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SRSA Presidential Address[*]

Local Economic Impact of the Great Recession of 2008/2009

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The 2008/2009 recession has been the worst recession since World War II. The national unemployment rate went from 5.0 percent to over 10 percent in less than two years. GDP was negative during five of the six quarters during 2008 and the first half of 2009. Over 8.3 million establishment jobs were lost during the first 24 months of the recession. While the national numbers are staggering, the state and local impacts are quite varied. In this presentation I will identify the disparity of impact at the state and local level. In addition, I will also try to dispel a number of myths surrounding the cause and reactions to this economic crisis.

The first myth that seems to crop up in every discussion about this recession is that, "we didn't see it coming." That is simply not true. In August of 2007 the Fed began lowering interest rates in response to sluggish economic conditions brought about by $3.00 a gallon gasoline prices during the summer of 2007. Between August of 2007 and August of 2008 the Fed dropped interest rates by over 300 basis points. This is an extraordinary rate of change for Fed monetary policy.

In addition to the Fed actions to stimulate a sagging economy, the President and Congress also engaged in economic stimulation in the winter of 2008 passing the Bush stimulus package, which provide tax rebates of either $600 (single) or $1,200 (joint) dollars and were mailed to taxpayers during May and June of 2008. The total of the Bush stimulus was $160 million. The Fed began action at least four months before the official start of the recession and Fiscal Policy was passed within the first three months of the recession. So I think that there is clear evidence that both monetary and fiscal policy anti-recession actions were begun before anyone was aware that a recession was underway.

The second myth that seems to pop-up in the discussion is that this recession was a financial recession. Again this does not hold up to the data. As it turns out, the recession was well underway before any financial institutions where under scrutiny. In fact, it is likely this recession had its beginning in the summer of 2007 when gasoline prices spiked from $2.10 in January of 2007 to $3.20 by May. The tourism industry took a big hit during the summer and over the next 12 months gasoline prices spiked again to over $4.00 by June of 2008. The U.S. economy was in recession by December of 2007 as a result of the reduction in consumer discretionary income brought about by the increase in gasoline prices.

The second phase of the recession hit during the summer and fall of 2008. We still remember the pictures of Lehman workers leaving their offices on September 15th with boxes of their personal effects in hand. Over the next two months Americans were riveted to the impending collapse of the nation's financial system. It is the memory that the average American carries with them about this recession. However while the financial sector took a massive hit, the federal government took immediate action with a $750 billion dollar financial bailout

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program (TARP) to help stabilize the banking system. This program actually kept the financial sector from suffering as badly as many other sectors of the economy.

Of the 8.4 million jobs that were lost almost 4 million were in the construction and manufacturing sectors. These two industries were hit hard during the recession because they rely on financing to move their product. In the fall of 2008, the finance sector of the U.S. economy all but shut down. They were so concerned about the state of their balance sheets and the amount of bad debt they had and were likely to have over the coming year that they simply refused to lend. So while some of the financial stress on the banks was a result of over exuberance in the residential construction industry, the auto industry was also hit hard. Sales for most manufactures were down 35 to 50 percent during the fourth quarter of 2008. A large portion of the sales decline was a result of the lack of financing brought about by the financial crisis.

In the meantime, some sectors actually added jobs during the two years of overall job decline. Education and health services, and government employment increased by almost 900,000 jobs during 2008-2009.

But as lopsided as the industry impacts were, it turns out that the regional impacts were worse. The United States lost 5.15 percent of its total employment during the 2008/2009 decline. The state that had the largest percentage decline during 2008/2009 was Nevada at 10.7 percent, more than double the U.S. job loss rate. In total 23 states faired worse than the U.S. average. The state with the largest absolute job loss was California which lost 1,041,300 jobs or about 15 percent of the U.S. total.

The western part of the U.S. seem to fair much worse than any other region of the country. Of the ten states that had the largest percentage declines during 2008/2009 six (Nevada, Arizona, Oregon, Idaho, California, and Hawaii) were western states. No other region of the country was nearly as hard hit as the far west.

Of the 27 states that faired better than the U.S. average, two, Alaska and North Dakota, actually experienced modest employment increases during the two year period.

Of the ten states that had the smallest percentage declines (or increased) during 2008/2009 (North Dakota, Oklahoma, Texas, Louisiana, South Dakota, and Nebraska) were plains states where a large portion of their economic base comes from extractive industries.

As wide as the disparity of employment loss was among the states, it was far worse at the local level. In December of 2009 the U.S. unemployment rate was 9.9 percent, the highest it had been since June of 1983. Several MSA's had experienced unemployment rates that were almost double the U.S. rate and one, El Centro, California almost tripled the U.S. rate with a 27.7 unemployment rate. Table 1 presents the ten MSA's with the highest unemployment rate in December of 2009. Not surprisingly, eight of the ten are in California.

Table 2 presents the ten large (500,000 in population) MSA's with the highest unemployment rate in December of 2009. Again, the pattern is similar with five of the ten in California and one (Las Vegas) in Nevada. Modesto had the distinction of having the highest unemployment rate among large MSA's with 17.7 percent but was followed closely by Stockton with 17.1 percent.

TABLE 1. MSAs with the Highest Unemployment Rates in December 2009

MSA	Dec 2000	Dec 2007	Dec 2009
El Centro, CA	16.5	18.7	27.7
Merced, CA	10.2	11.9	19.8
Yuba City, CA	9.1	11.2	19.6
Yuma, AZ	11.2	11.4	19.5
Modesto, CA	7.7	9.7	17.5
Visalia-Porterville, CA	11.5	10.4	17.5
Stockton, CA	7.1	9.2	17.1
Hanford-Corcoran, CA	10.5	9.5	17.1
Palm Coast, FL	3.3	7.4	16.9
Fresno, CA	10.6	9.7	16.8

T**ABLE 2. Large MSAs with the Highest Unemployment Rates in December 2009**

MSA	Dec 2000	Dec 2007	Dec 2009
Modesto, CA	7.7	9.7	17.5
Stockton, CA	7.1	9.2	17.1
Fresno, CA	10.6	9.7	16.8
Bakersfield-Delano, CA	8.6	9.2	15.8
Detroit-Warren-Livonia, MI	3.6	7.6	14.9
Riverside-San Bernardino-Ontario, CA	4.4	6.3	14.0
Cape Coral-Fort Myers, FL	2.8	5.9	13.8
Las Vegas-Paradise, NV	4.7	5.3	13.1
Youngstown-Warren-Boardman, OH-PA	4.7	6.3	13.0
Lakeland-Winter Haven, FL	3.6	4.9	12.8

As with states, some MSA's suffered little during the recession. Table 3 presents the ten MSA's with the lowest unemployment rate in December of 2009. Fargo, North Dakota leads the way with only a 4.0 percent rate. Nine of the ten MSA's are located in the Great Plains region of the country, only Logan, Utah (mountain west) is not in a plains state.

Table 4 presents the ten large (500,000 in population) MSA's with the lowest unemployment rate in December of 2009. However, this time the pattern seems to be different. Among the larger MSA's there seems to be a geographic dispersion of those MSA's that fared well during 2008/2009. Four of the MSA's are in the plains states as one would expect, but three are from Utah where the state overall perform on average with the U.S. employment loss, 5.17 compared to the U.S. loss of 5.15.

So what does this all tell us? Clearly the 2008/2009 recession was a severe recession. In addition, the impacts of the recession varied widely across states and MSA's. While some MSA's maintained an unemployment rate around 4 percent, other MSA's saw their unemployment rate rise to the high teens and in one case as high as 27 percent. There also seemed to be a strong regional pattern in the MSA unemployment rates. The far west region of the country had a disproportionate share of MSA's with high rates of unemployment, while the plains region of the country had MSA's with among the lowest rates of unemployment.

At the state level, California fared the worst, with 8 of the 10 MSA's with the highest unemployment rates in December of 2009, while North Dakota with a population of less than 650,000 had 3 MSA's of its 8 MSA's among the 10 lowest unemployment rate MSA's in December of 2009. Clearly, the 2008/2009 Great Recession produced varying results across regions, states, and MSA's with many losers and a few winners.

TABLE 3. MSAs with the Lowest Unemployment Rates in December 2009

MSA	Dec 2000	Dec 2007	Dec 2009
Fargo, ND-MN	2.1	2.7	4.0
Lincoln, NE	2.0	2.3	4.1
Grand Forks, ND-MN	3.0	3.3	4.1
Logan, UT-ID	2.5	2.1	4.4
Bismarck, ND	2.4	3.2	4.4
Iowa City, IA	2.1	3.1	4.5
Manhattan, KS	3.1	3.2	4.5
Lawrence, KS	2.3	3.6	4.6
Ames, IA	2.0	3.1	4.6
Sioux Falls, SD	2.1	2.5	4.7

TABLE 4. Large MSAs with the Lowest Unemployment Rates in December 2009

MSA	Dec 2000	Dec 2007	Dec 2009
Des Moines-West Des Moines, IA	2.7	3.9	6.5
Honolulu, HI	3.4	2.5	5.3
Little Rock-North Little Rock-Conway, AR	3.2	4.1	6.5
Madison, WI	2.2	3.1	5.8
Ogden-Clearfield, UT	3.6	3.1	6.6
Oklahoma City, OK	2.3	3.6	6.0
Omaha-Council Bluffs, NE-IA	2.6	3.0	6.0
Provo-Orem, UT	2.7	2.6	6.0
Salt Lake City, UT	2.9	2.8	6.2
Washington-Arlington-Alexandria, DC-VA-MD-WV	2.4	3.0	6.2

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