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*Timely,  
accessible,  
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analysis of  
state and local  
budget and tax  
issues*

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## THE GREATER THE FALL, THE TOUGHER THE CLIMB:

North Carolina Struggles to Replace Jobs Lost to Great Recession

### KEY FINDINGS:

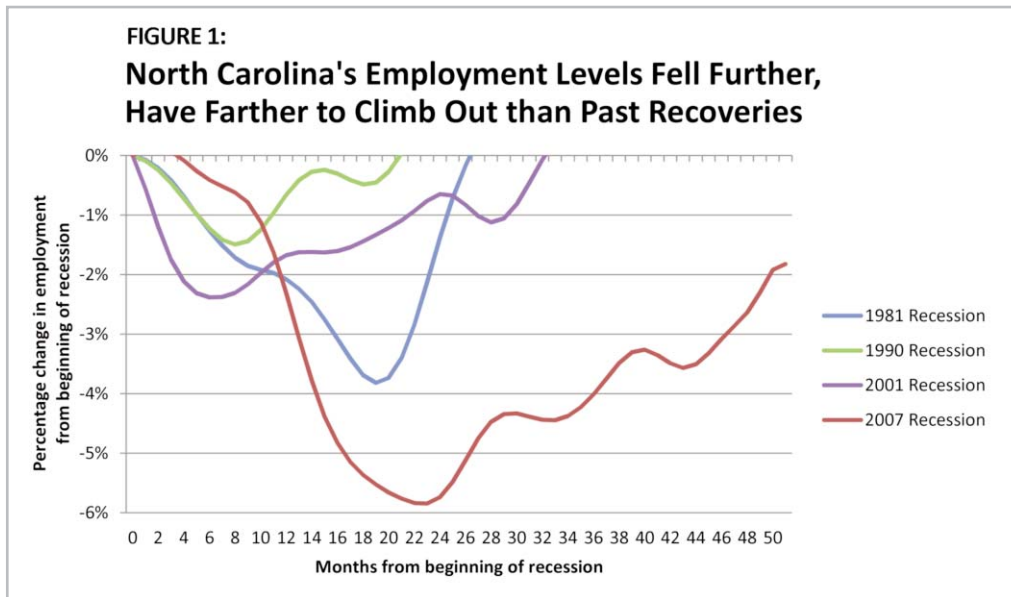
- **During the Great Recession, North Carolina's employment rate fell faster and farther than in any recession in the last 30 years. As a result, the state's labor market has taken significantly longer to recover, leaving larger numbers of workers unemployed for longer periods of time than in the past.**
- **By this same point in previous recoveries, the state's job losses had been completely replaced, while in the current recovery, North Carolina still faces a jobs deficit of 532,500 and a higher unemployment rate (9.4%) than the nation as a whole (8.1%).**
- **In the nation as a whole, there are 2.9 workers for every single open job, and given the extent to which North Carolina is lagging behind the national average, it is likely that the state's workers face even longer odds in finding scarce job openings.**
- **North Carolina's lagging recovery is largely the result of a pre-recession labor force concentrated in those sectors that experienced the steepest job losses during the recession.**

AS THE GENERAL ASSEMBLY RECONVENES for its short session, jobs and the economy remain a top priority for workers, businesses, and policymakers across North Carolina. Despite the recent positive news of ongoing improvements in the jobless rate, the state's labor market continues to struggle, as large numbers of workers continue to face a crippling inability to find employment due to the fundamental absence of available job opportunities.

### Workers Fall Farther, Face Tougher Climb after Great Recession

In recent months, North Carolina's labor market has seen significant improvement, with the state's unemployment rate dropping from 10.4 percent last December to 9.4 percent in April.<sup>1</sup> Despite this good news, workers are still struggling to find available employment opportunities, and the state's recovery from the Great Recession is clearly lagging behind both the nation as a whole and the state's past job creation rates during previous economic recoveries, including the recoveries from the recessions that began in 1981, 1990, and 2001.

Compared to the recent past, North Carolina's recovery from the Great Recession has taken much longer—and faced a much longer climb out—to recapture all of the jobs lost than during these previous three



SOURCE: Local Area Unemployment Survey.

recessions. In April, North Carolina’s economy entered the 52nd month since the beginning of the Great Recession in December 2007.<sup>2</sup> As seen in **Figure 1**, by this same point in the previous three recoveries, the state’s economy had already replaced all of the jobs lost from the downturn and had experienced significant positive employment growth. In fact, these jobs were replaced an average of 25 months sooner than in the current business cycle,<sup>3</sup> which has yet to create

enough jobs to catch up to employment levels that existed in the state at the outset of the recession.

Fifty-two months after the beginning of the Great Recession, North Carolina still has a higher unemployment rate and a smaller share of its residents employed than at this same point in previous business cycles. At the 52nd month after the start of previous recessions, the state’s unemployment rate stood at 5.1 percent in November 1985, 4.2 percent in November 1994, and 5.4 percent in July 2005—all well ahead of the current jobless rate of 9.4 percent.<sup>4</sup>

As stark as these contrasts are, the differences in the unemployment rates actually understate the challenge facing the state’s labor market because this most-commonly used measure of unemployment actually ignores those discouraged workers who have dropped out of the labor force. A better measure of the actual jobs picture is the percentage of the state’s working-age population currently employed (measured by the Employment-to-Population Ratio), which paints an even more difficult picture of the state’s joblessness relative to past recoveries.

In the recessions beginning in 1990 and 2001, the percentage of North Carolinians employed never dropped below a relatively healthy 62 percent. Even during the most serious previous recession in the last 30 years—the 1981 recession—the share of employed workers only dropped below 60 percent for three months before climbing back into the mid-60s. In contrast, North Carolina’s experience in the current recovery is significantly different—the employment-to-population ratio fell calamitously through the middle of 2009 to below 57 percent, where it has largely remained for the 34 months since the formal end of the recession.<sup>5</sup> In April, the percentage of working-age North Carolinians with jobs fell to 56.6 percent, suggesting that not only is the state struggling to replace the jobs lost to the Great Recession, but it is also failing to provide sufficient new job creation to employ people who move to

**FIGURE 2: North Carolina's Job Creation Rates Lag Previous Recoveries**

Recession	52nd Month Since Start of Recession	Unemployment rate at 52nd Month	Employment-to-Population Rate at 52nd Month	Number of Months to Peak Employment
1981 Recession	Nov-85	5.1%	63.4%	29
1990 Recession	Nov-94	4.2%	64.5%	21
2001 Recession	Jul-05	5.4%	62.7%	33
2007 Recession	Apr-12	9.4%	56.6%	unknown

SOURCE: Local Area Unemployment Survey.

North Carolina and young adults entering the workforce. Taken together, these two factors produce the state’s jobs deficit, which has increased from 520,000 in February to 532,500 in April,<sup>6</sup> an ominous trend for the state’s long-term jobs picture.

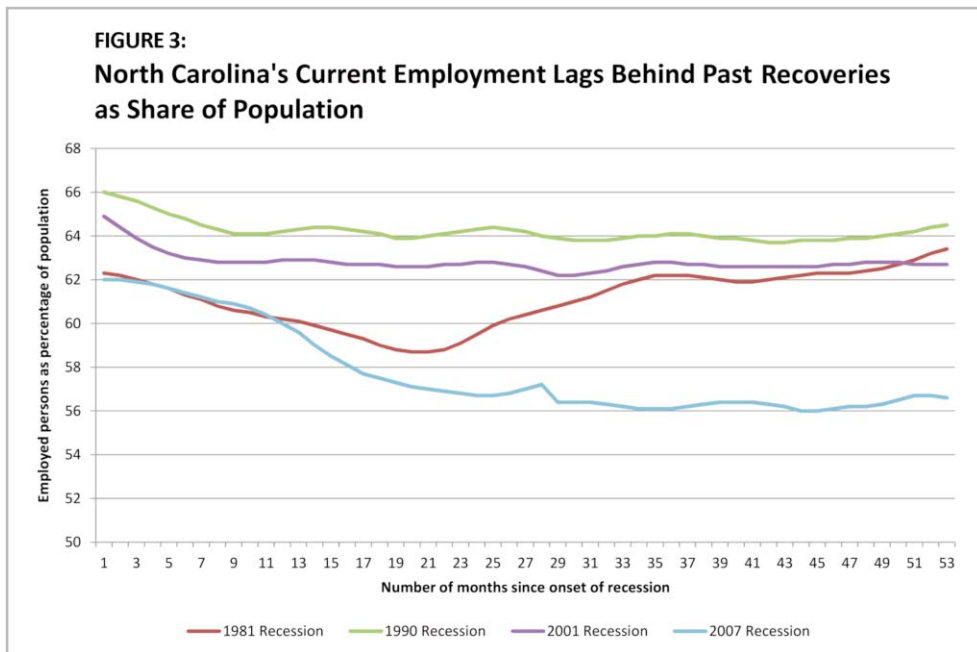
### North Carolina Lags Behind the National Recovery, Has More Workers Looking for Fewer Jobs

Although the depth of the national economic downturn has contributed to both the state’s dramatic job loss during the 2007 recession and stubbornly weak employment gains after the recession’s end, North Carolina’s recovery is also lagging behind the national recovery. While the state’s unemployment rate topped 11.4 percent in January 2010 and only dropped below 10 percent this February, the national

jobless rate dropped below 10 percent in November 2009 and has stayed there ever since.<sup>7</sup> Similarly, despite employing a greater percentage of its population in the months prior to the beginning of the recession in December 2007, North Carolina has seen its employment-to-population rate collapse to well below the national average for most of the past five years (Figure 3).

In both North Carolina and the nation, the central challenge facing workers is the nonexistence of available jobs. National labor surveys report that there is only one private-sector job opening

available for every 2.9 unemployed workers seeking that job.<sup>8</sup> Although there is no similar survey at the state level, it is a virtual certainty that the number of unemployed North Carolinians for every available job opening is significantly higher than the national average, given the considerable extent to which the state’s labor-market recovery is lagging behind the national average.



SOURCE: Local Area Unemployment Survey.

### Lack of Post-Recession Job Creation Results from Pre-Recession Vulnerability in Key Industries

One key explanation behind the state’s lagging performance involves the economic vulnerability of key industries prior to the onset of the Great Recession and the over-concentration of the state’s labor market on the employers in those industries. In absolute terms, the state lost 218,600 jobs from December 2007 through April 2012, a number which includes eight sectors that lost 263,200 jobs over the period and three sectors that gained jobs (Figure 4).<sup>9</sup>

Unfortunately, North Carolina’s workers at the outset of the recession were largely concentrated in the eight sectors that have seen overall job losses since the recession—and workers were highly concentrated in the four sectors experiencing the largest number of job losses in the months since December 2007. While 58 percent of the state’s workers were employed by all eight “losing” sectors in

**FIGURE 4: Recession-related Job Losses Stem from Pre-Recession Vulnerability**

HIGH LOSS

Sectors that Lost Jobs	Share of Total Employment	Share of Total Jobs Lost
Manufacturing	13%	37%
Construction	6%	30%
Trade Transportation and Utilities	19%	18%
Other Services	4%	8%
Financial Activities	5%	4%
Information	2%	2%
Leisure and Hospitality Services	10%	1%
Mining and Logging	0%	0%
<b>Total Jobs Lost</b>	<b>58%</b>	<b>100%</b>
Sectors that Gained Jobs	Share of Total Employment	Share of Total Jobs Gained
Government	17%	16%
Professional and Business Services	12%	32%
Education and Health Services	13%	52%
<b>Total Jobs Gained</b>	<b>42%</b>	<b>100%</b>

SOURCE: Current Employment Survey

2007, fully 42 percent of the state’s employment base worked in four “high-loss” sectors that account for 93 percent (or 245,100) of the 263,200 jobs lost since the recession started. In effect, North Carolina’s workforce depended the most on jobs in those industries that have suffered the most from the recession.<sup>10</sup>

Within these high-loss sectors, Manufacturing and Construction stand out in particular for the extent to which North Carolina’s workforce specialized in these

sectors relative to the nation as a whole. In other words, a greater share of the state’s workers was employed in Manufacturing and Construction than the nation’s workforce on average. This comparative over-concentration in Manufacturing and Construction employment rendered North Carolina especially vulnerable when the recession disproportionately affected these sectors.

Moreover, the specific manufacturing industries in which the state specialized prior to the recession—the so-called legacy industries of textile, tobacco, and furniture manufacturing—were those most susceptible to offshoring, which to some degree explains why North Carolina’s manufacturing base has failed to recover at the same pace as those in other states with more deeply rooted, less-mobile industries. Having lost these important but vulnerable pre-recession pillars of its employment base, the state now faces the challenge of shifting its workforce away from these declining sectors and toward sectors and industries more likely to experience long-term growth and stability—a challenge exacerbated by the anemic job creation experienced by the three “growing” sectors since the recession began.

## Conclusion

As North Carolina’s elected officials continue to grapple with the challenges of sustained high unemployment and an anemic economic recovery, their deliberations need to recognize the reality facing the state’s labor market—due to a brutal downturn at the national level, the state’s employment fell farther in the Great Recession than in any recession in 30 years, and pre-recession over-specialization in vulnerable industries for the state’s employment base has contributed to a slower recovery for North Carolina than for the nation as a whole. As a result, North Carolina’s workers face unusually high levels of unemployment and—with more than 2.9 workers believed to be competing for every available job opening—a critical absence of available employment opportunities. This represents the key challenge facing the state’s policymakers.

1 Local Area Unemployment Survey. (2012). NC Division of Employment Security, April 2012.  
 2 National Bureau of Economic Research. (2010). US Business Cycle Expansions and Contractions. NBER Working Papers.  
 3 BTC analysis of Local Area Unemployment Survey.  
 4 *Ibid.*  
 5 *Ibid.*  
 6 Analysis of Local Area Unemployment Survey data by the Economic Policy Institute.  
 7 BTC Analysis of Local Area Unemployment Survey.  
 8 Job Openings and Labor Turn-over Survey, Bureau of Labor Statistics. Table A. Job openings, hires, and total separations by industry, seasonally adjusted.  
 9 BTC Analysis of Current Employment Survey, NC Division of Employment Security.  
 10 *Ibid.*