EWU institute takes new look at unemployment

Professor says ‘natural’ unemployment rate here helps quantify job deficit

By Paul Read

Just how bad is Spokane County’s unemployment rate? We know the number and understand how it was calculated, but do we really understand what it means? Eastern Washington University professor David Bunting doesn’t think so.

That’s why Bunting, representing EWU’s Institute for Public Policy and Economic Analysis, set out recently to provide what he calls “relevance” to that much-watched indicator.

Bunting contends that while the unemployment rate can serve as a general economic barometer, it is much more useful when compared with what would be considered Spokane’s normal, or expected, unemployment rate. Taken further, he asks, if the current published rate is higher than that norm, how many net new jobs would need to be created here to get the rate back to normal?

“Questions of how bad or good the current unemployment rate is only can be answered by comparing it against some sort of ‘average’ or expected rate based on the long-term characteristics of unemployment in Spokane County,” says Bunting.

Bunting has begun calculating what he says is the expected—or “natural”—rate of unemployment for Spokane. Each time the expected rate is calculated, it’s based on what the unemployment rate has been for the previous five years. So, the expected rate changes as the nature of the area’s work force evolves in response to the development of new industries and the fading of older ones.

A natural rate of unemployment assumes that at any given time, there will always be some people in the labor force looking for work, whether times are good or bad—people just out of school, people looking for a better job, and the like, he says. “The unemployment rate never reaches zero,” he says.

His most-recent calculation puts Spokane’s natural unemployment rate at 5.8 percent for the first quarter of this year. The published preliminary average unemployment rate for that quarter, compiled by the Washington state Department of Employment Security, was 7.2 percent. The 1.4 point difference between the current and natural rates, under Bunting’s calculation, indicates that Spokane’s economy continues to suffer.

Just how badly it is suffering can be quantified, he says, by calculating how many net new jobs it would take to push the unemployment rate down to the natural level. In the first quarter, based on the preliminary data, that number would have been 3,044 jobs, he says.

“There are some pretty significant problems” in the economy here, Bunting says, adding that creating even a
few hundred net new jobs is “a stiff task.”

That task likely will be more difficult in the coming months, based on the recent announcements of more planned layoffs here, including at World Wide Packets and Software Spectrum Inc.

Still, although first-quarter numbers indicate a serious job deficit here, Bunting also points out that unemployment is always higher in the winter, so the job deficit could be well lower in the spring. In fact, Bunting expects the second-quarter 2003 job deficit to come in at between 900 and 1,500 jobs.

Also, compared with the previous two winter quarters, first quarter 2003’s deficit is lower, suggesting that the economy might be improving here. In the first quarter of 2002, for instance, the unemployment rate was 8.2 percent and the natural rate at the time would have been 5.5 percent, equating to a 5,717 job deficit, about 2,700 jobs higher than the first quarter this year, he says.

Looking back, Bunting’s calculations would have confirmed the relative prosperity Spokane was enjoying in 2000. In the third quarter of that year, Spokane’s unemployment rate stood at 4.9 percent, compared with the natural rate at the time of 5.2 percent, according to Bunting’s data. By his analysis, that meant Spokane had 587 more jobs than were needed to achieve a normal unemployment rate here.

Using Bunting’s calculations, Spokane also can be compared with the Seattle area. Back in that second quarter of 2000, the Seattle metropolitan area had an enviable unemployment rate of 3.7 percent, just below its natural rate at the time of 3.8 percent. That meant the Seattle area had nearly 1,500 more jobs than it needed to meet its average, Bunting says.

Move ahead, though, to the first quarter of this year—when the Spokane area needed about 3,000 jobs to bring its unemployment rate down to normal—and Seattle’s unemployment rate was 2.1 percentage points above its normal.

It now would take more than 30,000 net new jobs to bring Seattle’s rate down to its expected 4.5 percent rate, Bunting says.

He says that while the Seattle labor force is roughly seven times larger than Spokane’s, its current job deficit is 10 times larger. “These figures merely reconfirm the old adage that when times are good in Spokane, they are great in Seattle and when times are bad in Spokane, they are terrible in Seattle,” he says.