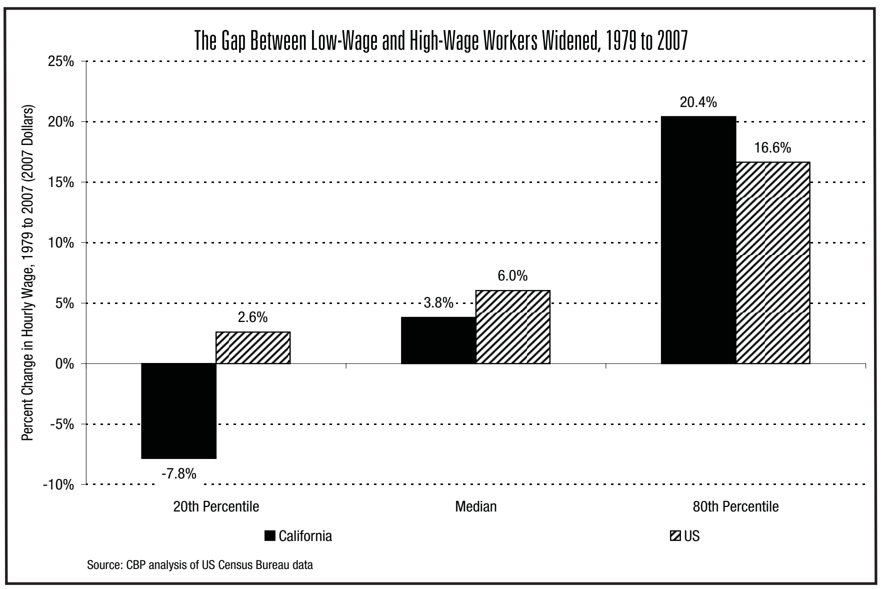
Average hourly earnings for workers in the middle fifth of the distribution increased by 3.7 percent between 2000 and 2007, after adjusting for inflation. However, the inflation-adjusted average weekly earnings for these workers rose by just 2.9 percent because their average hours worked per week declined by 0.8 percent. A drop in hours worked per week also diminished the average weekly earnings for workers in the second fifth and the fourth fifth of the earnings distribution during this period.

A Decline in Hours Worked Reduced Weekly Earnings Gains, 2000 to 2007			
	Percent Change in Average		
Earnings Group	Inflation-Adjusted Hourly Earnings	Hours Per Week	Inflation-Adjusted Weekly Earnings
Second Fifth	4.1%	-0.7%	3.4%
Middle Fifth	3.7%	-0.8%	2.9%
Fourth Fifth	5.3%	-0.6%	4.7%

Source: CBP analysis of US Census Bureau data

- **During the past generation, the gap between low-wage and high-wage California workers widened.**

The earnings of California's low-wage workers lost considerable ground in recent decades, while the typical worker's wage made only modest gains. The inflation-adjusted hourly earnings of the state's low-wage workers declined by 7.8 percent between 1979 and 2007, while those of the typical worker – the worker with earnings at the middle of the distribution – increased by 3.8 percent. In contrast, the hourly wage of the state's high-wage workers – those with earnings at the 80th percentile of the distribution – rose by 20.4 percent, after adjusting for inflation – more than five times the increase of the typical worker's hourly wage. As a result of this trend, the earnings of California's high-wage workers increased from 2.4 times those of low-wage workers in 1979 to 3.2 times those of low-wage workers in 2007.[21]



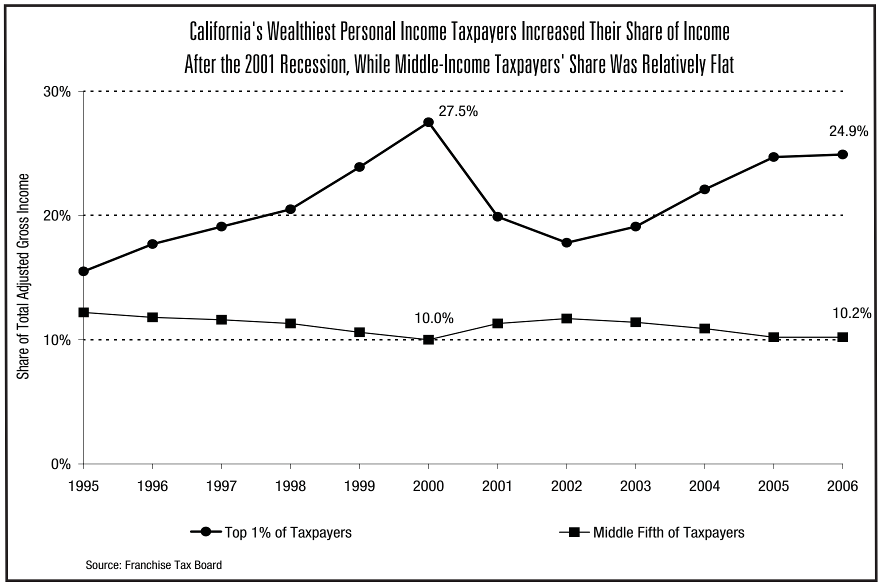
- **The gap between the wealthiest 1 percent of taxpayers and middle-income taxpayers has nearly doubled since the mid-1990s.**

The top 1 percent of California taxpayers had 48.9 times the average adjusted gross income (AGI) of the middle fifth of taxpayers in 2006 – the most recent year for which data are available – up from 25.5 times the average AGI of middle-income taxpayers in 1995. This trend reflects the fact that the average inflation-adjusted AGI of the wealthiest 1 percent of taxpayers more than doubled during this period, increasing by 108.4 percent, while that of the middle fifth of taxpayers rose by a modest 8.5 percent. If gains since 1995 had been proportionately spread across the income distribution, the average 2006 AGI of middle-income taxpayers would have been $7,016 higher.[22]

- **The wealthiest California taxpayers have increased their share of income since the 2001 recession, while middle-income taxpayers' share has been relatively flat.**

In 2000, at the height of the economic boom, the top 1 percent of taxpayers had more than one-quarter (27.5 percent) of the state's total AGI. Although the share of AGI going to the wealthiest 1 percent of taxpayers declined to 17.8 percent in 2002 – largely as a result of the drop in investment income due to the declines in the stock market – it had nearly rebounded in 2006, reaching 24.9 percent. In contrast, the share of AGI going to the middle fifth of taxpayers increased modestly, from 10.0 percent in 2000 to 11.7 percent in 2002, but then declined to 10.2 percent in 2006.

Income is more unevenly distributed in California than it is in most states. In 2006, the top 1 percent of California taxpayers had a greater share of the AGI reported for federal tax purposes than the wealthiest 1 percent of taxpayers in 44 states, while the bottom half of the state's taxpayers had a smaller share of AGI than comparable taxpayers in 42 states.[23]



- **Newly released Census Bureau data show that incomes declined and poverty increased in 2007, marking a reversal of recent trends.**

The gains Californians made in 2006 – the first year that the state's families regained ground lost during the 2001 recession – diminished in 2007. California's inflation-adjusted median household income – the income of the household exactly at the middle of the distribution – fell to $55,734 in 2007, down by $1,154 (2.0 percent) from the previous year and down by $634 (1.1 percent) from the 2000 level.[24] In addition, 12.7 percent of Californians had incomes below the federal poverty line in 2007, up from 12.2 percent in 2006, and the same level as in 2000.[25]

- **More recent data suggest that 2007 income and poverty trends will continue into 2008.**

As the job market weakens, more Californians are relying on the state's income support and related programs to help make ends meet. For example, in late 2007, the number of families receiving cash assistance through the CalWORKs Program began to rise for the first time since 2004. In May 2008, CalWORKs caseloads were up by nearly 20,000 (4.4 percent) from May 2007.[26] In addition, approximately 95,000 more California households received food stamps in May 2008 than did one year earlier, an 11.4 percent increase.[27] The number of children enrolled in the Healthy Families Program also increased during the past year. Approximately 58,000 more children were enrolled in Healthy Families in May 2008 than in May 2007, a 7.1 percent increase.[28]

The Number of Families Relying on California's Income Support and Related Programs Has Increased			
	Percent Change in May Caseloads		
	CalWORKs Families	Food Stamp Households	Healthy Families Children
2006 to 2007	-2.9%	3.1%	6.8%
2007 to 2008	4.4%	11.4%	7.1%

Source: Department of Social Services and Managed Risk Medical Insurance Board

Alissa Anderson prepared this Policy Points. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

[1] Although this downturn has yet to be officially declared a recession, it is having a significant impact on many of California's families. The National Bureau of Economic Research (NBER) determines the start and end dates of recessions by examining measures of inflation-adjusted gross domestic product, inflation-adjusted income, employment, industrial production, and wholesale and retail sales. However, due to a lag in data on the economy, the NBER typically determines that a recession occurred well after it began.

[2] According to the NBER, the recession began in March 2001 and ended in November 2001. However, it was not until April 2005 that the seasonally adjusted number of nonfarm jobs in the state exceeded the peak March 2001 level.

[3] CBP analysis of Employment Development Department data. These housing-related industries are residential construction, residential specialty-trade contracting, and real estate. Strong job growth in these industries between 2000 and 2005 helped offset weakness in other sectors.

[4] CBP analysis of Employment Development Department data.

[5] However, construction and financial activities – sectors that include the state's housing-related industries – have recorded the greatest percentage decline in jobs. Rising home values during the housing boom allowed many homeowners to refinance their mortgages in order to obtain cash from the increased value of their homes. Homeowners used their cashed-out equity to finance a variety of purchases. See California Budget Project, *Locked Out 2008: The Housing Boom and Beyond* (February 2008), p. 19. Nationally, inflation increased by 5.6 percent between July 2007 and July 2008, the largest July to July increase since 1982.

[6] The decline in retail trade jobs reflects diminished hiring in many industries, including motor vehicle and motor vehicle parts dealers, building material and garden equipment stores, and clothing stores. Weak job growth in wholesale trade largely reflects diminished hiring in durable goods industries, such as motor vehicle and motor vehicle parts wholesalers and lumber and other construction material wholesalers. Reduced consumer spending is likely a factor leading to weak job growth in these sectors. California's first quarter 2008 taxable sales were down by 3.7 percent from the same quarter of the previous year, the third straight quarter of reduced sales.

[7] The number of manufacturing jobs also declined between July 2007 and July 2008; however, this decline reflects a longer-term trend.

[8] Employment Development Department. Data are seasonally adjusted. The state's unemployment rate reached 7.3 percent in July 1996.

[9] US Bureau of Labor Statistics and Employment Development Department.

[10] CBP analysis of US Department of Labor data, downloaded from http://workforcesecurity.doleta.gov/unemploy/claims.asp on August 7, 2008. The number of unemployment insurance claims is not seasonally adjusted and reflects a four-week average to smooth out fluctuations. Some of this increase may reflect the effects of a program to locate people who are eligible for, but not currently receiving, jobless benefits. See Associated Press, "Jobless Claims Rise Sharply," *New York Times* (August 7, 2008).

[11] The share of the unemployed without work for 27 weeks or more failed to decline to its pre-recession level during the expansion of the early 2000s. The share reached a low of 15.9 percent in September 2007, but this was well above the previous low of 11.7 percent in September 2001.

[12] US Bureau of Labor Statistics.

[13] Employment Development Department. Of these jobless Californians, 258,000 had searched for work within the past 12 months, but were not currently looking for a job.

[14] Employment Development Department.

[15] CBP analysis of Employment Development Department data. The US Bureau of Labor Statistics publishes this alternative measure for the nation as a whole each month along with the official unemployment rate.

[16] In 2007, more than half of California's construction workers (54.1 percent) were Latino, even though Latinos made up slightly more than one-third (34.6 percent) of the state's workforce. CBP analysis of US Census Bureau, Current Population Survey data.

[17] The employment rate is the share of the noninstitutionalized population age 16 or older that is employed. Women's employment rates generally have trended upward since 1979, with normal fluctuations during recessions and expansions, while men's employment rates generally have trended downward. California women's employment rate increased from 49.9 percent in 1979 to 54.2 percent in 2007, while men's employment rate fell from 74.7 percent to 70.2 percent.

[18] Declining employment for women is a troubling trend because working women contribute significantly to their families' incomes. The purchasing power of the average income of California's middle-income, married-couple families with children increased by 9.6 percent between 1979 and 2005. However, if it weren't for the increased work effort of the wives in these families, the average income of these families would have declined by 3.1 percent, after adjusting for inflation. See California Budget Project, *A Generation of Widening Inequality: The State of Working California*, 1979 to 2005 (August 2007), p. 39.

[19] During this period, the hourly wage of the typical California worker – the worker with earnings exactly at the middle of the distribution – increased by 5.4 percent, after adjusting for inflation, while the hourly earnings of high-wage workers – those with earnings at the 80th percentile – rose by 6.1 percent.

[20] During this period, the typical worker's inflation-adjusted hourly wage declined by 2.0 percent, while high-wage workers' earnings rose by 0.6 percent.

[21] Wage gaps have widened to a greater extent in California than in the nation as a whole. High-wage US workers' earnings increased from 2.4 times those of the nation's low-wage workers in 1979 to 2.8 times those of low-wage workers in 2007.

[22] The average 2006 AGI of middle-income taxpayers was $35,927, but would have been $42,943 if income gains since 1995 had been evenly distributed.

[23] US Department of the Treasury, Internal Revenue Service data, downloaded from http://www.irs.gov/pub/irs-soi/06instateshares.xls on July 31, 2008.

[24] However, these declines are not statisically significant.

[25] The increase in the poverty rate between 2006 and 2007 is not statistically significant.

[26] Between May 2007 and May 2008 – the most recent month for which data are available – the number of families receiving cash assistance increased from 456,618 to 476,518.

[27] The number of households receiving food stamps increased from 837,085 in May 2007 to 932,235 in May 2008.

[28] The number of children enrolled in Healthy Families increased from 814,547 in May 2007 to 872,553 in May 2008.