

The Adult Recession

Age-Adjusted Unemployment at Post-War Highs

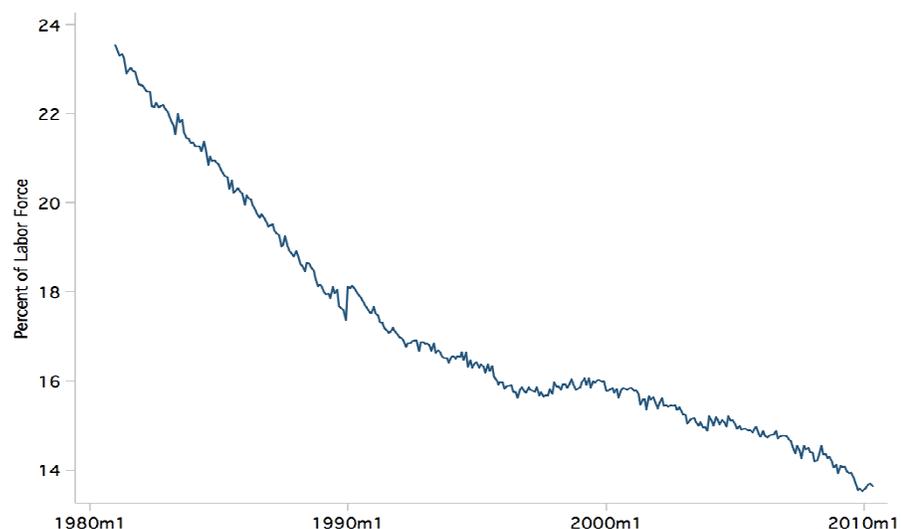
BY DAVID ROSNICK*

Since the Great Depression, the worst episode of unemployment came in the second half of 1982 and the first half of 1983. Over that time, the unemployment rate stayed above ten percent from September through June—reaching 10.8 percent of the labor force in November and December of 1982. By comparison, the unemployment rate broke 10 percent in only one month in the recent downturn—10.1 percent in October 2009.¹

A naïve examination of the raw unemployment rates would suggest that the downturn of the early 1980s resulted in a labor market even weaker than what we have experienced as a result of the collapse of the housing bubble. However, the demographics of the labor force have changed significantly over the last quarter century. Most importantly, the labor force has grown older since the early 1980s. This is important in considering the unemployment rate over time, as younger workers are much more likely to be unemployed than older workers.²

Figure 1 shows the percentage of the labor force aged 16-24 since 1981.³ Significantly, the young worker share of the labor force has fallen nearly by half in the last thirty years.

FIGURE 1
Share of Labor Force Under Age 25



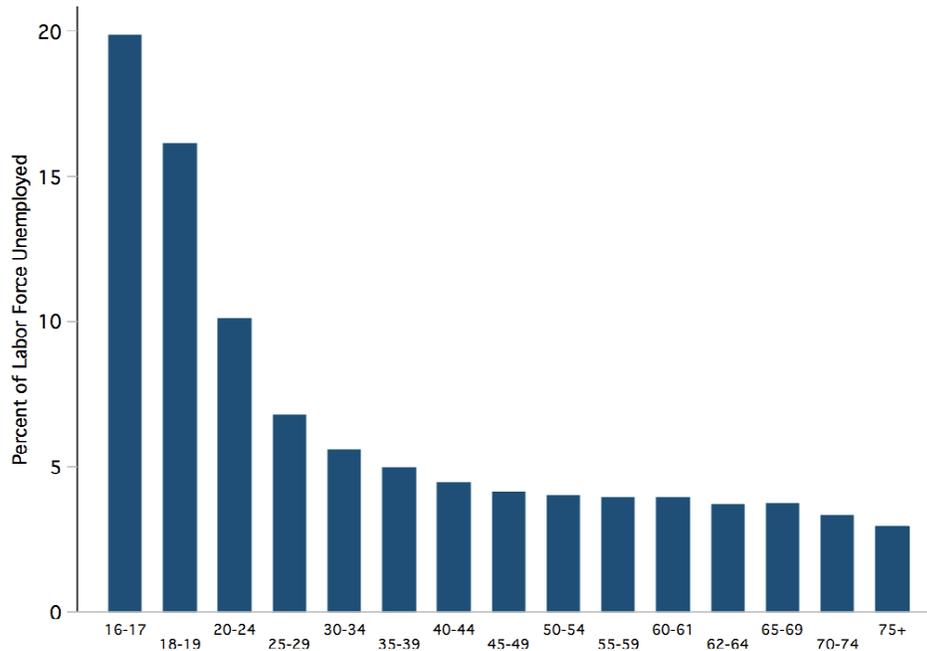
Source: Bureau of Labor Statistics

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As the labor force ages, we should expect unemployment to fall. Older workers have more experience, and, once out of school, find longer-term employment. As seen in **Figure 2**, unemployment is skewed heavily toward younger workers. While the average unemployment rate among those under 20 is more than 15 percent, the rate for those 35 and over is less than 5 percent.

FIGURE 2
Average Rate of Unemployment By Age, 1981-2010

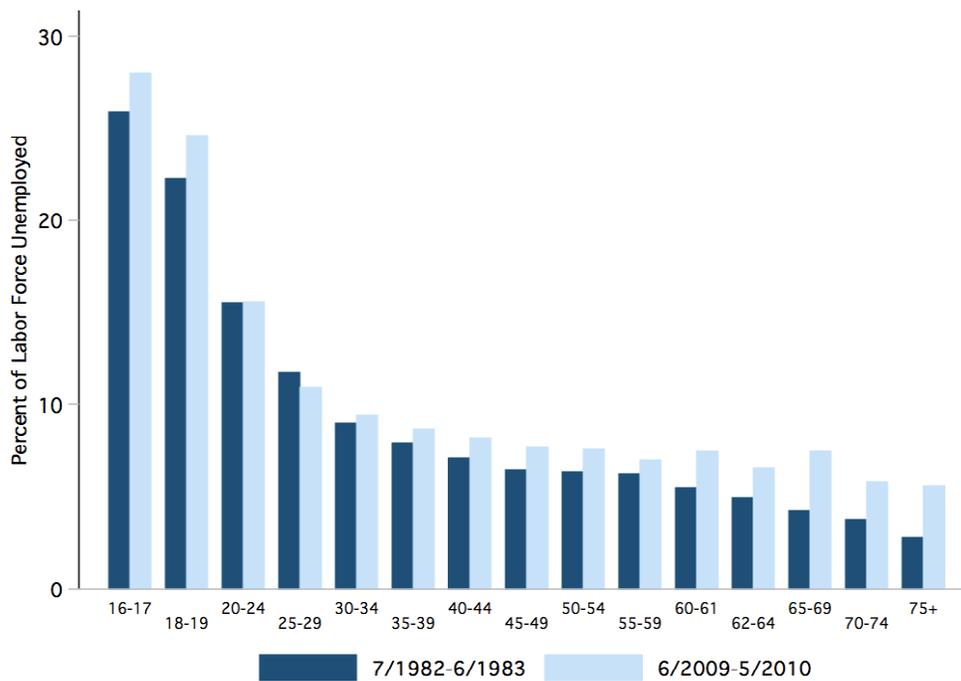


Source: Bureau of Labor Statistics

Taken together, Figures 1 and 2 suggest that over time, raw unemployment rates may not be quite comparable indicators of labor market strength. In particular, ten percent unemployment in 2010 implies a weaker labor market than ten percent unemployment in 1983.

To visualize this composition effect, **Figure 3** shows the twelve-month average rate of unemployment by age group in two periods. The first period starts in July of 1982 and ends in June of 1983 while the second period covers the twelve most recent months of data—June 2009 to May 2010.

FIGURE 3
Average Rate of Unemployment by Age



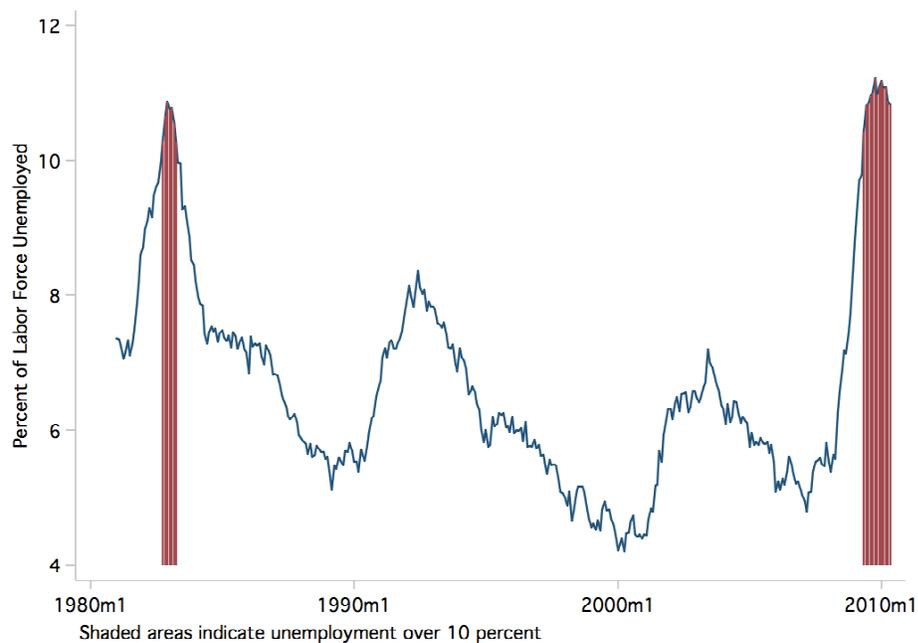
Source: Bureau of Labor Statistics

Strikingly, for nearly every age group the unemployment rate is higher today than it was during the worst of the early 1980s recession. Unemployment rates are much higher among the youngest workers (2.1 percentage points higher for 16-17 year-olds and 2.3 percentage points higher for 18-19 year-olds) and among the oldest workers (up to 3.3 percentage points higher for workers aged 65-69.) Only workers aged 25-29 have a lower rate of unemployment over the last twelve months (11.0 percent) than their counterparts did during the 1982-83 peak (11.7 percent).

If the labor force is adjusted to the (younger) age composition of the labor force during the 1982-83 peak, today's unemployment rate is actually higher, not lower than it was in 1982-83.⁴ **Figure 4** shows the age-adjusted unemployment rate since 1981.⁵

After adjusting for the aging of the population since the early 1980s, the current labor-market downturn has resulted in both a higher unemployment rate and a longer period when the rate of unemployment remained over 10 percent. The unemployment rate peaked in December of 1982 at 10.9 percent, yet fell to 9.9 percent by June of 1983. For seven months, the rate of unemployment held at over 10 percent. On the same age-adjusted basis, the unemployment rate has been over ten percent for thirteen consecutive months, including five months over 11.0 percent and reaching 11.2 percent in October of 2009. Over the last twelve months, the rate of unemployment has never fallen below 10.8 percent.

FIGURE 4
Age-Adjusted Unemployment Rate



Source: Bureau of Labor Statistics

Appendix: Construction of the Age-Adjusted Unemployment Rate

Labor market data by age group was obtained from the Bureau of Labor Statistics' Current Population Survey.⁶ From January 1981 to May 2010, not-seasonally-adjusted data on employment and labor force participation were available for the following age groups: 16-17, 18-19, 20-24, 25-29, 30-34, 35-39, 40-44, 45-49, 50-54, 55-59, 60-61, 62-64, 65-69, 70-74, and 75 and over.

Over the twelve months from July 1982 to June 1983, the labor force participation of each age group was averaged to compute the 1982-83 labor force share by age. In each month, the unemployment rate for each age group was computed directly from the employment level and labor force participation. The overall monthly unemployment rate was then calculated by weighting the unemployment rate for each age group by the 1982-83 share of the labor force.

Finally, the resulting series was seasonally adjusted using a simple regression of the calculated overall rate of unemployment against monthly dummy variables.

1 The unemployment rate was 10.0 percent in November and December of 2009.

2 There has also been a shift in survey coverage away from those most likely to be unemployed – depressing the measured unemployment rate – as John Schmitt and Dean Baker showed earlier in this economic crisis. See <http://www.cepr.net/index.php/publications/reports/us-unemployment-rate-as-high-as-it-was/>

3 As noted in the appendix, the labor market data by age group used in this paper begins in January of 1981.

4 See Schmitt, John and Dean Baker. 2009. "Is the U.S. Unemployment Rate Already as High as It Was in 1982?" Washington, D.C.: Center for Economics and Policy Research. Available at <http://www.cepr.net/index.php/publications/reports/us-unemployment-rate-as-high-as-it-was/>

5 The computed age-adjusted rates have been seasonally-adjusted.

6 <http://www.bls.gov/cps/>