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State's Jobless Rate May Have Peaked, Economists Say

By Jan Cottingham - 3/15/2010

When it comes to its unemployment rate, Arkansas could easily twist the old saw "thank God for Mississippi" into "thank God for the rest of the nation."

Reporting a 7.6 percent jobless rate in January, the state ties with Wyoming at No. 17 for the lowest rate of unemployment in the United States, according to the federal Bureau of Labor Statistics.

Arkansas' unemployment picture is in "less worse" mode, as University of Arkansas economist Kathy Deck puts it. That's both less worse than the national rate in January of 9.7 percent and less worse than some in the state had feared it might become.

Asked how high Arkansas' unemployment might climb during the current recession before it begins to level off or decline, state Chief Economist Michael Pakko said, "I think that we're going to see it not go any higher than it is right now."

He spoke last Tuesday, the day before the state Department of Workforce Services released its jobless report for January. That report also noted that the U.S. Department of Labor had revised Arkansas' December rate downward, from 7.7 percent to 7.6 percent, though it revised the November rate upward from 7.4 percent to 7.6 percent. In other words, the jobless rate in Arkansas has been flat for the three most recent months for which data is available.

"The statistical models I was working with for forecasting unemployment were showing that we were going to peak out somewhere above 8 percent," said Pakko, who also holds the title of state economic forecaster and who works at the Institute for Economic Advancement at the University of Arkansas at Little Rock.

"And I don't think that that's likely to be happening given the current circumstances."

"The level we're at right now is going to be the peak, and we're going to start to see that come down in the future," Pakko said.

Deck, also interviewed the day before the release of the state's unemployment report, said, "I would be shocked if we saw substantial gains. I think it will likely be more of the same.

"We didn't get to where we are in terms of job losses in a single month or a day, and it's certainly going to take much longer than one or two months for us to start feeling any real gains," said Deck, director of the Center for Business & Economic Research at the UA at Fayetteville.

The Workforce Services unemployment report for January validated the views of both economists.

Job Losses Continue

As far as winners and losers in the state's unemployment picture, the losers still outnumber the winners, as a quick snapshot from the Workforce Services Department shows. Arkansas saw 400 more people employed in January but 700 more unemployed.

On average, six workers are vying for every job opening, according to the U.S. Labor Department's latest figures, from July. The average length of unemployment was more than six months as of late 2009, the longest stretch since the Bureau of Labor Statistics started monitoring that measure in 1948.

"Less worse" mode may be one facet of the "new normal," and no one quite knows yet what that is.

Between 2007 - the government says the recession nationwide officially started in December of that year - and 2009, Arkansas experienced the greatest number of job losses in employment services; general freight trucking; motor vehicle body and trailer manufacturing; newspaper, periodical, book and directory publishers; and motor vehicle parts manufacturing.

Looking at the big-picture categories in Arkansas, manufacturing (16,600); trade, transportation and utilities (11,700) and construction (3,700) have lost the most jobs between January 2009 and January 2010.

Of course, some sectors have held up. Pakko and Deck both cited health care. The educational and health services sector had 6,700 more jobs in January 2010 compared with January 2009.

Pakko called health care "the one sector that has fared very well throughout the recession."

"That's a trend that predated the recession," Deck said. "Obviously, the whole reason we're having a health care debate at the national level is that health care is becoming an ever-more important and large piece of the economy. And that shows up not just from the cost side but from the employment side as well."

A Workforce Services report on the industries projected to experience the fastest job growth through 2016 confirms that. The health care and social assistance sector is projected to add 37,822 jobs by 2016.

Deck noted some stability, or at least the operation of the "less worse" factor, in the mining and logging sectors. "We're still reaping the benefits of the Fayetteville Shale. ... We were recipients of very good timing in terms of the development of the Fayetteville Shale."

Nevertheless, the latest report from the state showed 1,200 fewer mining and logging jobs in January 2010 (9,400) compared with January 2009 (10,600).

Not surprisingly, the government sector continues relatively strong. Deck and Pakko, while acknowledging the criticism the federal stimulus package has faced, both credit it with propping up that sector - and maintaining jobs.

"Of course, that could be interpreted different ways, depending on your outlook," Pakko said.

"When we look at the effect of the federal stimulus and we look at the relative health of our state's economy - I know we've had some budget cuts and we've seen our fiscal situation deteriorate to some extent, but we still find ourselves in much, much better shape than the majority of state governments," Deck said. "Of course, much of the [federal] stimulus was designed to cut off losses from that state and local level of government."

Between January 2009 and January 2010, government - federal, state and local - added 3,000 jobs in Arkansas.

As for private-sector jobs returning, the economy, including Arkansas', remains caught up in the realm of - choose your cliché - chicken or egg, cart before horse, Catch-22, vicious circle.

"It's all interrelated," Pakko said of unemployment and a rebound in the economy.

"We want to see the consumer sector come back with confidence, and that can only happen if people aren't concerned about losing their jobs and if those who are unemployed find gainful employment again. It's hard to say which comes first, the chicken or the egg, whether we see employment pick up or consumer confidence pick up. It's kind of a matter of both simultaneously emerging as positive sentiment comes back to prevail."

"The sunshine is coming out," Deck said. "Let us remember that we are still experiencing the business cycle. Right now, we're on the upside. We coming out of the trough and we're clawing our way up.

"Employment will follow GDP growth. We've seen several good quarters now. The firming up of some of our underlying economics means that employment growth will eventually come. We just have to keep that underlying growth going long enough for employers to feel comfortable," she said.

"I hear a lot of anecdotal stories about small businesses, for example. I was talking to a landscaping company the other day," Deck said. "And I asked, 'Are you busy?' 'Yeah, yeah, we're real busy.' And I said, 'That's great news.' And they said, 'Yeah, but I'm not going to hire another guy because right now I have work for all my folks. And I'm afraid that if I hired another guy, I wouldn't have enough to go around.'

"Until we all feel like we can take a little more risk we're going to be where we are. So we have to feel like there's a reward to taking risks again."

Searching for Stability

Deck and Pakko said the best thing that government can do now to assist the economy and, by extension, the unemployed is restore stability.

"The best policies for producing jobs are to create an environment that limits uncertainty," Pakko said. "I think that right now, particularly on the federal level, there are a lot of new programs, a lot of changes. Those are quite possibly necessary and good changes, but in the meantime, there's a lot of uncertainty about how these policies are going to affect the labor markets."

"I think the most important thing government can do is get rid of uncertainty," Deck said. "Right now there's a lot of uncertainty about what future policy is going to look like, what tax rates are going to have to look like.

"From my perspective, they need to make a decision, put it in place and get on with it. Let businesses know what the environment is going to be, and then they'll make their decisions appropriately."

Gary Burtless, a senior fellow in economic studies at the Brookings Institution in Washington, D.C., researches labor market policy and worked as an economist with the U.S. Department of Labor. Burtless, though he says he's not an economic seer, holds out hope in the form of the unexpected.

"I've never been through a recession where we find a huge number of optimists," Burtless said. "We didn't see any in 1982 or '83. We didn't see any in 1991 and '92. I don't think we saw any in 1975 or '76 either. People tend to be very pessimistic at the end of severe downturns just as they were optimistic in the last two or three years of a lengthy boom."

However, Burtless said, "It does sometimes occur that we have unexpectedly good news."

In the mid-1980s, energy prices plummeted, giving a push to the economic recovery nationwide. "It was the equivalent of a big tax reduction, and it did give a lot of impetus to a consumer boom," Burtless said.

The 1990s saw a surge in productivity that helped pull the United States out of the economic doldrums it had entered in the early part of the decade.

"In recessions, especially severe ones, people tend to be very, very gloomy, and they don't see any source of future improvement," Burtless said. "But sometimes, those future improvements come along."
