Growth and Change:

What will Economic Recovery Bring to Ohio?

Swank Program in Rural-Urban Policy and
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Summary Report
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Introduction

The current economic downturn is the worst since the Great Depression in the 1930s. Recent reports have hinted on the current recession hitting its bottom, leading to the expectation that the economy is finally turning around. It is thus of interest to see what an economic recovery will look like. What does it mean for Ohio's communities, families, and governments trying to provide services? How will Ohio's recovery compare to the nation? Will economic recovery be vigorous, or will it drag on in a manner that will not feel much different than recession. To carry out our assessment, we will examine past economic recoveries and draw some clues from how Ohio and the nation have performed in the past.

Some of our main conclusions include the following: A generation ago, recessions would be very severe—especially in Ohio—but there was a quick economic recovery. Recent economic downturns are marked by an anemic economic expansion. Prolonged economic recoveries mean that it takes years to return to the initial pre-recession level of employment. Rather than cyclical downturns in which many of the lost jobs return with growing demand, recent downturns are marked by economic restructuring in which the jobs are permanently destroyed as whole industries and firms never return to original levels of employment activity. For example, at national level, it took 46 months after the beginning of the 2001 downturn for jobs to return to their prior 2001 peak, while total employment never recovered its pre 2001 level in Ohio. If the recent past is our guide, the future economic recovery will be quite feeble, with very slow job creation. Clearly, this drawn out "jobless" recovery will strain Ohioans and the communities they live in.

The story is not all bad for Ohio. First, two generations of Ohioans have witnessed the wholesale restructuring of their manufacturing economy. This painful process has produced great fallout and pain to Ohio's families and communities. However, with the manufacturing economy now a fraction of its relative size of 1970 (in terms of employment), further restructuring will have less adverse impacts. Indeed, one apparent gain from this painful restructuring is that the state's downturn during the current economic recession is not as severe as it was (say) during downturns of 50 years ago. Thus, Ohio is much better placed to prosper in the long-run if it is able to make fundamental changes to enhance its economic potential. Yet, wholesale change will require that the state let go of its traditional litany of excuses for its relative poor economic performance. For example, many bemoan the fact that the decline of the Detroit Three auto producers has particularly hurt Ohio over the last 40 years. We show that Ohio's "exposure" to the auto sector is simply not large enough to explain its poor performance.

Our Data and Methodology

Our assessment will compare U.S. and Ohio economic performance in every recession since the rather severe 1973-75 recession. Specifically, the following recessions are considered: 1973 -75, 1980, 1981-82, 1990-91, 2001, and the current one that began in December 2007. We do this first for total employment and then for manufacturing employment. We then follow up with a similar overview for the Columbus, Cincinnati, and Cleveland metropolitan areas.

Employment is considered rather than other measures such as income or unemployment for many reasons. First, employment data are much more timely, whereas income data can be delayed up to 18 months for local areas. Likewise, employment growth is by definition a measure of new or lost jobs, which tells us directly how families and households are faring, Especially in jobless recoveries, income might be expanding, but the benefits are rather narrowly spread. Finally, job growth is a much more complete measure than the unemployment rate—which is usually the focus of non-economists and journalists. To be officially unemployed, one must have "actively" sought work in the previous month. However, that overlooks those who are much more casual in their job search, or are too discouraged to even search for work, and it does not count job opportunities that arise for those who hold multiple jobs. Indeed, focusing on the unemployment rate leads to perverse examples such as North Dakota, which historically has one of the lowest unemployment rates in the nation even as it has persistently suffered one of the highest out-migration rates in the country.

Our employment data sources are the following. We have collected total employment and manufacturing employment data for the nation, state, and large Ohio metropolitan areas. The data used to draw the employment patterns are from U.S. Bureau of Labor Statistics (www.bls.gov) and are seasonally adjusted. The data used to derive industry employment shares are from U.S. Department of Commerce, Bureau of Economic Analysis (www.bea.gov). The former source provides monthly employment data whereas the latter provides annual data.

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Employment Growth, Future Prospects, and Change at the Ohio Rural-Urban Interface
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Nonfarm Total Employment in Recession: Nation vs Ohio

At the national level, previous recessions since 1973 exhibited changing patterns of recovery: earlier ones are characterized by many lost jobs at the trough but with employment sharply bouncing back with recovery. More recent recessions have usually been less severe in terms of job losses (with the exception of the current recession), but it took a long time to recover those lost jobs. Ohio's labor markets have been even slower than the nation to recover. One source of the difference in how both the nation and the state have experienced job losses during recession and gained jobs during recovery lies in the relative size of the manufacturing sector, which has steadily declined in relative size since the 1950s and 1960s.

Past Economic Recoveries at National Level

The labor market recoveries after the six recent U.S. recessions were not all alike. Earlier ones exhibited a V-shaped recovery curve with rapid recovery, whereas recent ones are more likely to have a U-shaped curve with a very flat bottom—i.e., jobless recoveries. Figure 1 shows the U.S. employment patterns for each of the last six recessions. The figure is benchmarked to 100 to represent employment in the month where the National Bureau of Economic Research defined the initial beginning of the recession.[1] The figure then shows the evolution of employment levels for the subsequent 60 months.

At the national level, first note the 1980 recession is a special case since it was the first of a "double-dip" recession followed by another recession beginning in 1981. Second, note that there are increasing recovery times for employment to regain its pre-recession level. In earlier recessions, employment rebounded sharply and steadily grew afterward, but more recent recessions since 1990-91 experienced jobless recoveries in which income and production expanded, but job creation was very sluggish. Illustrating the longer time to recover the lost jobs, it took 26, 28, 31, and 46 months respectively for total employment to recover its initial pre-recession starting levels after the 1973-75, 1981-82, 1990-91, and 2001 recessions. Indeed, five years after the onset of the previous recessions (except for 1980), total employment was respectively 12.5%, 8%, 7%, and 2.5% higher than the initial level—i.e., declining over time.

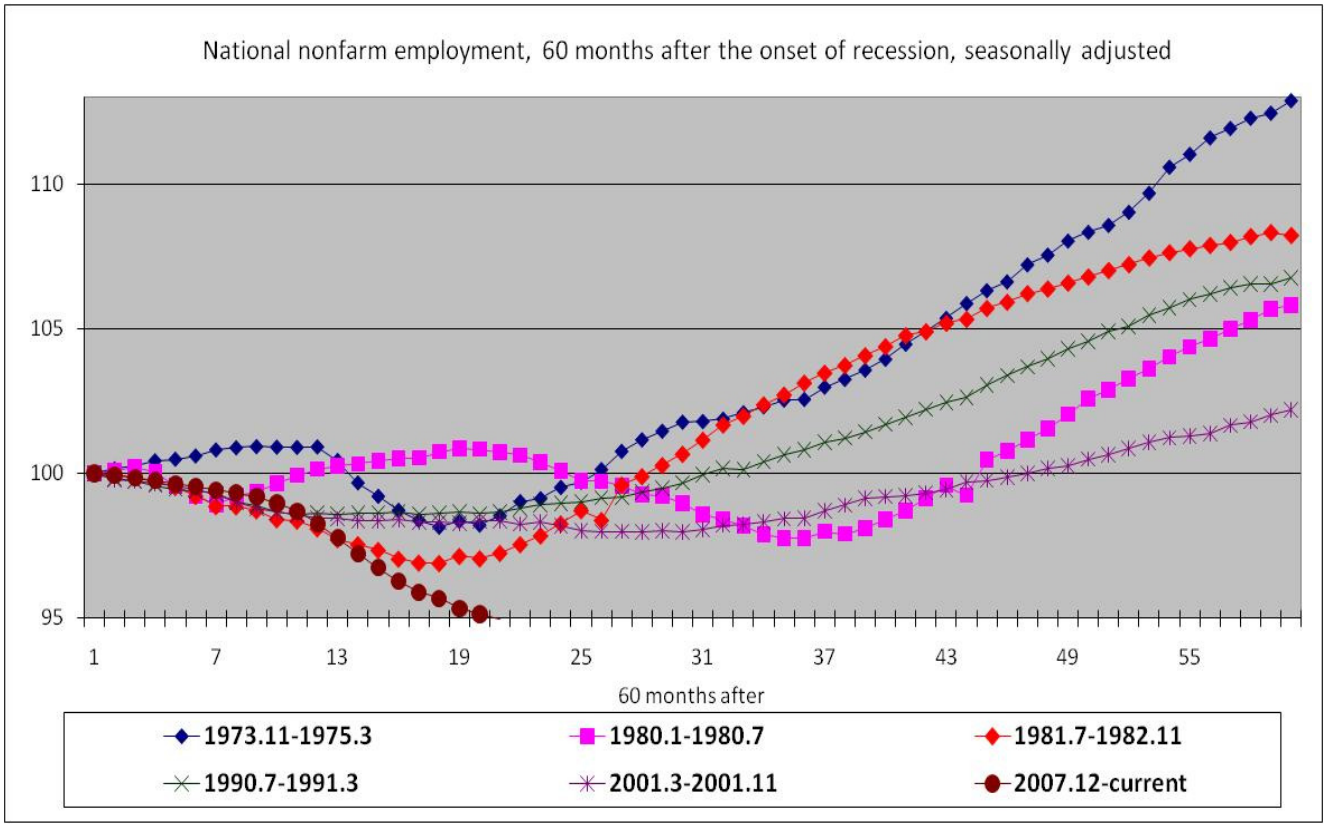
Another difference in the national recovery patterns over time is the degree of job loss. The 1981-82 recession was the worst recession since the Great Depression (until the current recession), when the nation lost 3% of its jobs at the trough 18 months

[1] National Bureau of Economic Research is the organization that determines the official beginning and end of economic recessions (www.nber.org).

after it started. In the 1973-75 and 2001 recessions, around 2% of jobs (on net) were lost at the trough, whereas the 1990-91 recession was a little less severe.

Unfortunately, 22 months into the current recession, total nonfarm employment has already declined 5%, leading to a deeper trough than that of the severe 1981-82 recession. This is particularly an ominous sign as we are experiencing a sharper labor market contraction than the 1981-82 recession. And at the same time, all appearances are that we will experience a very slow labor market recovery as in recent downturns.

Figure 1: National Nonfarm Employment Patterns after the Onslaught of Recession

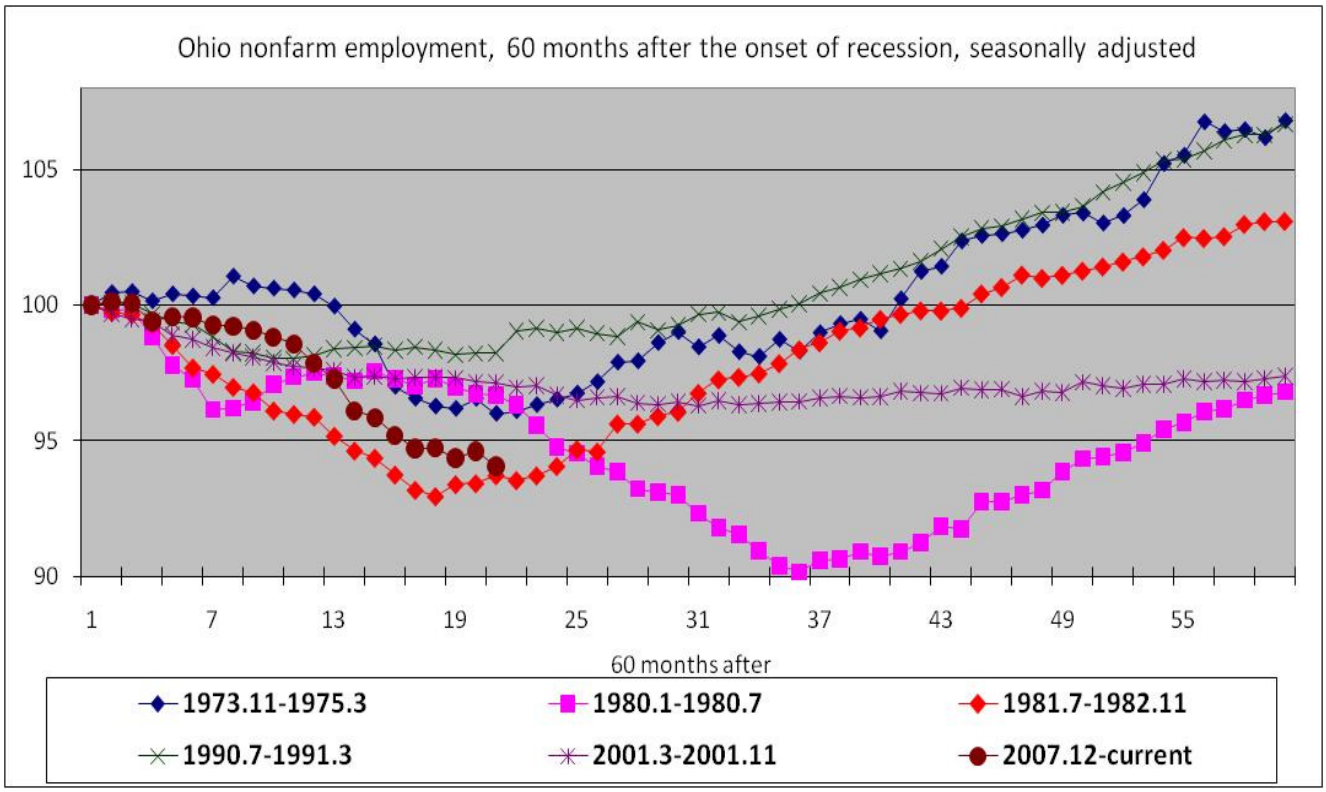


Past Economic Recoveries in Ohio

Ohio's recovery pattern tends to be more severe in downturn, and job growth tends to lag the nation in recovery. This pattern is exhibited in Figure 2. Of course, note the 1980 recession is the special case of being the first of a "double-dip" recession.

In more recent recessions, Ohio again has a weaker labor market and lags in recovery compared to the nation as a whole. Yet, on the favorable side, Ohio's relative performance with the nation is somewhat improving. One reason is that the state has experienced a major manufacturing-sector restructuring beginning in the 1950s and 1960s. This is important because manufacturing is more cyclical than other sectors (Partridge and Rickman, 2002).

Figure 2: Ohio Nonfarm Employment Patterns after the Onslaught of Recession



To give some specifics regarding early recessions, it took 40-45 months for total Ohio employment to recover after the onslaught of the 1973-75 and 1981-82 recessions, 60% longer than national recovery time. Likewise, the state's troughs were deeper in the early recessions, more than doubling the national percentages. Moreover, Ohio's total employment was respectively only 7% and 3% higher than the initial pre-recession level 60 months after the onset of the 1973-75 and 1981-82 recessions, around half national job growth levels.

Some specifics regarding recent recessions: Ohio employment did not recover after the 1990-91 recession for 36 months, which is five months slower than it took the nation. Employment after the 2001 recession was especially slow to recover. Total employment exhibited an L-shaped curve, remaining essentially flat from 2002 to 2006 at about 97.5% of the original level, and total employment **never** recovered its pre 2001 level. The pattern of Ohio suffering more severe recessions than the nation and having slower recoveries is consistent with the state's economy long underperforming the national economy.

Ohio total employment in the current recession has tracked the nation, which is a "favorable" development in that Ohio is not lagging the nation in recession. Even so, total employment has dropped below 95% of its initial pre-recession level. Nonetheless, though Ohio's job declines are still less than that in 1981-82, the labor market may need longer than 1981-82 to recover. Clearly, this has implications for Ohio's businesses and governments. It may take many years for tax revenue to recover and for businesses to regain a good footing. Many families will face prolonged challenges, which will spread to our broader communities. Clearly, in going forward, Ohioans should plan on continued belt tightening.

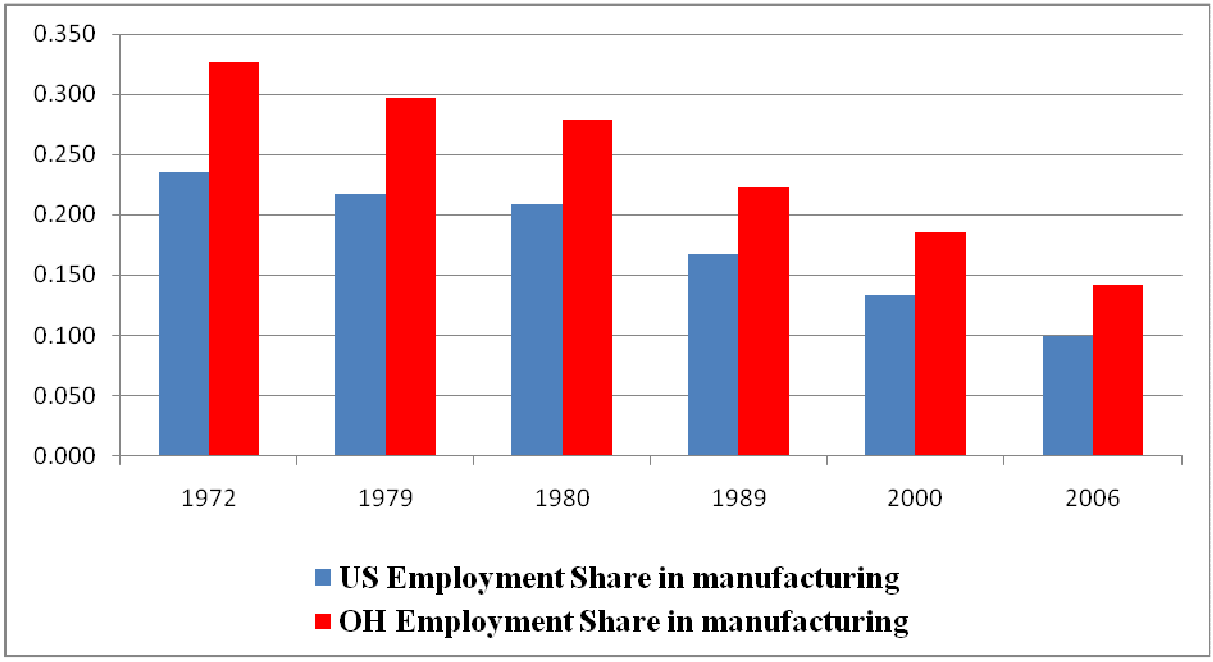
Why Are Recent Recoveries so Slow?

A clear pattern at both national and state level is that employment is taking longer to recover in recent recessions. One reason is the relative decline of the manufacturing sector appears to have accelerated this decade. Even across the broader economy, Groshen and Potter (2003) suggest that permanent job losses from structural change have contributed to jobless recoveries, as "creating jobs takes longer than recalling workers to their old positions and is riskier" during economic downturns.

The good news is that the declining manufacturing sector may generate less severe cyclical fluctuations going forward. Manufacturing is much more cyclical than average—its job losses in recession are rather severe as customers delay durable goods purchases until economic recovery. Yet orders, and in turn, employment quickly rebound in economic recovery—thus a large share of manufacturing exposes the economy to wild ups and downs. With the relative decline in manufacturing, Ohio, and to a slightly lesser extent the country, is less exposed to such fluctuations.

Figure 3 illustrates the U.S. and Ohio shares of wage and salary workers employed in the manufacturing sector for the last full year immediately preceding the onslaught of each recession since the 1973-75 one. Clearly, this illustrates the secular decline of manufacturing employment in the United States due to fierce global competition and rapid productivity growth. Indeed, for both the nation and for Ohio, the relative size of manufacturing at the eve of the 1973-75 recession was about two-and-a-half times bigger than it was in 2006, the last full-year prior to beginning of the current economic downturn. Likewise, Ohio's manufacturing employment share in 2006 equaled the national manufacturing employment share in 2000, further illustrating a convergence between the state and the nation.

Figure 3: Employment Shares in Manufacturing



While this manufacturing shakeout has been painful for many Ohio families and their communities, the good news is that the fallout is by definition almost over. Even if Ohio were to lose *every* remaining manufacturing job (which it will not), there will be fewer lost jobs in manufacturing than what has occurred since the early 1970s. Another positive feature of the relative decline in manufacturing is that Ohio will be less sensitive to economic downturns than in the past due to the cyclical nature of manufacturing.

Figure 4a shows how manufacturing employment has evolved at national level for the first 60 months after the onslaught of every recession since 1973. Two patterns are apparent about manufacturing. First, as noted above, manufacturing employment never returned to its initial level after the onslaught of recession with the exception of the 1973-75 recession. Second, five years after the conclusion of recessions, manufacturing employment declines more than overall employment. As a couple of examples, manufacturing recovered slowly after the 1981-82 and 1990-91 recessions, losing 6% and 2.5% employment five years later. For the 2001 recession, employment in manufacturing declined sharply and steadily, with no evidence of recovery at all. In fact, manufacturing has experienced its sharpest loss during the current recession. If the job losses are permanent, that bodes poorly for manufacturing-dependent communities, at least in the near term.

Figure 4b shows manufacturing employment evolution in Ohio for the first 60 months after the recessions. One feature of Figure 4b is that the state's trends in manufacturing employment are even more negative than national trends. Ohio manufacturing employment has experienced larger negative declines and it did not regain its initial employment level after any of the recessions under consideration. Twenty-two months into the current recession, Ohio has already lost nearly 20% of manufacturing employment, 5% more than the national job loss. The point is that the state's manufacturers have faced even more painful restructuring than their national counterparts. Yet, the "good" news for this recession is that manufacturing employment seems to have reached its bottom in Ohio while it is still declining at the national level. As noted above, Ohio has already undergone the vast majority of any ongoing structural change and is now poised to reinvent itself.

Figure 4a: National Manufacturing Employment Patterns after the Onslaught of Recession

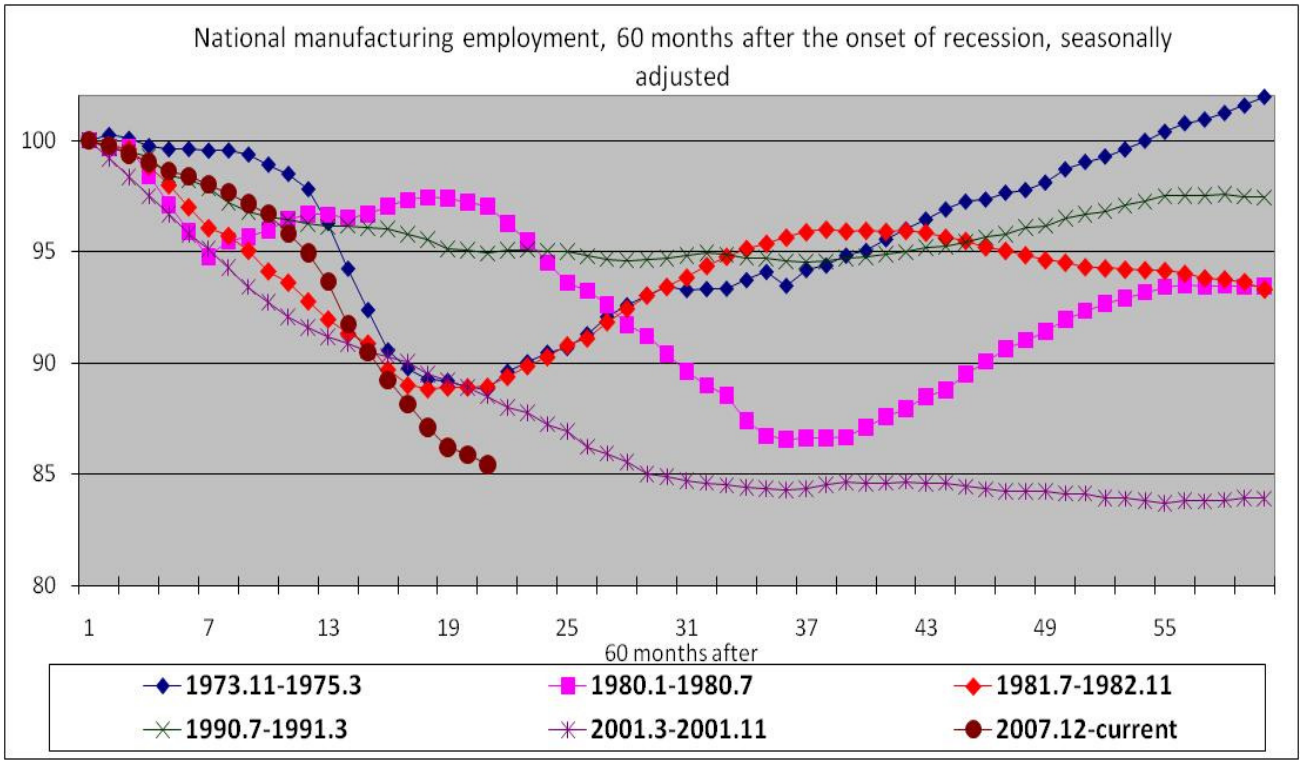
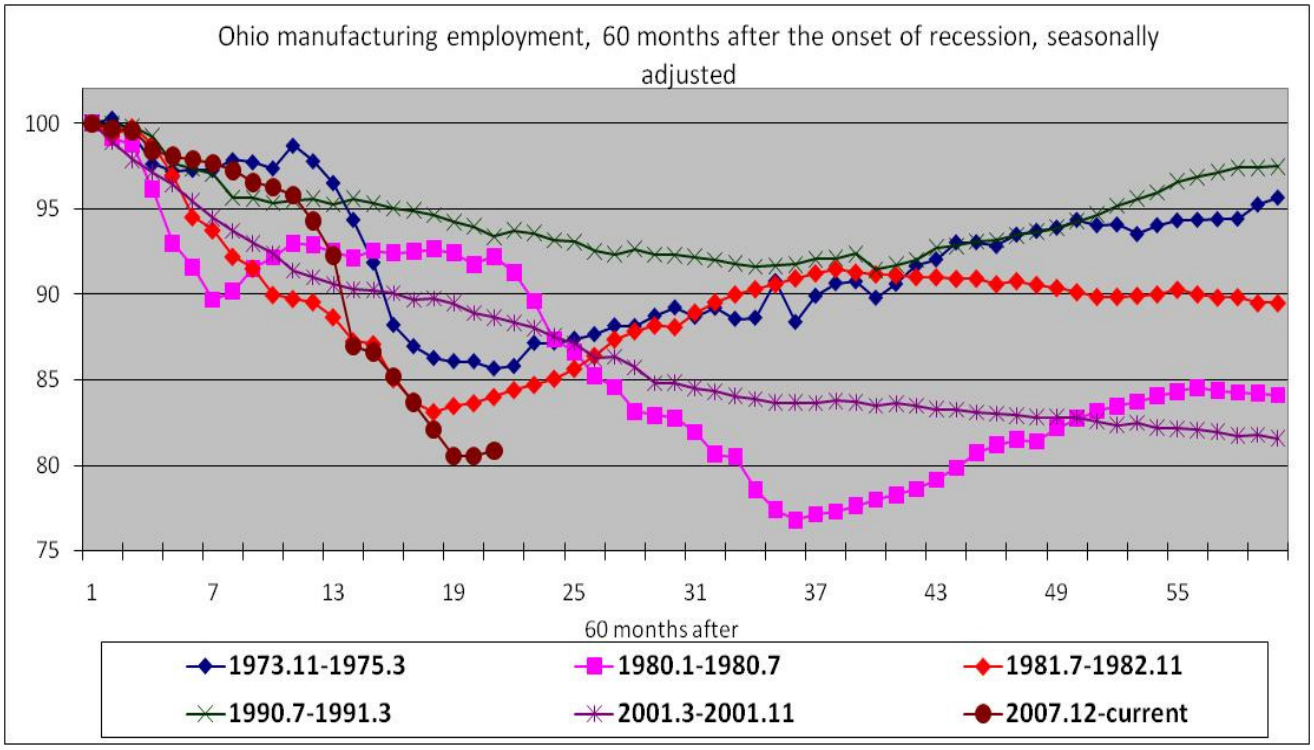


Figure 4b: Ohio Manufacturing Employment Patterns after the Onslaught of Recession



The Auto Sector in Ohio

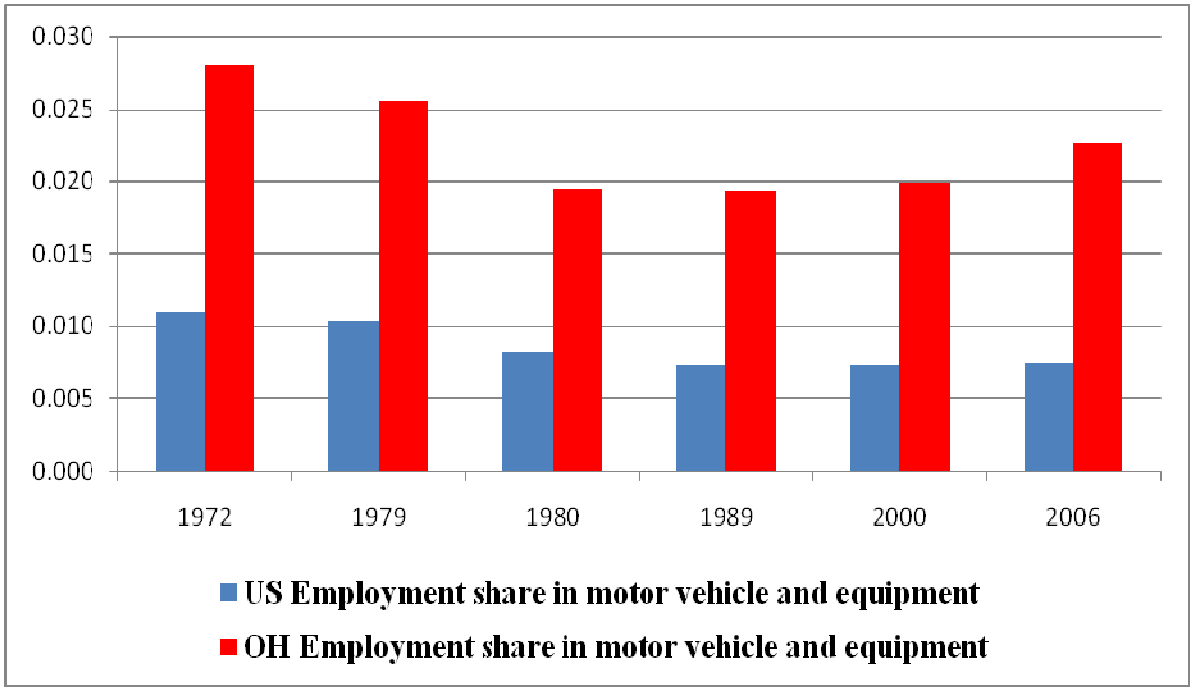
Ohio has a long storied history as an auto-part supplier and as a home to many auto assembly plants. U.S. and Ohio employment shares in manufacturing of motor vehicles and other auto related equipment and parts can be seen in Figure 5. The years are again chosen to be the last full year before the onslaught of recession. National employment shares for motor vehicles and auto-related equipment declined over the period, though the decline leveled off after 1989.

Ohio has a much higher concentration of auto employment than the nation as a whole. Like the nation, the auto employment share declined in the 1970s and 1980s, but the share actually increased after 1989. Thus, until the eve of the current recession, Ohio was moderately successful in attracting auto employment in the last two decades. One contributing factor is that Ohio is home of both domestic and foreign producers, in which the diversification served the state's auto sector well. Nonetheless, the current recession has led to the elimination of scores of auto-related jobs.

Many politicians, economic observers, and members of the media have focused on the auto sector as being the key sector in driving Ohio's economic prosperity. However, such reasoning is usually overstated. For example, while Ohio's auto sector did remarkably well over the 1989-2006 period, the state significantly lagged the national average in job creation. Clearly, we would have expected the opposite if the auto sector was the state's primary economic driver. Instead, good underlying economic fundamentals in Ohio would be able to sustain the loss of its entire auto sector in about one year, since a typical state gains about 1.5 to 2.0 percent employment in a usual year, which is about the share of Ohio's auto sector employment. Of course, Ohio's fundamentals have been well below the typical state.

Clearly, a feature of dynamic regions is that they experience job losses as their historic-legacy sectors decline, but they are able to easily replace those job losses as new industries and firms take advantage of the benefits of locating in a dynamic region. In fact, economists call this general process "creative destruction" where the loss of declining industries frees up resources (labor and capital alike) to be employed in expanding and emerging industries. Shifting resources to producing products that have higher returns increases living standards.

Figure 5: Employment Shares in Motor Vehicles and Equipment

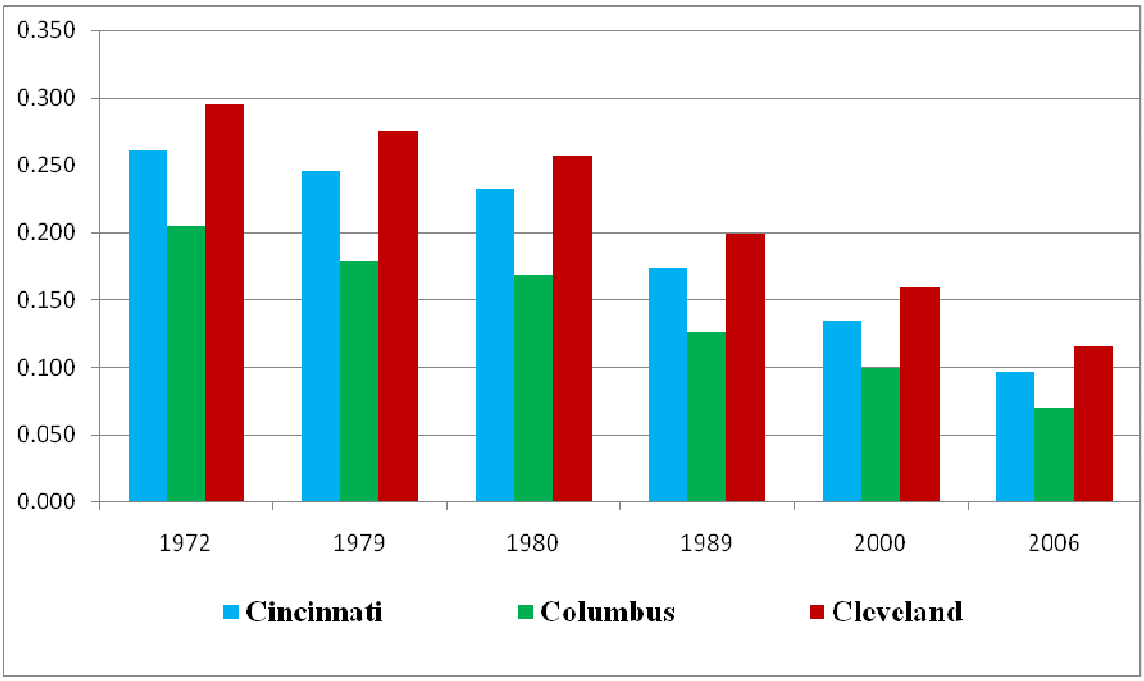


Nonfarm Employment: Columbus, Cincinnati, and Cleveland

Job losses and recovery patterns have also varied across Ohio's big-three metropolitan areas in past and current recessions. Columbus has had a relatively strong labor market, Cincinnati has been more in the middle, while Cleveland has had the weakest labor market. In previous recessions, Columbus had the smallest job declines and the fastest recoveries among the "three C's", except for the 2001 recession. Cleveland has been the slowest in recovery, with employment only fully recovering within five years after the 1973-75 and 1990-91 recessions.

One key source of the different patterns across the three C's again lies in the intensity of the manufacturing sector, which is shown in Figure 6. Cleveland has the largest share of manufacturing employment among the three, although it has also experienced a more severe decline in manufacturing; Columbus has the smallest share. This lack of manufacturing in Columbus means that Central Ohio has been less exposed to the global competition in this sector and the region has also benefited from not suffering as severe of economic downturns.

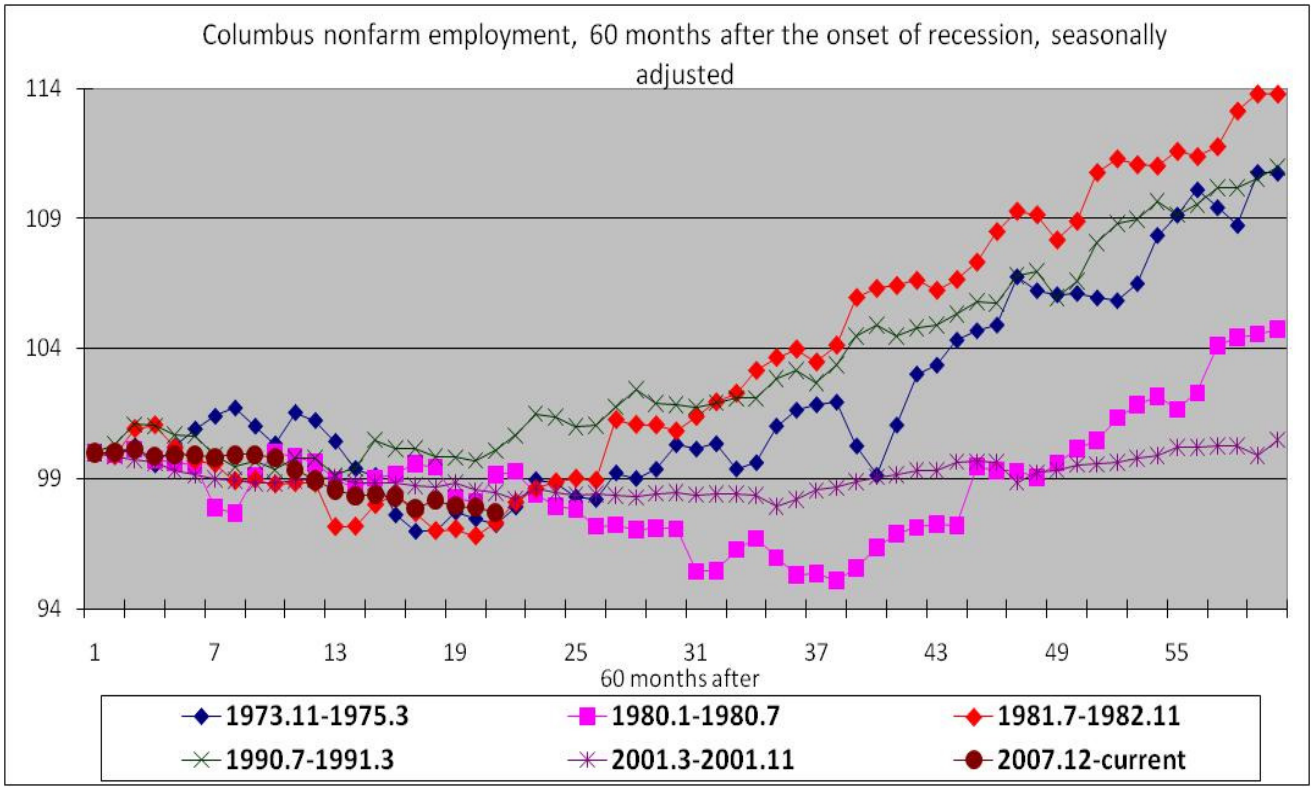
Figure 6: Employment Shares in Manufacturing for Metropolitan areas



Employment Recovery in the Columbus MA

Figure 7 illustrates how the Columbus metropolitan area has performed after the onslaught of recession. Columbus has usually experienced relatively mild job losses. Oftentimes the job losses are barely perceptible. Indeed, it is remarkable the small employment declines that Columbus has experienced during the current recession. Consistent with a shrinking manufacturing base over time, earlier recessions caused sharper job declines in metropolitan Columbus, but recent ones have taken longer for recovery.

Figure 7: Columbus Nonfarm Employment Patterns after the onslaught of Recession



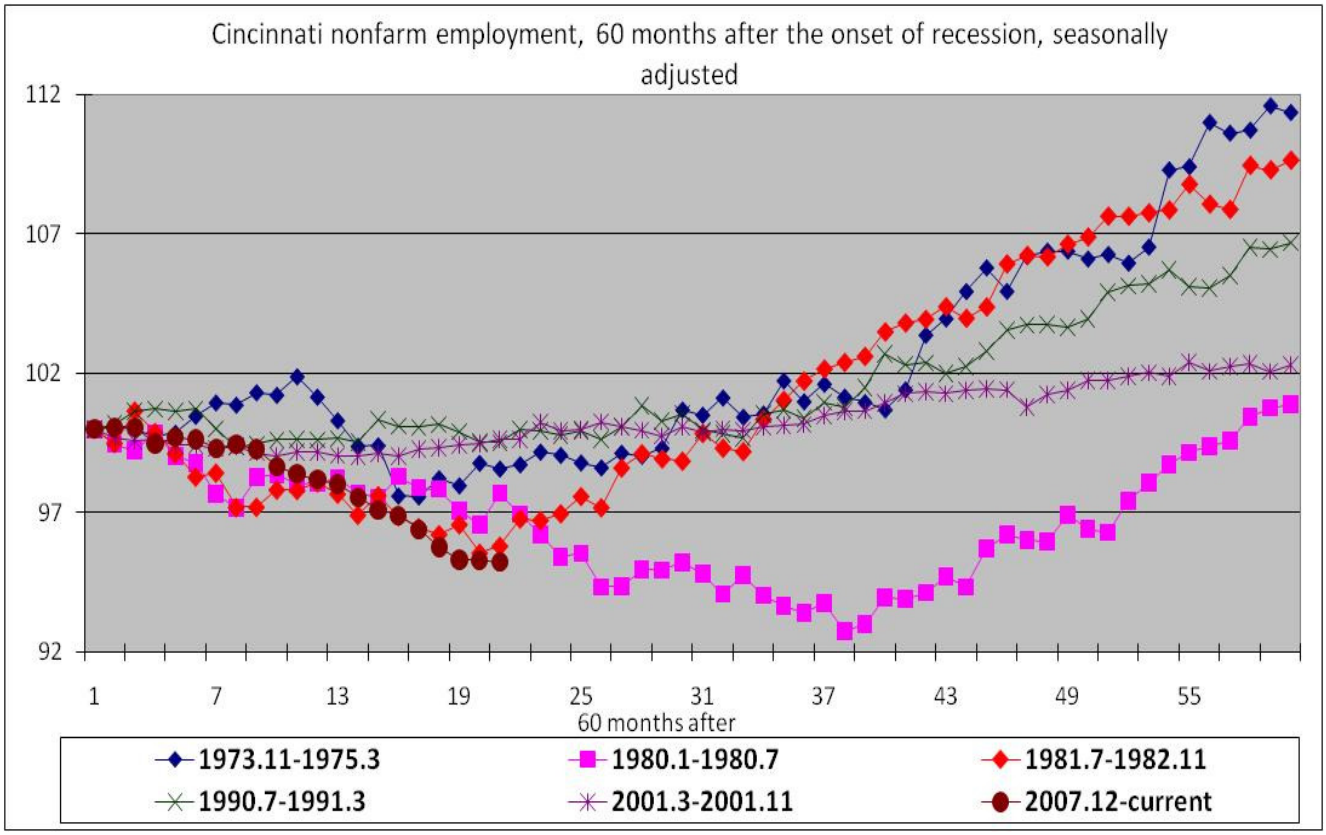
The 1973-75 and 1981-82 recessions saw Columbus losing 3% total employment at the trough. The employment decline was less than 1% in the 1990-91 recession and about 2% in 2001. Employment recovery after the 1990-91 recession took one-and-half years. By comparison, like the state and nation, Columbus also experienced a prolonged jobless recovery after the 2001 recession, with it taking fully four-and-a-half years for employment to recover to initial levels. Illustrating the severity of recent jobless recoveries even in relatively prosperous Columbus, note that five years after the 1973-75, 1981-82, and 1990-91 recessions, total employment exceeded the original level by more than 10%; but in the more recent 2001 recession, employment barely recovered after five years.

Metropolitan Columbus has fared remarkably well during the current economic crisis. Employment was barely affected until 10 months after the start, but total employment subsequently dropped by more than 2%, which is slightly worse than the 2001 recession. Yet, given the severity of the current recession, metropolitan Columbus's performance is encouraging. Whether the recovery is closer to the rapid one after the 1990-91 recession or the jobless recovery after 2001's is not yet clear. Yet, one indicator will be how (and if) construction employment rebounds. One advantage favoring Ohio's metropolitan areas including Columbus is that the housing sector did not experience the major housing bubble felt in many parts of the country—especially in parts of the Sunbelt.

Employment Recovery in Cincinnati MA

Metropolitan Cincinnati's performance after the onslaught of recession is not as good as Columbus, but it does tend to perform similar to the rest of the country. Yet, Cincinnati did recover faster than Columbus after the 2001 recession. During the current recession, metropolitan Cincinnati has lost about 5% of employment, which tracks the national average. Yet, this is the most severe drop in metropolitan Cincinnati employment since 1973.

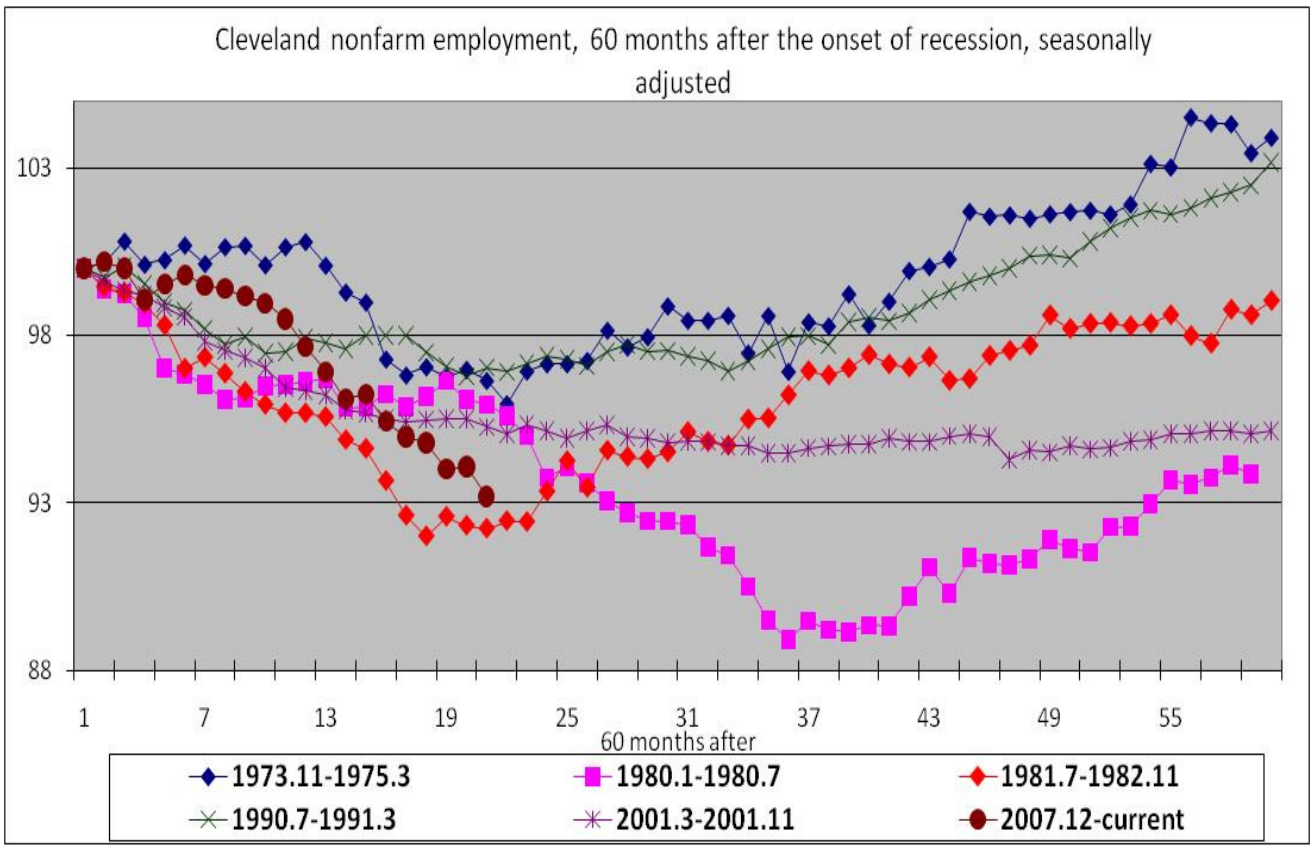
Figure 8: Cincinnati Nonfarm Employment Patterns after the Onslaught of Recession



Employment Recovery in the Cleveland MA

Cleveland has had the weakest labor market among the three MAs (see Figure 9). There have been job declines of about 5% at the trough in almost all past recessions. In the worst recession in 1981, total employment dropped by 8% within 18 months. The recovery curves of Cleveland are flat U-shaped or even L-shaped. Only in the 1973-75 and 1990-91 recessions had employment fully recovered after 60 months and it took more than three-and-half years. It never rebounded after the 2001 recession, staying flat from 2002 to 2006 at around 95% of original level. Some good news is that the current recession is not as severe as the 1981-82 recession. Likewise, another piece of good news going forward is that Cleveland's manufacturing share is one third of what it used to be 40 years ago, which means the painful restructuring in manufacturing has almost worked itself out.

Figure 9: Cleveland Nonfarm Employment Patterns after the Onslaught of Recession



Conclusion

The current recession is the most severe since the Great Depression. Though most observers have only focused on the current trends, a very discouraging pattern is that economic recoveries have been much less vigorous. After the 2001 recession, it took nearly five years for national employment to recover to its pre-recession levels. A clear difference is that until the 1990-91 downturn, job losses were more cyclical in nature. Now they have a strong structural component where many lost jobs never return. One implication is that it may take many years for the economy to return to something resembling widespread prosperity. Another implication is that Ohio's families and communities will continue to face numerous challenges for many years into the future. Likewise, all levels of Ohio government will have difficult times in balancing their budget, with resulting implications for important social services, education, and infrastructure provision. Shortfalls in education and infrastructure provision could further impair future economic growth.

In Ohio, the good news is that the current recession has not (so far) been as severe as the 1981-82 recession. Another piece of good news is that the Columbus metropolitan area is outperforming the U.S. average. Of course, tens-of-thousands of Ohioans have suffered and metropolitan Cleveland and Northern Ohio are greatly struggling. Yet, there are reasons to believe that Ohio may actually start breaking out of the pattern where its downturns are more severe than the country as a whole and its recoveries are sluggish. Specifically, Ohio is less exposed to cyclical and structural shocks to manufacturing, with manufacturing's share of employment being about one-third of what it was in the early 1970s. With most of the restructuring already taken place in manufacturing, this change will be welcome. Of course, these trends do not minimize the pain that this restructuring has placed on Ohio families and communities.

A second positive factor is that Ohio may recover from the current recession in a more timely basis. One reason is that manufacturing is increasingly less of a negative drag on the state's economy, while another reason is that the housing bubble was not as severe in Ohio. Finally, it is possible that Ohio's employers overreacted during the peak of the crisis during the winter of 2009 in laying off too many workers—which means they may have to hire workers faster to meet growing demand (this would also apply to the nation). Yet, if recent trends continue, Ohio's labor market will be very sluggish for many years in the future. It would be an even bigger shame if the economic downturn further distracts Ohio's politicians and leaders from making favorable structural changes that could avert many of these problems in the future. The cost of inaction is that this long painful process will be followed by more painful restructuring.

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