

# WEST MICHIGAN VIEWPOINT

## Funny, It Doesn't Feel Like It's Over . . . .

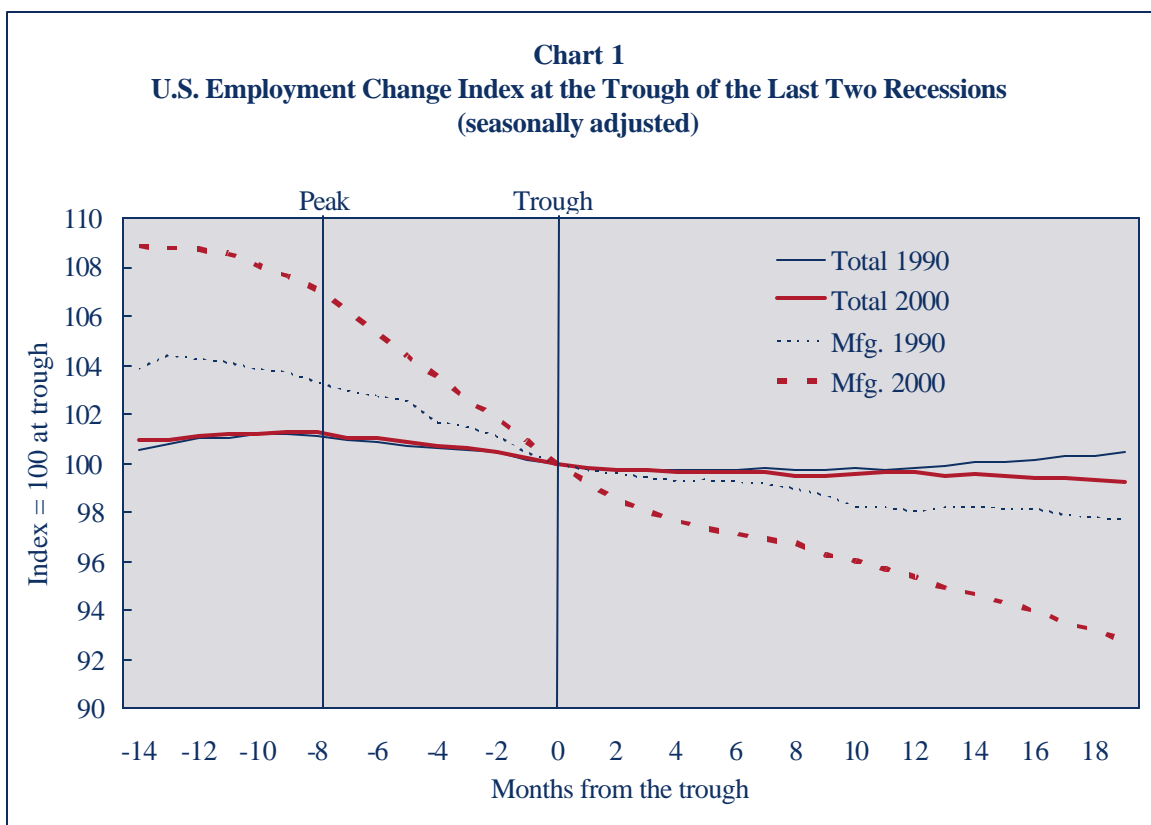
It is official: the recession ended 20 months ago in November 2001, according to the Business Cycle Dating Committee at the National Bureau of Economic Research (NBER). Indeed, the nation's Gross Domestic Product has been on the rise for the past six quarters. However, for the nine million individuals who are currently unemployed and the 44,000 individuals who lost their jobs this past July, this expansion leaves much to be desired. For the nation's manufacturers the recession has never stopped. Manufacturers have suffered 35 straight months of employment declines and have cut 930,000 workers (7.2 percent of their workforce) from their payrolls since the official end of the 2001 recession. With recoveries like this . . . .

Economists insist that employment is a lagging economic indicator. This is a view not shared by most, who believe it is *the* indicator. Employers hesitate to hire new workers until they are confident that the recovery is fully underway and that their current workforce is totally overworked. Still, if you feel that this recovery is particularly slow, you are correct. Chart 1 compares the

employment performance during the current recovery with that which followed the 1990 recession. Employment is indexed at 100 at the trough of each recession. It so happens that both the 1990 and 2000 recessions lasted eight months, so I was able to match up the troughs and peaks on the same lines for both.

By historical standards, employment growth during the 1990 "jobless recovery" was extremely slow. It took 14 months after the end of the recession for total employment to return to the trough level of GDP, and it was not until 43 months after the recession ended that manufacturing employment climbed back to the recessionary trough level. Manufacturing employment has not reached its March 1990 peak level since that time.

Unfortunately, the current recovery is even slower in terms of employment growth. It has been 20 months since the official end of the 2000 recession, and total employment is still below its recessionary trough levels, while manufacturing employment continues to fall.

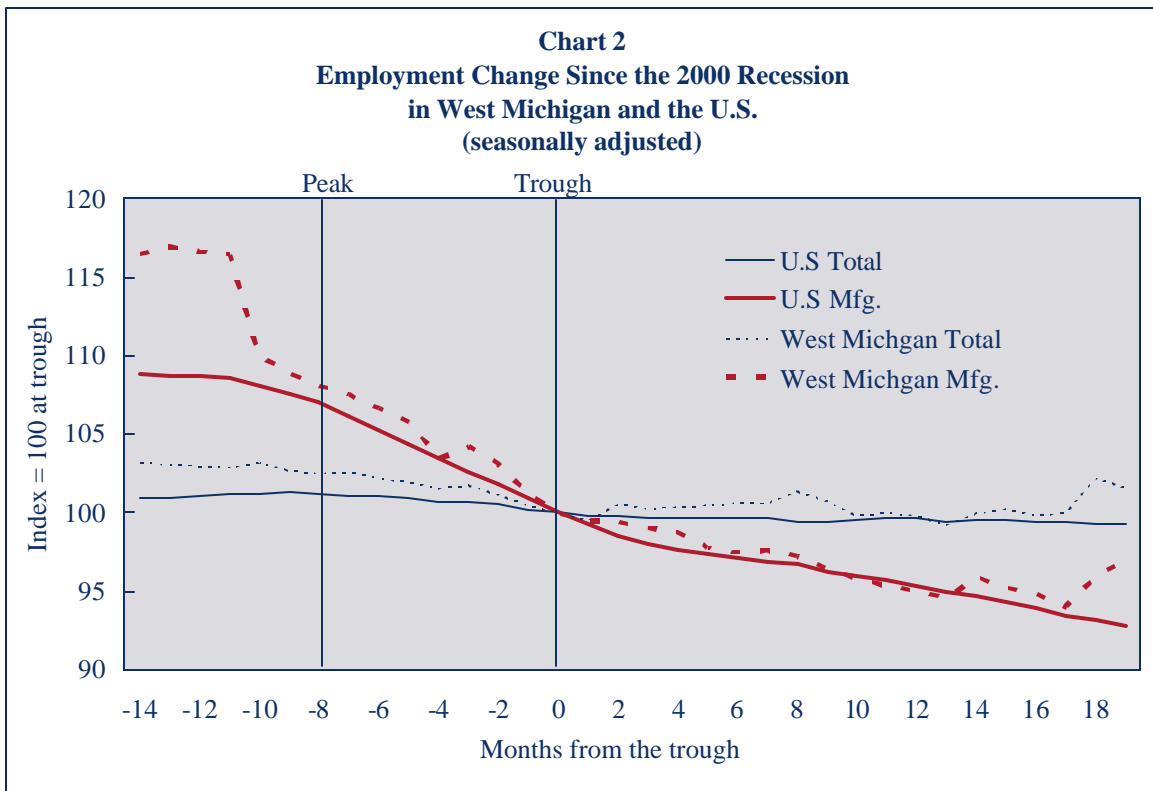


What’s wrong? In short, the nation’s manufacturers are struggling in an environment where there is too much capacity and, as a result, harsh, competitive pricing. In this highly competitive environment, businesses are limiting investment expenditures to those that cut costs but do not necessarily expand production. Of course, cost reductions often mean the elimination of jobs. So, while in the long-term, productivity is associated with employment growth; in the short-term it can indeed stall job creation.

During this so-called recovery, employment trends in west Michigan’s three metropolitan areas tracked the nation’s downward trend very closely during the first 15 months of the current recovery, as shown in Chart 2. Nevertheless, starting in April of this year, there has been a marked turnaround in west Michigan which has not been shared by the nation, especially in manufacturing. Since April, manufacturing employment has increased by 3.3 percent, and total employment has risen by 1.6 percent in the three metropolitan areas of west Michigan. This is great news, given that manufacturing accounts for 22.5 percent of our total nonfarm employment, compared to only 11.3 percent, nationwide. Moreover, as shown in Chart 3, the three west Michigan MSAs shared similar employment growth patterns.

Some argue that the fact that “jobless recoveries” have followed the last two recessions simply adds further evidence that the nation’s economic structure has changed since the 1980s. Manufacturing employment never reached its pre-recession 1990 level, and some contend that manufacturing will continue to play a smaller role in the nation’s economy and follow the path of agriculture. The new role for U.S. businesses is to be the command and service centers for world operations. Call me a dinosaur, but I still think that manufacturing has an important place in the nation’s economy and has growth potential in the nation’s more competitive regions such as west Michigan. The pie may shrink, but that does not stop us from winning a larger slice.

If recent trends continue, the employment situation in west Michigan may improve more rapidly than that of the nation as a whole. This is good news and reflects positively on the competitiveness of the region’s employers, especially its manufacturers. However, the current long-term slide of manufacturing employment, nationwide, does not create a very encouraging environment for the region’s economic development efforts in attracting new employers. Instead, a slow but steady increase in employment due to the expansion of existing firms may be our best bet.



**Chart 3**  
**Employment Change Since the 2000 Recession**  
**in the Three Metropolitan Areas of West Michigan**  
**(seasonally adjusted)**

