CALIFORNIA BUDGET PROJECT

policy points

SEPTEMBER 2012

WAITING FOR RECOVERY

This Labor Day marks more than three years since economists declared that the Great Recession was over. Yet California and the nation continue to suffer from a severe job shortage, which means that millions of families whose economic well-being depends on a strong job market are still waiting for recovery. California's jobless rate was a recession-like 10.7 percent in July 2012 – the 42nd consecutive month that it was in double digits. Also in July, nearly half of the state's 2 million unemployed reported that they had been looking for work for more than six months; more than one-third had been searching for at least one year. These figures are not surprising given that California has replaced fewer than two out of five of the jobs it lost during the downturn. Still, there is one bright spot this Labor Day: California's private sector job gains exceeded those of the nation as a whole during the past year. However, these gains were partly offset by job losses in the public sector – primarily at K-12 public schools and community colleges – due to budget cuts.

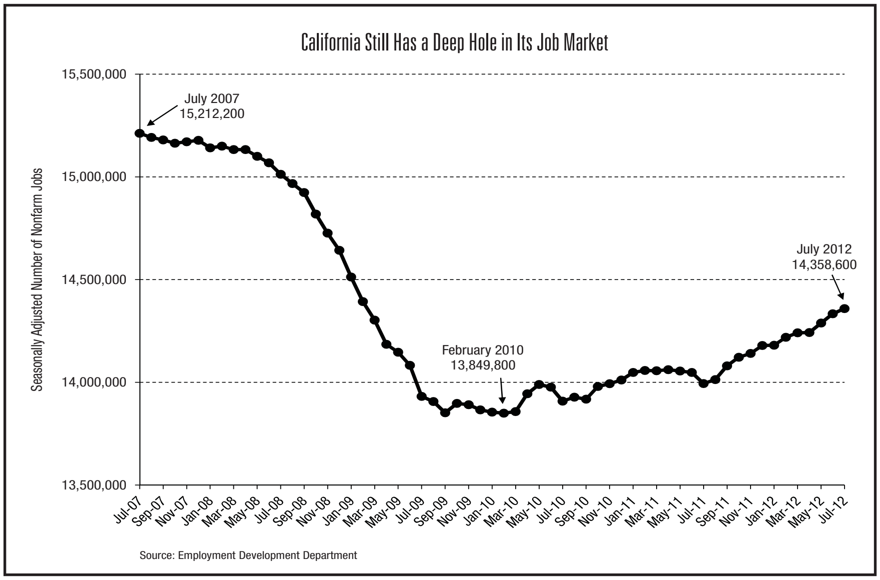
KEY FACTS

- **California still has a deep hole in its job market.**

California added just over 500,000 jobs between February 2010, when the number of jobs in the state bottomed out, and July 2012, the most recent month for which data are available.[1] In other words, during that 29-month period, the state regained fewer than two out of five (37.3 percent) of the nearly 1.4 million jobs it lost during the downturn.[2] This fact is significant given that the Great Recession left a deeper hole in the state's job market than did any other recession in recent history. Indeed, the current recovery is considerably weaker than any recovery since at least the late 1970s, when official state employment records began. For example, at the same point during the recovery from the early 1990s recession, California had regained nearly all (93.0 percent) of the jobs it lost during that downturn.[3] At similar points following the high-tech bust of the early 2000s and the "double-dip" downturn of the early 1980s, California had not only gained back all of the jobs lost during those recessions, but also added hundreds of thousands more jobs.[4]

- **Although job growth accelerated in the past year, full recovery remains a long way off.**

California gained an average of 30,400 jobs per month between July 2011 and July 2012.[5] This pace of growth is an improvement over the prior year, when the state added less than one-quarter as many jobs per month (7,100), on average. Nevertheless, to close the state's remaining job shortfall *within three years,* while still keeping up with population growth, California would need to gain an estimated 75,200 jobs per month for the next 36 months.[6] In other words, the state would need to add more than twice as many jobs per month as it has in the past year to fully recover from the recession by July 2015.[7]



- **California's private sector job growth outpaced that of the nation as a whole during the past year.**

Since the recession hit California harder than most states, California's job market has a longer way to go to recover from the downturn. The good news, however, is that California's recent gains in the private sector exceed those of the US. Between June 2011 and June 2012, the number of private sector jobs rose by 2.7 percent in California, compared to a 1.8 percent increase in the nation as a whole.[8] In fact, during that period California experienced stronger gains in seven out of 10 major sectors of the economy, such as information services – which includes several high-tech industries – construction, and professional and business services.

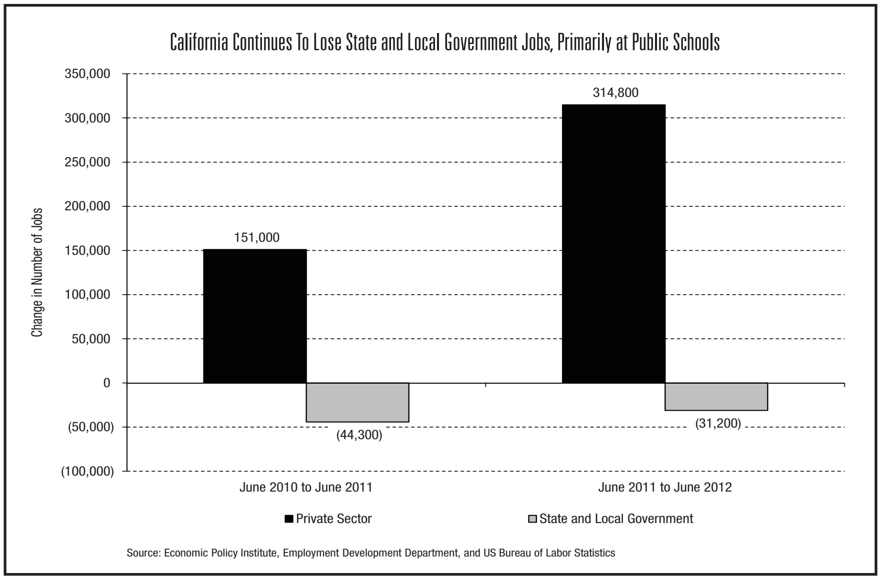
California's Private Sector Job Growth Outpaced That of the US During the Past Year

Major Sector	Percent Change in the Number of Jobs, June 2011 to June 2012	
	California	US
Total Private	**2.7%**	**1.8%**
Information	5.0%	-1.5%
Construction	5.0%	0.3%
Professional and Business Services	4.7%	3.4%
Education and Health Services	3.1%	2.2%
Leisure and Hospitality	3.1%	2.1%
Trade, Transportation, and Utilities	2.0%	1.1%
Financial Activities	2.0%	0.7%
Manufacturing	-0.4%	1.9%
Other Services	-0.7%	0.6%
Total Public Administration	**-1.5%**	**-0.8%**
State and Local Government	-1.4%	-0.6%
Federal Government	-1.8%	-1.8%
Total Nonfarm	**2.0%**	**1.4%**

Source: Economic Policy Institute, Employment Development Department, and US Bureau of Labor Statistics

- **Public sector job losses continue to offset California's private sector job gains.**

California's public sector is one of just three major sectors of the economy that lost jobs during the past year, and it lost the largest number of jobs by far.[9] Between June 2011 and June 2012, California lost 31,200 state and local government jobs, which includes jobs in public education as well as jobs with cities and counties.[10] This drop amounted to approximately one job lost for every 10 private sector jobs gained during that period. More than three-quarters of these lost jobs were in K-12 public schools and community colleges.



- **California's public sector job losses are high relative to many other states.**

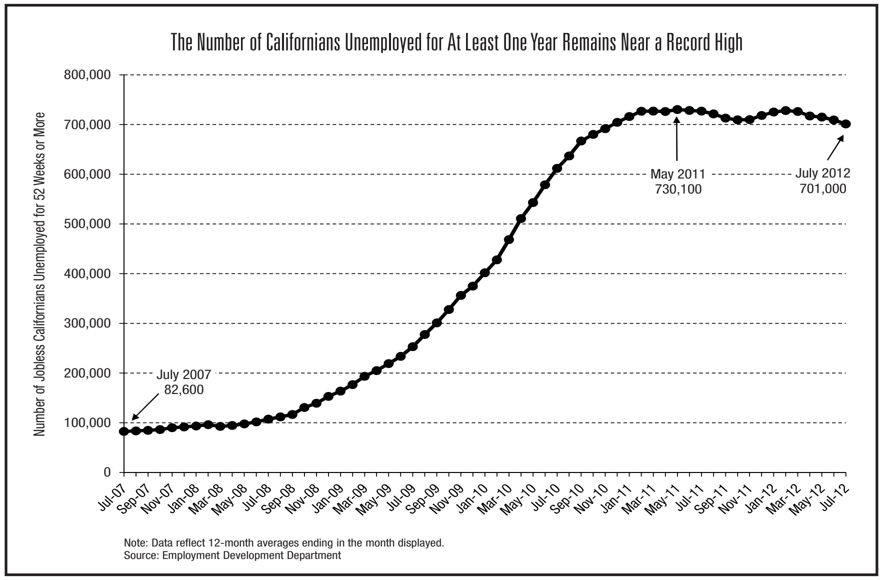
The number of state and local government jobs in California dropped by 1.4 percent between June 2011 and June 2012 – a modest improvement over the 2.0 percent decline the state experienced between June 2010 and June 2011.[11] Nevertheless, California's losses during the past year were more than twice as large as those in the US as a whole. The total number of state and local government jobs nationwide declined by just six-tenths (0.6) of a percent between June 2011 and June 2012.[12] California's disproportionately large public sector job losses reflect the ongoing impact of deep state and local government budget cuts.

- **California still suffers from a recession-like jobless rate.**

California's unemployment rate declined modestly from a high of 12.4 percent in October 2010 to 10.7 percent in July 2012.[13] However, it has been above 10 percent for 42 consecutive months, and forecasts suggest that it could remain in double digits through 2013.[14] Prior to the Great Recession, the state's jobless rate had not reached double digits since 1983.

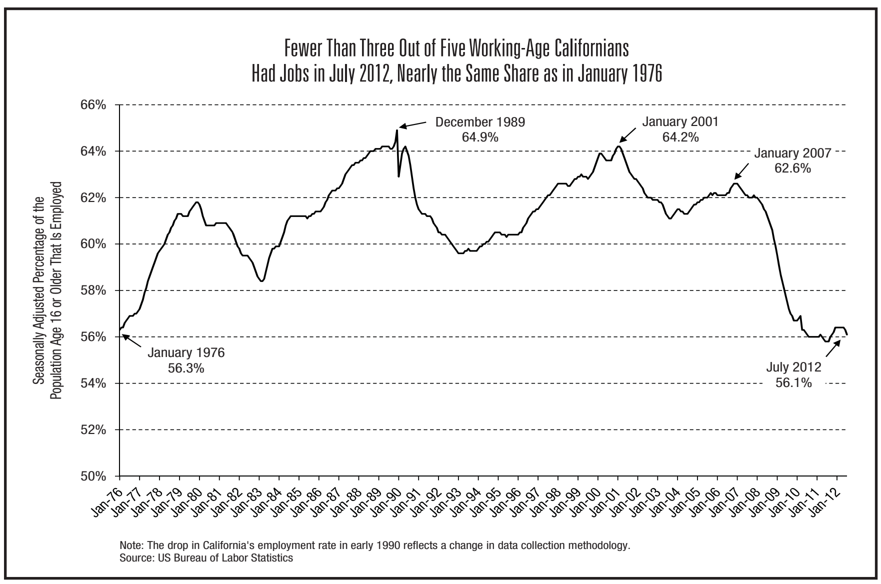
- **The number of long-term unemployed remains near a record high.**

In July 2012, approximately 700,000 jobless Californians – more than one-third (34.8 percent) of the unemployed – had gone without work for at least one year, down only slightly from a peak of 730,000 in May 2011.[15] Nearly half (45.8 percent) of the unemployed – a total of 922,000 Californians – had been searching for work for more than six months in July 2012, down from a high of over 1 million in February 2011. The slow decline in the number of long-term jobless is of particular concern given the phasing out of federally supported unemployment insurance benefits, which provide additional weeks of assistance to workers who exhaust their regular state payments.[16]



- **Fewer than three out of five working-age Californians have jobs.**

With relatively modest job growth in recent years, the share of Californians who are working remains near a record low.[17] In July 2012, only 56.1 percent of state residents age 16 or older had jobs – just three-tenths (0.3) of a percentage point higher than the record-low employment rate reached in August 2011.[18] The last time the state's employment rate was nearly this low – prior to the Great Recession – was in January 1976, when a smaller share of Californians had jobs largely because far fewer women were in the workforce.[19]

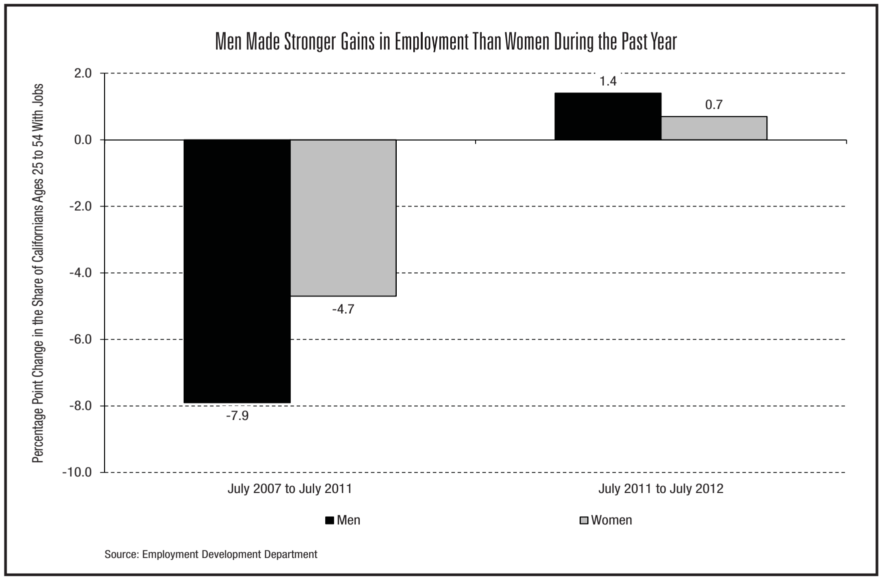


Some analysts argue that the employment rate has failed to rebound substantially because the first wave of the "baby boomers" is beginning to retire and because some young adults may have decided to stay in school rather than look for work in a highly competitive job market.[20] However, employment data for prime-working-age Californians – those ages 25 to 54, which excludes young adults and individuals nearing retirement – suggest that the primary cause of persistently low employment levels is, in fact, a lack of jobs.[21] In July 2012, just 72.6 percent of prime-working-age adults were employed – a full 5.4

percentage points lower than at the beginning of the downturn.[22] Moreover, the share of prime-working-age Californians with jobs has increased by only 1.0 percentage point since September 2011, when the employment rate for this group reached its lowest level since the downturn began.

- **During the past year, men in California made stronger gains in employment than women.**

The share of prime-working-age men with jobs increased by 1.4 percentage points between July 2011 and July 2012, from 79.2 percent to 80.6 percent.[23] In contrast, the share of prime-working-age women with jobs rose by just seven-tenths (0.7) of a percentage point during that period, from 64.0 percent to 64.7 percent. Women's weaker gains partly reflect the continued decline in public sector jobs, particularly jobs in public schools, where more than seven out of 10 employees are women.[24]



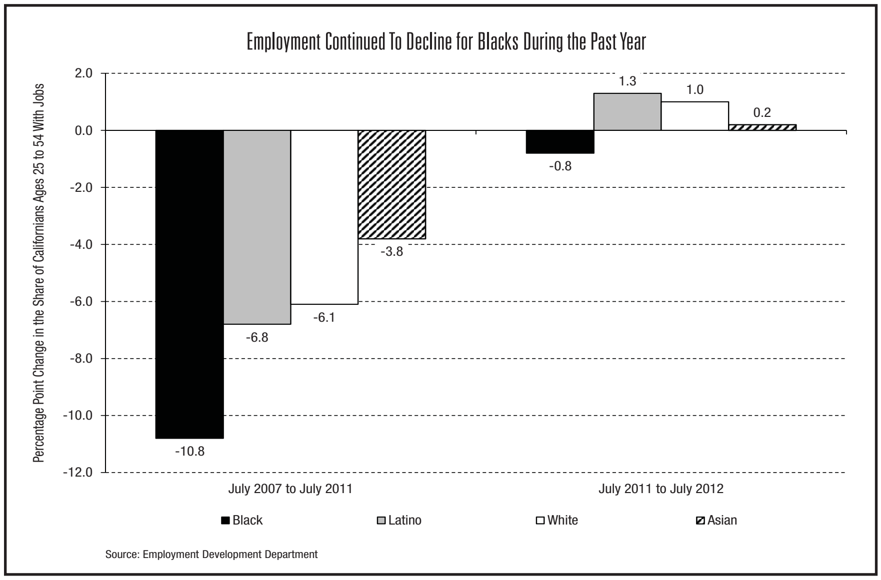
Although men made stronger gains in employment than women did during the past year, the recession left many more men without jobs, which means they face a much longer road to recovery. The employment rate for prime-working-age men dropped by 7.9 percentage points between July 2007 and July 2011, compared to a 4.7 percentage point decline in employment for prime-working-age women.

- **Black Californians' employment rate continued to decline during the past year, while employment rates increased for Latinos, whites, and Asians.**

The share of prime-working-age black Californians with jobs fell by eight-tenths (0.8) of a percentage point between July 2011 and July 2012, following a significant 10.8 percentage point drop in this group's employment rate during the prior four years.[25] This steep decline in employment means that only around six out of 10 prime-working-age black Californians had jobs in July 2012 (61.2 percent) – a considerably smaller share than similarly aged Asians, whites, and Latinos (75.3 percent, 73.1 percent, and 70.3 percent, respectively).

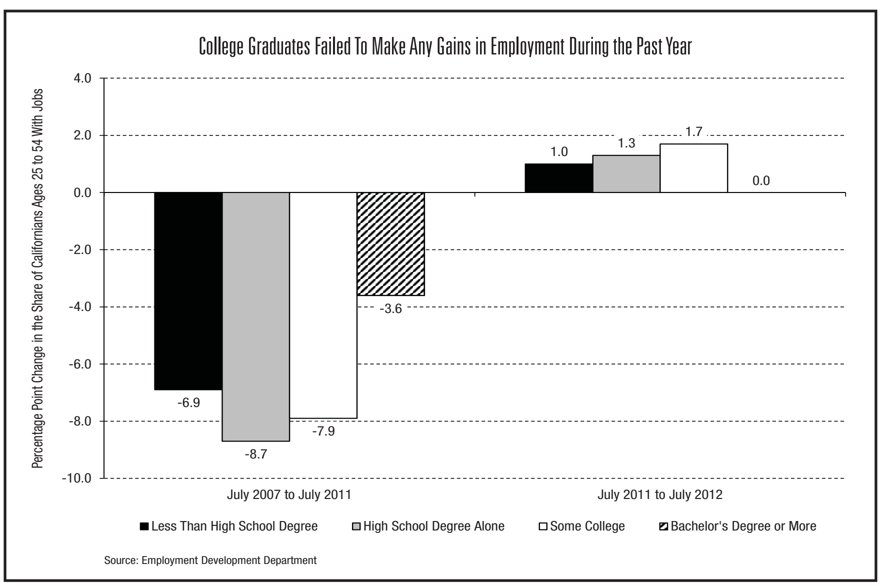
In contrast to the experience of black Californians during the past year, Latinos and whites made modest employment gains. The share of prime-working-age Latinos with jobs increased by 1.3 percentage points between July 2011 and July 2012 – a notable gain given the substantial 6.8 percentage point drop in this group's employment rate during the prior four years. The share of prime-working-age whites with jobs rose by a slightly smaller amount – by 1.0 percentage point – between July 2011 and July 2012, after declining by 6.1 percentage points during the prior four years.

Asians ages 25 to 54 experienced only a very modest gain in jobs during the past year. Their employment rate increased by just two-tenths (0.2) of a percentage point. Overall, however, the share of Asians with jobs held up better in recent years compared to other groups. Between June 2007 and June 2011, the share of prime-working-age Asians with jobs fell by just 3.8 percentage points – a substantially smaller decline than that of other groups in the same age range.



- **College graduates failed to make any gains in employment during the past year, while workers with lower levels of education did.**

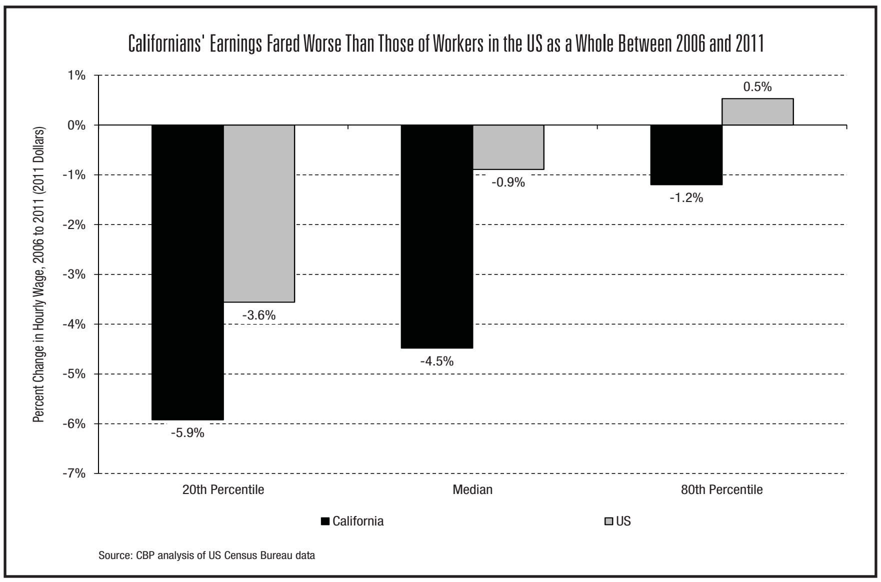
The employment rate for prime-working-age Californians with a bachelor's degree or higher level of education was flat between July 2011 and July 2012.[26] In contrast, the employment rate for prime-working-age adults with a high school degree alone and for those with some college education, but not a four-year degree, increased by 1.3 percentage points and 1.7 percentage points, respectively. Even prime-working-age Californians without a high school diploma made modest gains during this period. Their employment rate rose by 1.0 percentage point between July 2011 and July 2012.



Although college graduates failed to make any gains in employment in the past year, they experienced a much smaller decline during the Great Recession and are still substantially more likely to be employed than workers with lower levels of educational attainment. More than eight out of 10 college graduates ages 25 to 54 had jobs in July 2012 (81.6 percent), down by 3.6 percentage points from July 2007. In contrast, fewer than three-quarters (73.4 percent) of prime-working-age adults with some college, but no four-year degree, had jobs in July 2012 – 6.2 percentage points less than in July 2007. Additionally, just over two-thirds (68.0 percent) of similarly aged Californians with a high school degree alone had jobs in July 2012, down by 7.4 percentage points from July 2007, while just 60.5 percent of prime-working-age Californians without a high school degree had jobs in July 2012 – 5.9 percentage points less than in July 2007.

- **Workers' wages continue to lose purchasing power due to the weak job market.**

With many Californians still out of work and a limited number of jobs available, competition for employment is high, and many workers have little power to negotiate pay increases. In 2011, the most recent full year for which data are available, workers across the wage distribution earned less per hour than similar workers did before the recession began. Low-wage workers – those with earnings at the 20th percentile – have seen the steepest decline in earnings. Their inflation-adjusted hourly wage dropped by 5.9 percent between 2006 – the year before the Great Recession began – and 2011.[27] In dollar terms, this decline in earnings is the equivalent of a $1,370 cut in annual inflation-adjusted pay for a full-time, year-round worker.



The typical California worker – the worker with earnings exactly at the middle of the distribution – also saw her hourly wage lose considerable purchasing power due to the persistently weak job market. California's median hourly wage fell by 4.5 percent between 2006 and 2011, after adjusting for inflation. In fact, the typical worker's hourly wage had lower purchasing power in 2011 than in any year since 1998.

The hourly wage of California's high-wage workers – those with earnings at the 80th percentile – lost purchasing power in recent years as well, but by a smaller degree than that of workers at the low end and middle of the distribution. High-wage workers' inflation-adjusted hourly earnings declined by 1.2 percent between 2006 and 2011.

- **California's workers experienced steeper declines in earnings than similar workers in the US as a whole.**

Since the recession hit California harder than most states, it took a greater toll on Californians' earnings. For example, while the inflation-adjusted hourly wage of low-wage workers dropped by 5.9 percent in California between 2006 and 2011, it fell by just 3.6 percent in the US as a whole during that period. In addition, the typical US worker's hourly wage declined only slightly – by nine-tenths (0.9) percent, after adjusting for inflation – compared to a 4.5 percent decline in the typical California worker's hourly wage. Moreover, high-wage US workers saw their inflation-adjusted hourly earnings *increase* slightly – by half (0.5) of a percentage point – between 2006 and 2011, while those of high-wage Californians declined by 1.2 percent.

- **A decline in hours worked contributed to a reduction in many workers' weekly earnings.**

In recent years, all but the highest-paid Californians experienced steep declines in the purchasing power of their weekly earnings, reflecting either reductions in their hourly wages or their hours of work, or both. The average weekly earnings for workers in the middle fifth of the earnings distribution, for example, fell by 7.4 percent between 2006 and 2011, after adjusting for inflation – amounting to, on average, a total reduction in annual salary of approximately $3,000 for a year-round worker.[28] That decline primarily resulted from a lower average hourly wage. Workers in the second fifth of the distribution experienced an even greater decline in their average inflation-adjusted earnings between 2006 and 2011 – a 10.4 percent drop – reflecting the combination of a substantially lower average hourly wage and a modest reduction in average weekly work hours.

A Decline in Hours Worked Helped Reduce Many Workers' Weekly Earnings

	Percent Change, 2006 to 2011 (2011 Dollars)		
Earnings Category	Average Hourly Wage	Average Weekly Hours	Average Weekly Earnings
Lowest Fifth	2.3%	-5.9%	-3.8%
Second Fifth	-8.5%	-2.0%	-10.4%
Middle Fifth	-7.2%	-0.2%	-7.4%
Fourth Fifth	-2.0%	-1.5%	-3.4%
Highest Fifth	2.9%	-1.9%	1.0%

Source: CBP analysis of US Census Bureau data

During the same five-year period, workers in the bottom fifth of the distribution experienced the steepest reduction in their average work hours of any other group. However, these workers' average hourly wage actually gained purchasing power, which helped to offset the impact of fewer hours worked.[29] As a result, the average inflation-adjusted weekly earnings of workers in the bottom fifth declined by a much smaller percentage (3.8 percent) than those of workers in the second and middle fifths of the distribution.

Alissa Anderson prepared this Policy Points *with assistance from Samar Lichtenstein. 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, subscriptions, and individual donations. Please visit the CBP's website at www.cbp.org.*

ENDNOTES

1 Employment Development Department. Unless otherwise specified, the number of jobs refers to nonfarm jobs.

2 Employment Development Department. The national recession began in December 2007 and ended in June 2009, according to the National Bureau of Economic Research. In California, however, the recession began earlier and ended later. The Employment Development Department uses the month when the total number of jobs in the state peaked and bottomed out to indicate the start and end of downturns in California. The state's total number of jobs peaked in July 2007, declined through September 2009, and then was relatively flat for the next few months before reaching a low point in February 2010. This report uses February 2010 as the end of the recession in California since the total number of jobs was slightly lower that month than in September 2009.

3 CBP analysis of Economic Policy Institute data. Specifically, 29 months after the recession in the early 1990s ended, California had regained 480,000 of the 514,000 jobs the state lost during the downturn. The early 1990s recession ended in California in May 1993, when the total number of jobs in the state bottomed out.

4 The nation experienced two recessions in the early 1980s. However, this analysis considers them a single downturn because the second recession began just 12 months after the first one ended. Twenty-nine months after the end of this "double-dip" downturn, California had gained 926,000 jobs – 6.8 times as many jobs as the state lost during the downturn (136,000). Twenty-nine months after the early 2000s recession ended, California had gained 595,000 jobs – 1.6 times as many jobs as the state lost during the downturn (367,000).

5 Employment Development Department.

6 CBP analysis of Economic Policy Institute and Employment Development Department data. Growth in the working-age population since the recession began means that many more Californians need jobs today than was the case at the beginning of the recession. If the recession had not occurred and the state's job growth had kept pace with population growth, then California would have had an estimated 16.3 million jobs in July 2012 – 1.1 million more than it did in July 2007, at the beginning of the downturn. California actually had only 14.4 million jobs in July 2012 – 854,000 fewer than in July 2007. Consequently, to fully recover from the recession, the state not only needs to gain back those 854,000 jobs to return to the July 2007 level of employment, it also needs to add another 1.1 million jobs to account for population growth. In other words, California had a total shortfall of 2.0 million jobs in July 2012.

7 CBP analysis of Economic Policy Institute and Employment Development Department data. California would need an estimated 17.0 million jobs in July 2015 to return to pre-recession employment levels, accounting for population growth. To reach that number of jobs in 36 months, the state would need to add 75,200 jobs per month.

8 This analysis examines the change in the number of jobs in the major sectors of the economy in June rather than in July because the number of state and local government jobs tends to drop sharply in July, reflecting the end of the school year.

9 Manufacturing and "other services" are the other two major sectors that lost jobs during the past year.

10 Economic Policy Institute, Employment Development Department, and US Bureau of Labor Statistics. This analysis excludes federal government jobs – a relatively small share of California's public sector – because the number of these jobs fluctuated significantly in recent years due to temporary employment associated with the 2010 US Census.

11 Economic Policy Institute, Employment Development Department, and US Bureau of Labor Statistics.

12 Economic Policy Institute data show that the number of state and local government jobs increased in 20 states and was flat in one state during this period. California experienced a larger percentage decline in the number of state and local government jobs than 16 of the remaining 28 states that lost jobs in this sector during the past year.

13 US Bureau of Labor Statistics.

14 See Department of Finance, California Economic Forecast (April 2012), downloaded from http://www.dof.ca.gov/HTML/FS_DATA/LatestEconData/FS_Forecasts.htm on July 25, 2012; Legislative Analyst's Office, *The 2012-13 Budget: Economic and Revenue Update* (February 27, 2012); and University of the Pacific Eberhardt School of Business, *California and Metro Forecast: April 2012* (April 30, 2012). In contrast with these forecasts, the UCLA Anderson school projects that California's jobless rate will average just under 10 percent in 2013. UCLA Anderson Forecast, *Sluggish Economy Continues Despite Improvements in Housing Market* (June 20, 2012).

15 Employment Development Department. These figures represent the number of long-term jobless averaged over the 12 months ending in May 2011 and July 2012.

16 National Employment Law Project, *Phase-Out of Federal Unemployment Insurance* (June 2012). See also Employment Development Department, *New Developments on Federal Unemployment Extensions* (Updated July 31, 2012), downloaded from http://www.edd.ca.gov/Unemployment/Federal_Unemployment_Insurance_Extensions.htm on July 31, 2012.

17 The employment rate reflects the current weakness in the job market better than the unemployment rate does. Jobless individuals are included in the unemployment rate only if they looked for work within the prior four weeks. As such, the unemployment rate can understate the weakness in the job market when individuals who want jobs become discouraged and give up searching for work, as many have done in recent years.

18 US Bureau of Labor Statistics.

19 Official state employment records began in 1976.

20 Baby boomers are individuals born between 1946 and 1964. For a national perspective on these trends, see Heidi Shierholz, *Labor Force Participation: Cyclical Versus Structural Changes Since the Start of the Great Recession* (Economic Policy Institute: May 24, 2012) and Heidi Shierholz, Natalie Sabadish, and Hilary Wething, *The Class of 2012: Labor Market for Young Graduates Remains Grim* (Economic Policy Institute: May 3, 2012).

21 US Bureau of Labor Statistics data confirm that jobs remain scarce: In June 2012 – the most recent month for which data are available – the number of people looking for work nationwide exceeded the number of available jobs by more than three to one. Specifically, there were 12.7 million people searching for jobs that month, but there were only 3.8 million positions available.

22 Employment Development Department. The employment rate is averaged over the 12 months ending in July.

23 Employment Development Department. The employment rate is averaged over the 12 months ending in July.

[24] National data show that men have gained back 39 percent of the total jobs they lost during the recession, while women have gained back just 24 percent of the jobs they lost. However, men and women have regained nearly equal shares of the *private* sector jobs they lost during the recession (43 percent and 40 percent, respectively). In other words, women's weaker job gains overall largely reflect public sector job losses. See National Women's Law Center, *Third Anniversary of Recovery Shows Job Growth for Women Slowed by Public Sector Job Losses* (July 2012). Another national analysis shows that women held 70 percent of the state and local government jobs lost between 2007 and 2011. See David Cooper, Mary Gable, and Algernon Austin, *The Public-Sector Jobs Crisis: Women and African Americans Hit Hardest by Job Losses in State and Local Governments* (Economic Policy Institute: May 2, 2012).

[25] Employment Development Department. The employment rate is averaged over the 12 months ending in July.

[26] Employment Development Department. The employment rate is averaged over the 12 months ending in July.

[27] CBP analysis of US Census Bureau, Current Population Survey data.

[28] CBP analysis of US Census Bureau, Current Population Survey data.

[29] The increase in the inflation-adjusted average hourly wage for workers in the bottom fifth of the earnings distribution seems counterintuitive. However, it could reflect a change in the composition of the workforce. If the lowest-paid workers within the bottom fifth of the earnings distribution were more likely to lose their jobs in recent years, then relatively higher-paid workers would remain within that fifth, making it appear as if the average hourly wage increased.