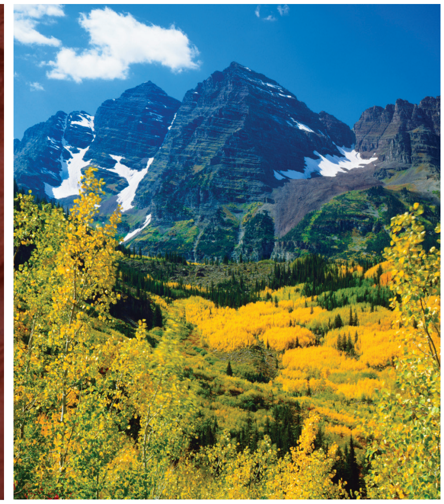
THE Rocky Mountain ECONOMIST:

Economic information for Colorado, New Mexico and Wyoming



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Recession and Recovery in the Mountain States

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The recession of 2007-09 was distinct from other post-World War II recessions for many reasons. Employment declines were steeper, and the duration of both the recession and recovery were longer. The Mountain States also deviated from their historical employment trends during national recessions by suffering job losses that were slightly more severe than the national average. This issue of the Rocky Mountain Economist examines historical employment trends in recessions and recoveries for Colorado, New Mexico and Wyoming and discusses how the recent recession has differed.

Historical Trends in the Mountain States

Prior to the recent recession, the Colorado, New Mexico and Wyoming economies have fared relatively well during national recessions and recoveries. Employment growth in these states has been stronger than the nation on average in the years prior to and following recessions from the mid-1950s through the mid-2000s.

Colorado, New Mexico and Wyoming have shared fairly similar employment growth trends during the recessions from 1957 to 2001. Chart 1 shows U.S., Colorado, New Mexico and Wyoming employment from the 12 months prior to the start of a national recession through the 24 months following. Employment is indexed to equal 100 at the start of a recession, as defined by the National Bureau of Economic Research (NBER), which is labeled *t* on the horizontal axis. The colored lines in the chart represent the average employment index around

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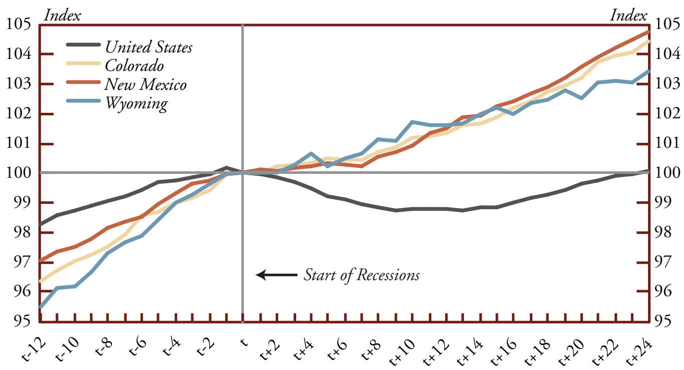
Chart 1

Average Employment Growth around the Eight Recessions from 1957 to 2001



Notes: Employment is indexed to 100 during the first month of a U.S. recession, labeled t. The values around t refer to the number of months away from the start of the recession. For example, t-12 refers to 12 months prior to the start of a recession. The indices represent the average of the eight recessions from 1957 to 2001.
Source: Authors' calculations based on data from the Bureau of Labor Statistics.

the eight recessions starting with 1957, excluding the most recent recession beginning in 2007.[1]

As shown in Chart 1, employment growth in Colorado, New Mexico and Wyoming deviates from the national trend in the months preceding and following the start of a recession. Prior to the start of a recession (*t*), each state's employment index is below the U.S. line. This indicates that employment growth on average in Colorado, New Mexico and Wyoming was faster than the nation in the 12 months prior to a recession. In the year prior to a recession, Colorado, New Mexico and Wyoming had average annual employment growth of 3.8 percent, 3.0 percent and 4.7 percent, respectively, compared to growth of 1.8 percent in the United States. Similarly, the steeper slopes for the three states after *t* indicates faster employment growth than the nation in the months following the start of a recession. Historically, employment in Colorado, New Mexico and Wyoming has grown faster than U.S. employment since 1957.

During the eight recessions from 1957 to 2001, U.S. employment declined for 14 months on average and returned to pre-recession levels 25 months after the start of a recession, or one year after the trough in employment. On average, the Colorado, New Mexico and Wyoming economies have entered these recessions late with peak employment levels occurring about five months after the beginning of the national recession. In addition to entering each recession late, the Mountain States have experienced smaller decreases in employment on average and recovered faster than the nation. The average duration of employment declines (from employment peak to trough) for these states was one to two months—much shorter than the 14-month declines on average in the United States. Furthermore, the declines in employment were fairly shallow in the Mountain States, with Colorado and New Mexico each decreasing 0.1 percent and Wyoming decreasing 0.5 percent on average. This was in contrast to a 1.4-percent decrease in U.S. employment on average during these eight recessions. Finally, the Mountain States returned to their pre-recession peaks one to two months after reaching their troughs, again much shorter than the 12-month recovery period in the United States.

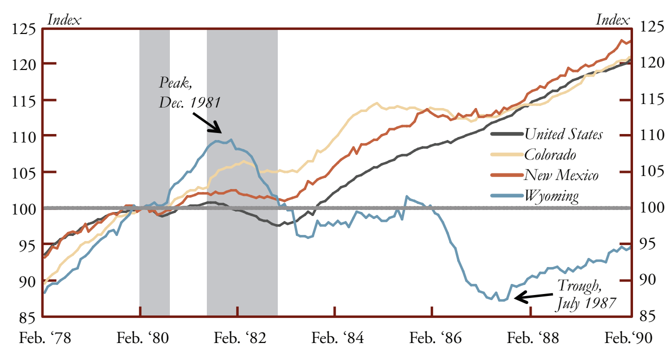
The pattern of Colorado, New Mexico and Wyoming each entering a recession late, experiencing a shallower decline in employment and recovering before the United States is fairly consistent across recessions starting in 1957 with two large exceptions: Wyoming in 1981 and Colorado in 2001.

The 1980s Recessions

In the early 1980s, the United States experienced two consecutive downturns, with the second and more severe downturn occurring in the 1981 recession, which lasted longer and produced sharper declines in employment than the first. The first recession began in February 1980 and lasted six months; the second began in August 1981

Chart 2

Employment Growth around the 1980s Recessions



Note: Shaded bars indicate recession. Employment is indexed to equal 100 in February 1980, the first month of recession.
Source: Authors' calculations based on data from the Bureau of Labor Statistics.

and lasted 16 months. Consistent with the high growth trends discussed above, employment in Colorado and New Mexico fell less and recovered faster than the nation during the 1980s recessions.

In contrast, employment growth in Wyoming was strong ahead of the 1980 recession before experiencing a very minor two-month decline during the recession. Employment in Wyoming then grew rapidly until December 1981, a few months after the United States had officially entered the 1981 recession (Chart 2). From July 1980 to December 1981, Wyoming's employment grew 9.1 percent, much faster than that of Colorado, New Mexico and the United States over the same period. Wyoming's strong employment growth was aided by the energy sector, which was bolstered by high energy prices due to conflict in the Middle East (specifically the Iranian Revolution), domestic price regulation and gas shortages.

As energy prices decreased and energy markets stabilized, Wyoming finally began to experience the effects of the recession that already had been felt in the U.S. for several months. Wyoming employment peaked in December 1981 and started to decline, reaching its trough in July 1983. From peak to trough, Wyoming employment declined 12.3 percent. From July 1983 to July 1985, employment rebounded, increasing 5.9 percent. But then, in the second half of 1985 to early 1986, oil prices decreased by more than half, putting added strain on the Wyoming economy and leading to a 14.1-percent decline in employment. From its peak in December 1981 to its trough in July 1987, Wyoming employment fell 20.3 percent and did not surpass this peak until February 1998.

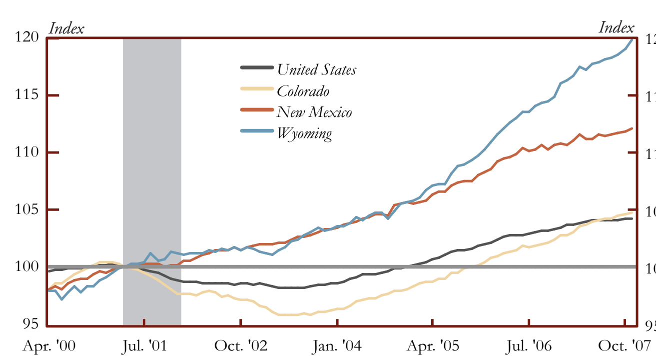
The 1980s illustrate Wyoming's heavy dependence on energy markets. Wyoming employment growth frequently follows the performance of this sector more closely than it tracks other factors affecting national employment growth.

The 2001 Recession

Another outlier in historical employment growth trends among the Mountain States is the Colorado economy during the 2001 recession. Colorado's deviation from historical employment trends around recessions is not as significant as the 1980s energy crisis in Wyoming. Instead, the Colorado economy in the early-to-mid-2000s followed the national economy more closely than it had

Chart 3

Employment Growth around the 2001 Recession



Notes: Shaded bar indicates recession. Employment is indexed to equal 100 in April 2001, the first month of recession.
Source: Authors' calculations based on data from the Bureau of Labor Statistics.

in previous recessions, but with a deeper trough and longer recovery than the nation (Chart 3).

Colorado employment was growing faster than U.S. employment prior to the 2001 recession. In contrast to previous recessions, Colorado entered the recession slightly before the nation, with employment decreasing 4.6 percent over 31 months before reaching its trough in June 2003. The effect on the U.S. economy was a more moderate decline in employment of 2 percent over 30 months. The sharper decline in the Colorado economy during the 2001 recession was due in part to Colorado's heavy reliance on technology and information services in the years prior to the recession. When the dot-com bubble popped in the early 2000s, Colorado was affected more than the nation.

Colorado spent the next 30 months slowly regaining lost employment and finally regained its previous employment peak in December 2005. The U.S. economy recovered faster, reaching its previous peak in February 2005, 18 months after its trough.

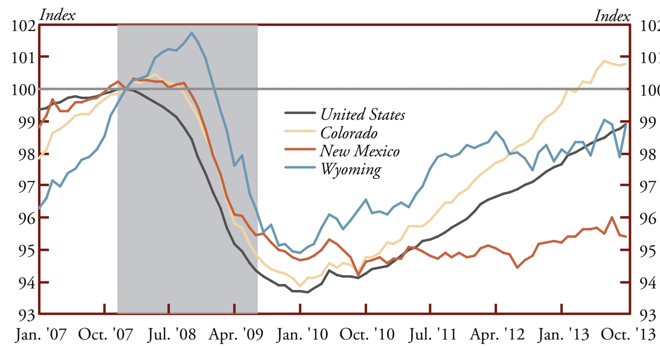
In contrast, New Mexico and Wyoming were minimally affected by the 2001 recession, with only one month of declining employment in each state. As employment fell in Colorado and the United States, New Mexico and Wyoming performed relatively well. New Mexico was one of the few high net-migration states, helping it weather the recession with minimal job losses. Wyoming's economy was supported by growth in the energy sector due to higher energy prices.

The 2007-09 Recession and Recovery

The 2007-09 recession stands apart from past recessions in both the severity of the downturn and the duration of the recovery. At the national level, employment declined more than 6 percent from January 2008 to February 2010. After almost four years of employment gains, U.S. employment still remains about 1 percent below its previous peak.

Although Colorado, New Mexico and Wyoming entered the recession late, employment in all three states fell more than 6 percent from peak to trough (Chart 4). Every industry in the private sector in these states experienced job losses during the recession except private educational and health services. Employment declines in the construction, energy and manufacturing sectors were particularly severe, with construction employment falling

Chart 4
Employment Growth around the 2007 Recession



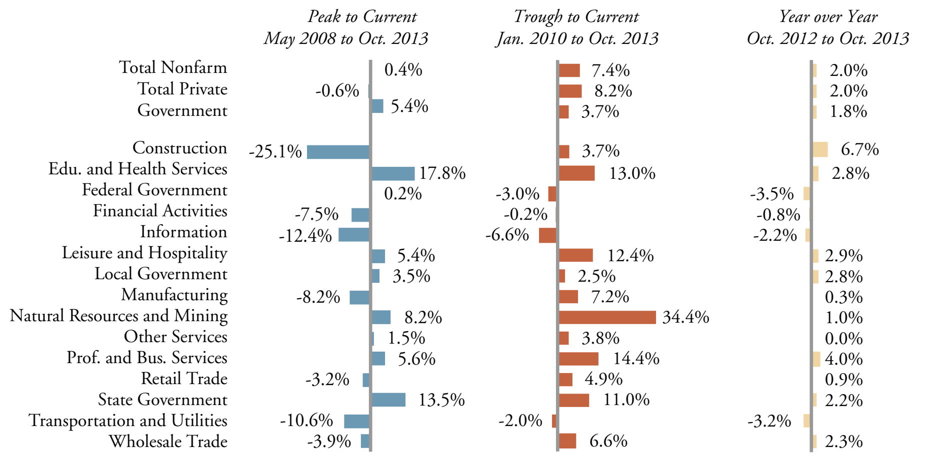
Note: Shaded bar indicates recession. Employment is indexed to equal 100 in January 2008 the first month of recession.
Source: Authors' calculations based on data from the Bureau of Labor Statistics.

more than 20 percent in Colorado, New Mexico and Wyoming. Employment in each state has now increased from trough levels, but the pace and shape of the recovery in each state has differed.

The **Colorado** economy started to recover from the recent recession at about the same time as the nation, with employment gains beginning in early 2010. In each year of the recovery, employment growth in Colorado has outpaced national gains. With a stronger recovery, employment in Colorado has surpassed its previous peak. The recovery has been broad-based and most industries have expanded since early 2010 (Chart 5). Employment gains have been particularly strong in the energy, professional and business services, leisure and hospitality, healthcare and state government sectors, with increases of more than 10 percent in each industry. Over the past year, construction activity has strengthened, leading to a 6.7-percent increase in construction employment.

Despite employment increases over the last several years, employment remains below peak levels in many industries. In particular, construction employment is still 25 percent below peak levels in Colorado.

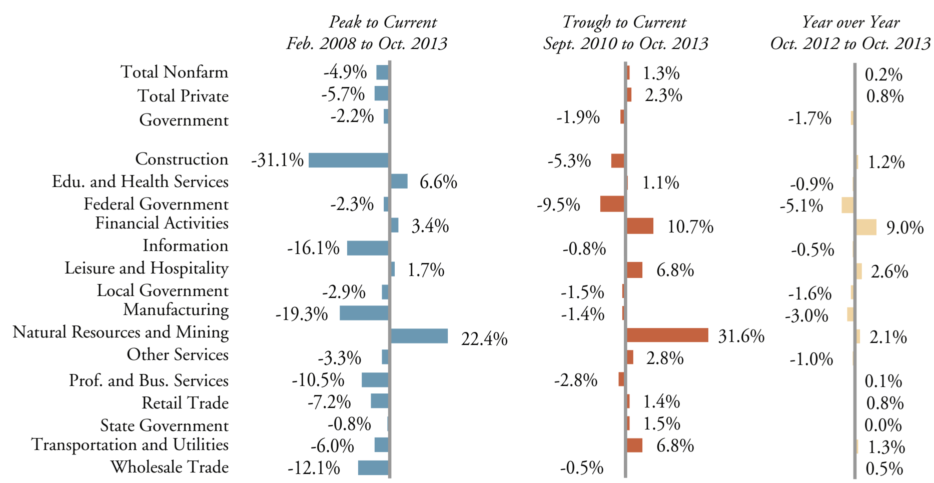
Chart 5
Colorado Employment Growth by Sector



Source: Authors' calculations based on data from the Bureau of Labor Statistics.

The **New Mexico** economy has struggled to recover from the recent recession, and has lagged the nation in employment gains over the past four years. Although the trough in New Mexico employment occurred in September 2010 (seven months after the U.S. trough), employment remained fairly flat through mid-2012. Employment has rebounded since then in New Mexico, increasing about 1 percent. A majority of private-sector industries has added jobs over the past year, with particularly strong gains in the energy, leisure and hospitality and finance sectors (Chart 6). However, employment in New Mexico remains almost 5 percent below peak levels. In fact, employment is still more than 10 percent below peak levels in several industries including construction, manufacturing, information, wholesale trade and professional and business services. After providing a boost early in the recession, the federal government sector has been a drag on New Mexico employment over the past few years.

Chart 6
New Mexico Employment Growth by Sector

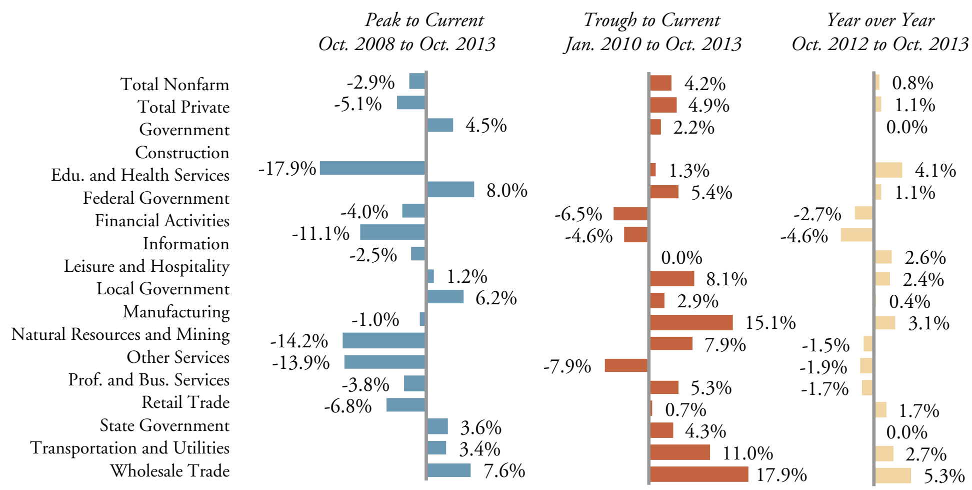


Source: Authors' calculations based on data from the Bureau of Labor Statistics.

Following a sharp decline during the recession, employment in **Wyoming** started to increase in early 2010, about the same time as national employment. In the first two years of the recovery, employment gains in Wyoming outpaced national gains and were driven primarily by sharp increases in the energy sector. Employment also grew significantly in manufacturing, transportation, wholesale trade and professional and business services, due in part to their ties to the energy sector (Chart 7). As the energy sector slowed, employment levels fell slightly in 2012 and early 2013. Over the last

Chart 7

Wyoming Employment Growth by Sector



Source: Authors' calculations based on data from the Bureau of Labor Statistics.

several months, however, employment has increased and is up 0.8 percent from year-ago levels, led by gains in the construction, wholesale trade and manufacturing sectors. Employment in Wyoming has increased more than 4 percent from its trough, but still remains nearly 3 percent below peak levels because of the severity of the downturn.

Endnote

[1]Includes recessions beginning in 1957, 1960, 1970, 1973, 1980, 1981, 1990 and 2001.