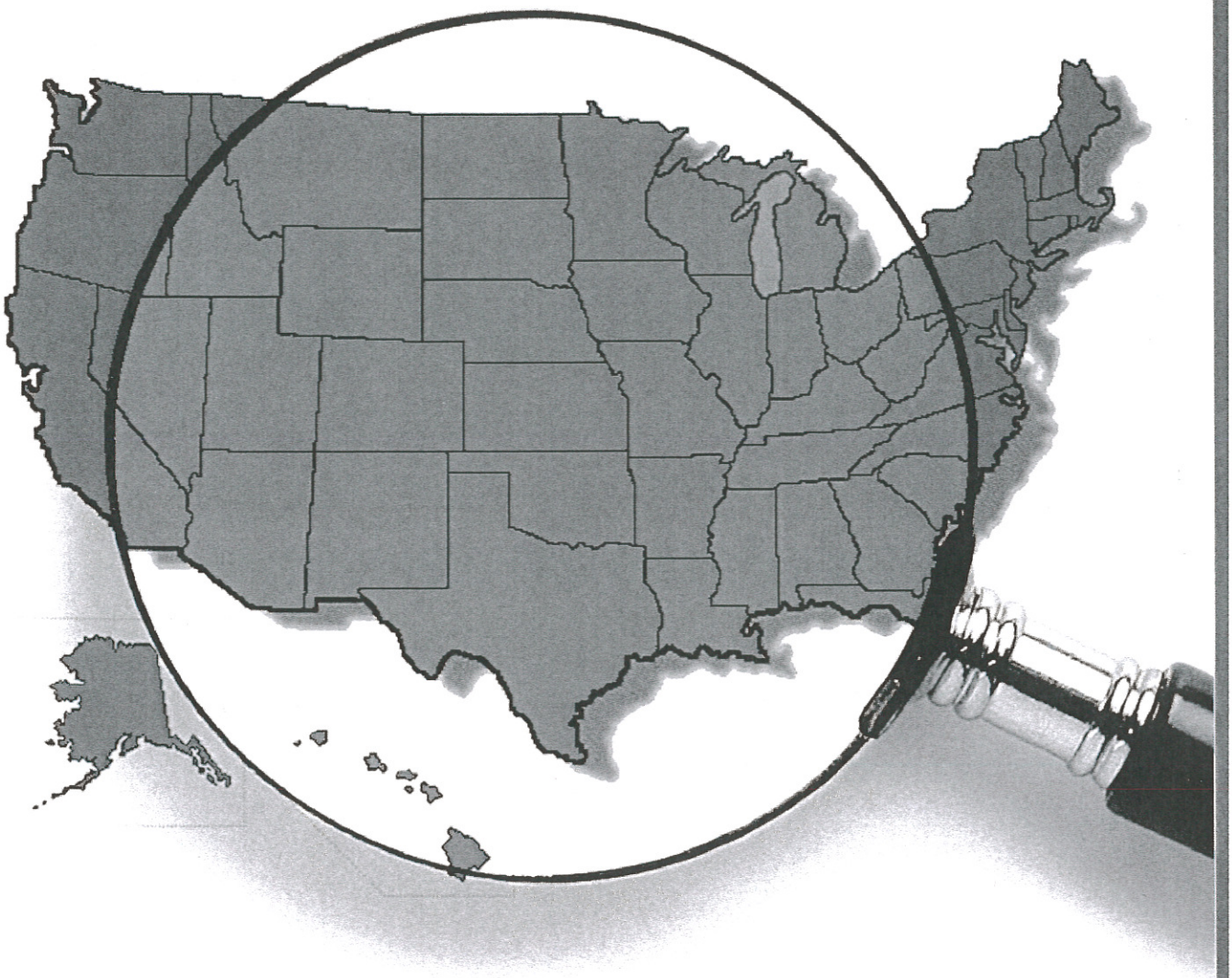
May 2010

UNDERSTANDING THE ECONOMY:

UNEMPLOYMENT IN THE HISPANIC COMMUNITY



A REPORT BY THE JOINT ECONOMIC COMMITTEE
REPRESENTATIVE CAROLYN B. MALONEY, CHAIR

Executive Summary

Workers across the United States have been hard hit during the "Great Recession," but in many respects, workers of Latino or Hispanic ethnicity are facing even greater employment challenges.[1] Latinos make up over one-seventh (14.8 percent) of the U.S. labor force, but represented almost one-fifth (19.0 percent) of the unemployed in March 2010.

Rising unemployment in the Latino community appears to be caused in large part by the bursting of the housing bubble. Employment in the construction sector reached a peak of 7.7 million workers in August 2006. By February 2010, however, employment had plummeted to 5.6 million workers - a 27.8 percent drop. As this report shows, Latino workers are over-represented in the sectors that contracted the most during the recession, including the construction industry.

- In 2007, 14.7 percent of Hispanic workers were employed in the construction sector compared to 8.1 percent of the overall labor force.
- By 2009, only 11.6 percent of Hispanic workers were employed in the construction sector compared to 6.9 percent of the overall labor force.
- Latinos are also over-represented in two other sectors that were hit hard during this recession: the manufacturing sector and the leisure and hospitality sector. Manufacturing employment fell by 16 percent and employment in the leisure and hospitality sector fell by 4 percent from December 2007 to December 2009. In 2007, 11.6 percent of the Hispanic workforce was employed in the manufacturing sector compared to 11.2 percent of the overall population, and 11.8 percent of the Hispanic workforce was employed in leisure and hospitality sector compared to 8.5 percent of the overall population.
- In 2007, Latinos were under-represented in the only sector that expanded during the recession, the education and health services sector. In 2007, 21 percent of the labor force was employed in the education and health services sector compared to 14.4 percent of the Latino workforce.

Furthermore, large concentrations of Latino workers live in the states that were hardest hit by the collapse of the housing market – Nevada, Arizona, Florida and California. The freefall in house prices placed further strains on the construction sector in those states.

- Most states with higher percentages of Latino workers were severely impacted by the collapse of the housing market. While home prices nationwide fell 30.8 percent from the peak in March 2006 to April 2009,[2] home prices in Nevada, Arizona, Florida, and California fell by much more than the national average.[3] Only two states with large Latino populations, Texas and New Mexico, saw smaller home price declines and lower foreclosure rates than the national average.[4]
- At the same time, Nevada, Arizona, Florida, and California saw large increases in foreclosure rates. In the first quarter of 2007, foreclosure rates in these states were under 1.2 percent of mortgages, but foreclosure rates increased rapidly.[5] For example, by the end of 2009, the foreclosure rate was 9.8 percent in Nevada and 13.4 percent in Florida, while the national foreclosure rate was 4.6 percent.

Until the collapse of the housing market, Hispanic workers were facing unemployment rates similar to the overall population. The gains made in reducing the unemployment rate for Hispanic workers quickly evaporated with the Great Recession, with the unemployment rate for Hispanic workers rising to 13.1 percent in October 2009, 3 percentage points higher than the 10.1 percent overall unemployment rate.

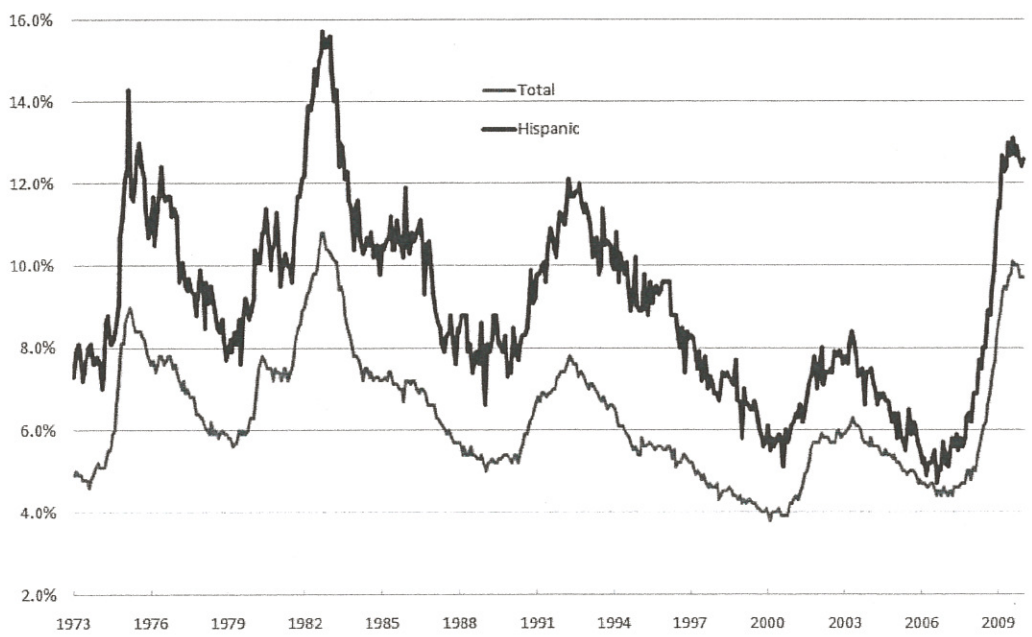
Policies to create jobs during the recovery must ensure that the unemployment rate drops for all workers, regardless of race or ethnicity. Because Hispanic workers are over-represented in certain industries that either may not be expanding or may grow slowly during the recovery, targeted policies to make sure that these workers have the skills to move into expanding sectors may be necessary. Additional policies to encourage mobility of the labor force from states still experiencing a housing slump may also be warranted.

Background

Since the Bureau of Labor Statistics began tracking unemployment rates by race and ethnicity, the unemployment rate for Hispanic workers has been consistently higher than the overall unemployment rate [see Figure 1]. Despite the relative difficulties faced by Hispanic workers, there was reason to be optimistic in May 2006, as the gap between the Hispanic unemployment rate (4.9 percent) and the overall unemployment rate (4.6 percent) reached a record low of 0.3 percentage points. Coinciding with the steady progress made by Hispanic workers—many of whom were employed in the construction industry—was the boom in the housing market, with home prices peaking in mid-2006. However, when home prices started plummeting from their peak and the housing market began its collapse, the gains made by Hispanics evaporated. By October 2009—three and half years after the disparity between the unemployment rates of Hispanics and the rest of the population reached its low point—the Hispanic unemployment rate climbed to 13.1 percent, 3 percentage points higher than the overall unemployment rate of 10.1 percent. While the disparity has dropped slightly in the last few months, the Hispanic unemployment rate in March 2010 was 12.6 percent, 2.9 percentage points higher than the overall unemployment rate of 9.7 percent. In absolute terms, out of the 22.7 million Hispanics that comprised the U.S. labor force (14.8 percent of the total) in March, 2.9 million were unemployed (19.1 percent of the total).

The Great Recession derailed the gains that Hispanics had achieved relative to the overall labor force. Since the housing bubble may have contributed much to the progress made by Hispanic workers, a long process of sectoral reallocation within the Hispanic labor force may be part of what is necessary for them to once again approach parity with the overall labor force.

Figure 1. Unemployment is Persistently Higher in the Hispanic Community
Unemployment Rate (Seasonally Adjusted)



Source: Bureau of Labor Statistics.

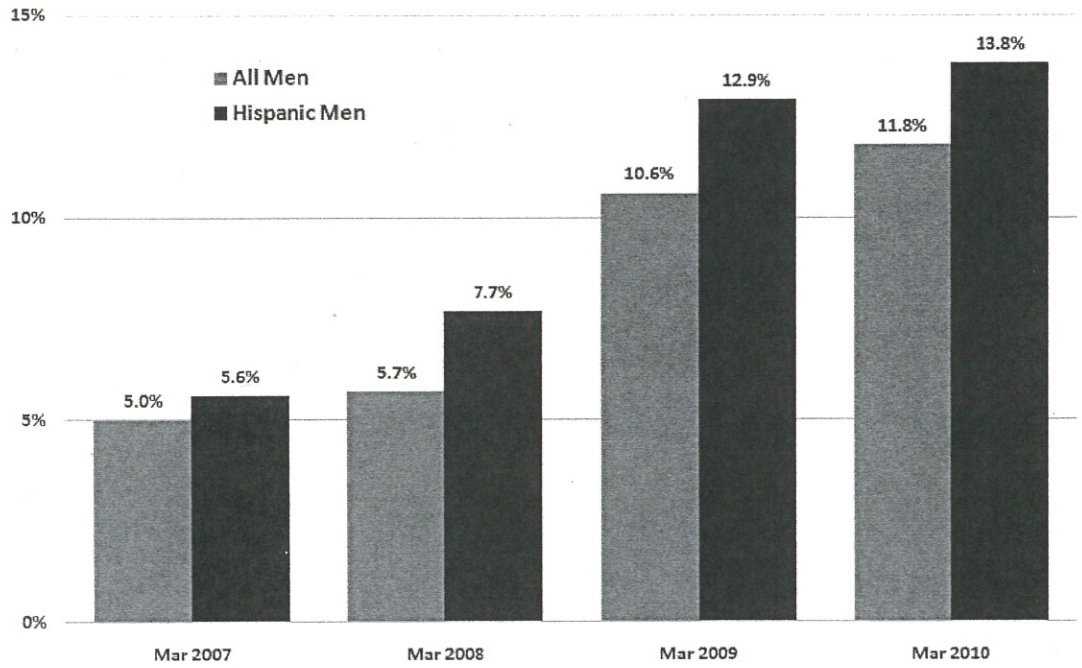
Hispanics Face Higher Unemployment Regardless of Gender and Age

As job losses mounted during the recession, unemployment among Hispanic men rose to troubling levels. The disparity between this rate and the overall unemployment rate of men also grew [see Figure 2]. While the unemployment rate for all men rose by 6.8 percentage points to 11.8 percent between March 2007 and March 2010, the jobless rate for Hispanic men climbed by 8.2 percentage points, reaching 13.8 percent in March 2010.

Hispanic women also experienced jobless rates higher than those for all women prior to the start of the current recession [see Figure 3]. In March 2007, the unemployment rate among Hispanic women was 5.1 percent, compared to 4.1 percent among all women. Most recently, the jobless rate for Latinas, 12.5 percent in March 2010, was 4.2 percentage points higher than the unemployment rate for all women.

Figure 2. Gap In Unemployment Rates Grew Over the Recession

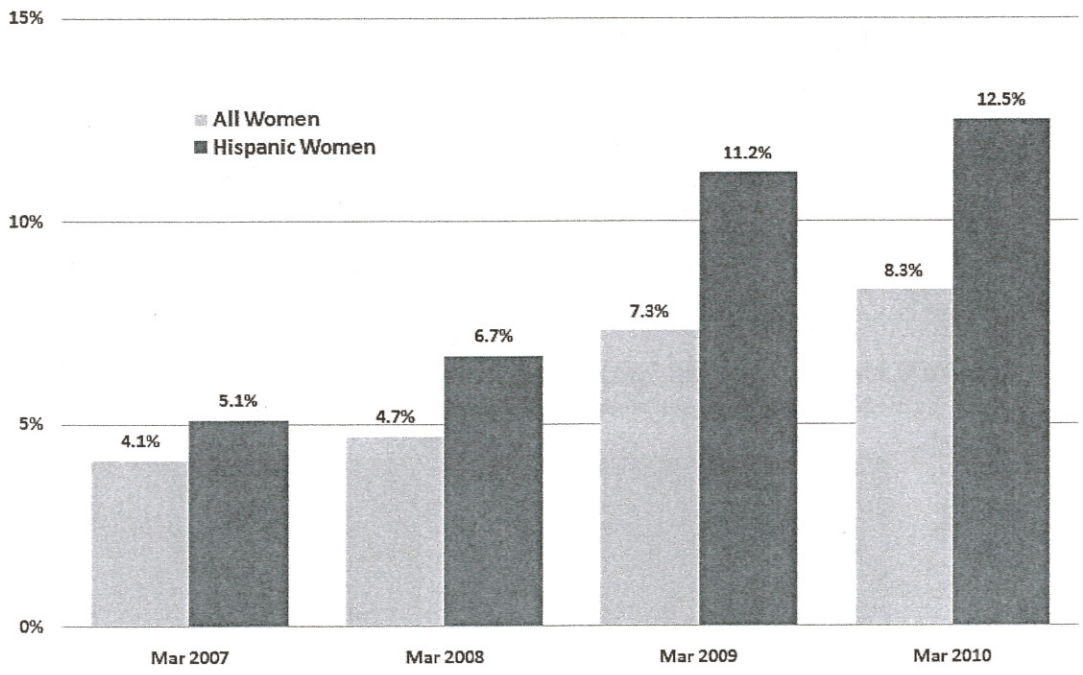
Hispanic Men vs. All Men, Unemployment Rate, Not Seasonally Adjusted



Source: Joint Economic Committee Majority Staff based on data from the Bureau of Labor Statistics, Currently Population Survey.

Figure 3. 50 Percent More Unemployment Among Hispanic Women

Hispanic Women vs. All Women, Unemployment Rates, Not Seasonally Adjusted



Source: Joint Economic Committee Majority Staff based on data from the Bureau of Labor Statistics, Currently Population Survey.

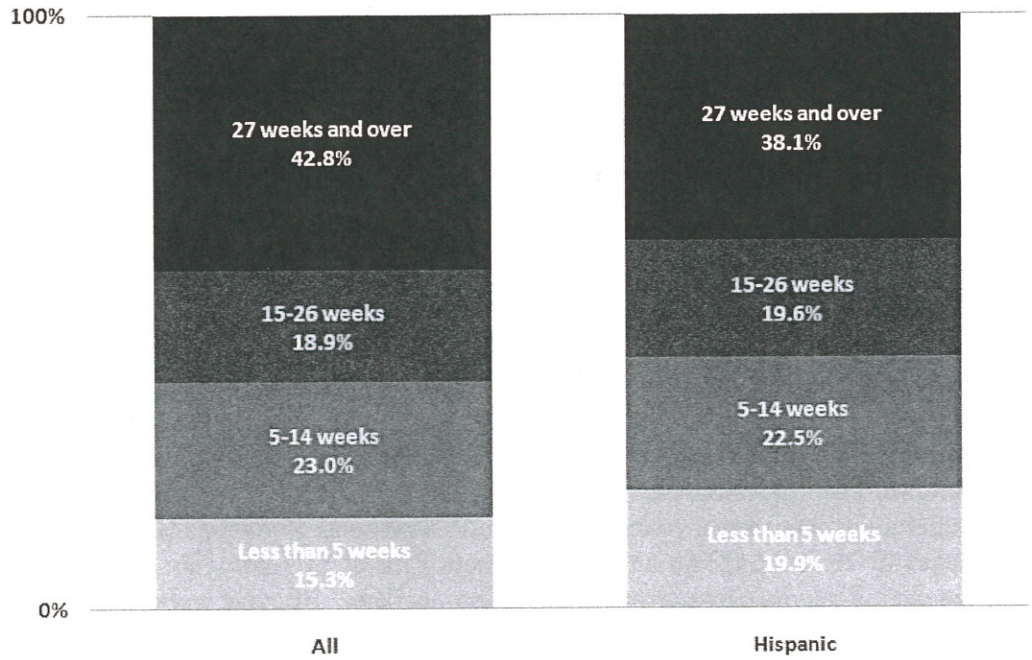
The weak labor market has hit Hispanic workers of all age groups more heavily than it has hit the overall labor force. In March 2010, nearly one-third—30.1 percent—of Hispanic teens (those between ages 16 to 19) were unemployed, compared with one-quarter (25.3 percent) of all teens. A similar pattern emerges when comparing Hispanic and overall unemployment rates across various age groups. Among younger Hispanic workers (those between ages 20 and 24), 18.2 percent were unemployed, compared to the overall unemployment rate of younger workers, 15.8 percent. Prime-age Hispanic workers (those between the ages of 25 and 54) had an unemployment rate of 11.9 percent, 2.4 percentage points higher than the overall unemployment rate of prime-age workers. Hispanic workers over 55 but under 65 had an unemployment rate of 7.3 percent compared to the unemployment rate for all workers in that age category of 9.5 percent. The largest discrepancy is among older workers (those over 65). Older Hispanic workers had an unemployment rate of 12.3 percent, compared with an overall unemployment rate of older workers of 6.9 percent. The larger gap may be attributable to the fact that Hispanic workers are more likely to be employed in occupations requiring manual labor, and employers may be less likely to fill these positions with older workers. In addition, Hispanic workers have persistently earned 25 to 31 percent less than the median weekly earnings of all employees, and these workers may not have sufficient retirement savings, and may be more likely to remain in the labor force looking for employment.[6] In the first quarter of 2010, median usual weekly earnings on Hispanic workers were $554, compared to $754 for all workers.[7]

Unemployment Spells Are Typically Shorter for Hispanics

The current economic downturn has been characterized by exceptionally long spells of unemployment. As of March 2010, 42.8 percent of the 6.7 million unemployed Americans had been out of work for 27 weeks or more, and the typical unemployment spell lasted 21.6 weeks.[8] While some demographic groups, such as African Americans, are experiencing disproportionate shares of long-term unemployment, Latinos actually experience less long-term unemployment as a share of the unemployed (38.1 percent) and shorter unemployment spells (18.9 weeks) than the overall labor force [see Figure 4]. Although the typical duration of unemployment remains at a record high for Hispanics, unemployed Hispanic workers have, at least to date, either managed to secure new work more quickly or drop out of the labor force more than other workers.

Figure 4. Unemployment Spells Are Shorter Among Hispanic Workers

Distribution of Unemployed Workers by Duration of Unemployment, March 2010



Source: Joint Economic Committee Majority Staff based on data from the Bureau of Labor Statistics.

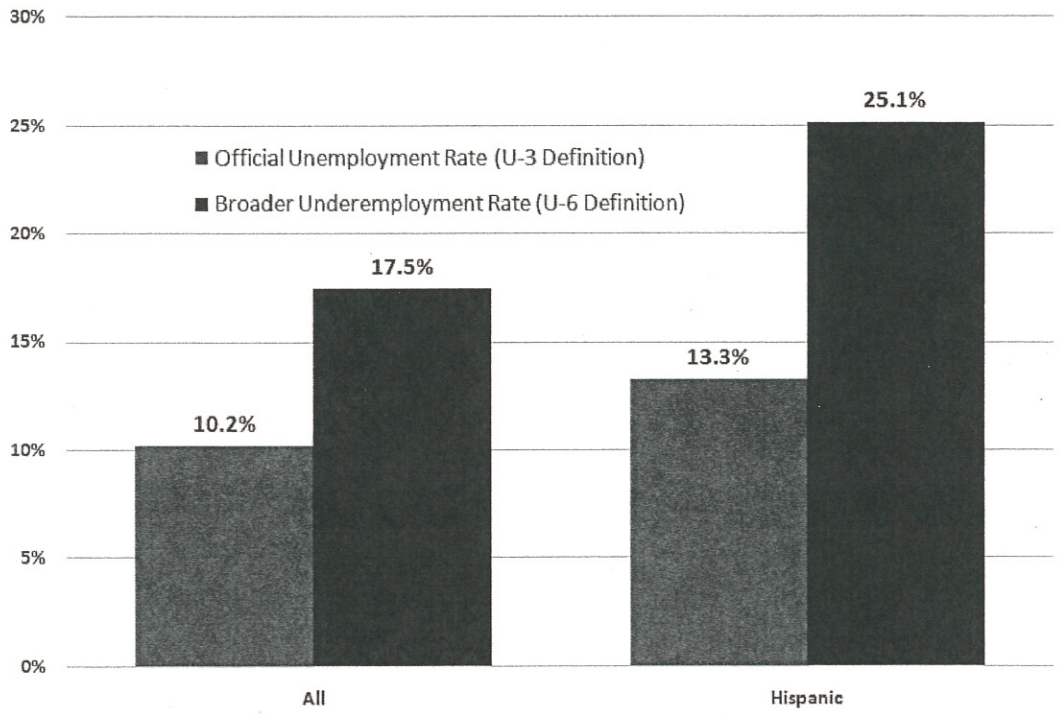
There are a number of reasons that employment remains elusive for a substantial number of long-term unemployed Hispanic workers. These workers were likely to have been employed in shrinking sectors of the economy – such as construction or manufacturing – and may not have had the skills needed to move to the expanding sectors of the economy, such as the healthcare sector. Workers who lost their jobs at the start of the recession may have been the least skilled, and their skills may have deteriorated during a long spell of unemployment.

One-Quarter of the Hispanic Labor Force Is Underemployed

The official unemployment rate understates problems facing Latinos in the labor force. An alternative underemployment measure known as the "U-6" starts with the traditional unemployment rate and includes workers who are working part time but would prefer to be working full time. These workers, the involuntary part-timers, may have looked for full-time work and have been unable to find it or have had their hours cut at their current job. In addition, the U-6 also includes workers who would like a job, are available to work, and have looked for work in the last year, but they are not considered part of the labor force because they stopped looking for work over a month ago – they are known as "marginally attached workers."

Figure 5. Un- and Underemployment Rates Are Higher for Hispanic Workers

Measures of Labor Underutilization, March 2010 (Not Seasonally Adjusted)



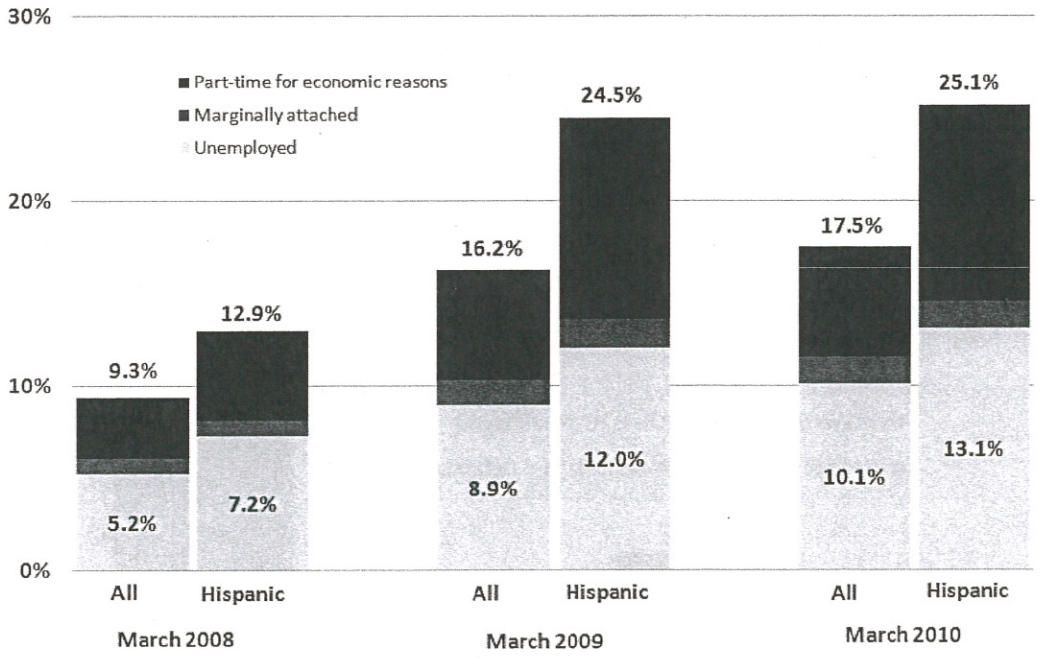
Source: Joint Economic Committee Majority Staff based on unpublished data from the Bureau of Labor Statistics, Current Population Survey.

As Figure 5 shows, the traditional unemployment rate masks the high rate of underemployment in the Latino labor force. In March 2010, Latino workers had an unemployment rate of 13.3 percent, 3.1 percentage points higher than the overall unemployment rate of 10.2 percent (comparing seasonally unadjusted data). However, the U-6 or underemployment rate for Latino workers was 25.1 percent, 11.8 percentage points higher than the conventional unemployment rate. For the overall labor force, the U-6 rate was 17.5 percent, which is 7.3 percentage points higher than the conventional unemployment rate. The differences in the U-6 rate between Hispanics and the overall population can be attributed to the higher share of unemployed and involuntary part-time workers in the Hispanic community [see Figure 6]. However, when it comes to the portion of workers who are marginally attached to the labor force, there is no substantial difference between Hispanic workers and the overall population. The larger gap between the traditional unemployment rate and the broader U-6 rate

among Hispanics suggests that while underemployment is inarguably a significant problem for the overall labor force, it is an even greater problem for the Hispanic community.

Figure 6. More Unemployed and Involuntary Part-Time Workers Contribute to a Higher Under-Employment Rate for Hispanics During the Recession

Alternate Measures of Labor Underutilization (Not Seasonally Adjusted)



Source: JEC Majority Staff Calculations based on unpublished data from the Bureau of Labor Statistics, Current Population Survey.

Hispanic Unemployment Is Driven by Industry Sector and Geography

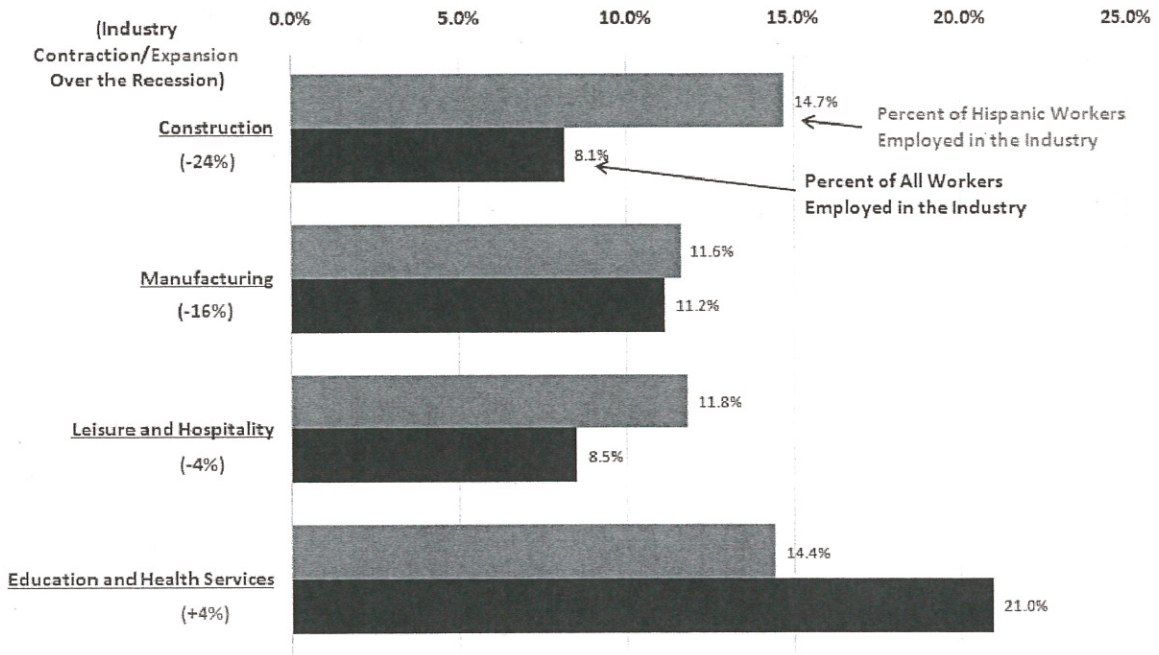
Prior to the start of the recession, Hispanics were more likely to work in industries such as construction, manufacturing, and leisure and hospitality – all sectors that experienced large job losses during the Great Recession [see Figure 7]. But most of the increase in the unemployment rate in the Latino community appears to be caused by the bursting of the housing bubble. Employment in the construction sector reached a peak of 7.7 million workers in August 2006.[9] By February 2010, however, employment had dropped by well over a quarter (27.8 percent) to 5.6 million workers.[10] In 2007, roughly one-in-seven (14.7 percent) Latinos worked in the construction industry, compared with one-in-twelve (8.1 percent) workers in the overall labor force [see Figure 7].

Similarly, Hispanic workers were more likely to be employed in leisure and hospitality jobs, a sector that contracted by 4 percent over the course of the recession. In 2007, 11.8 percent of the Hispanic workforce was employed in leisure and hospitality sector compared to 8.5 percent of the overall labor force.

While job losses in the manufacturing sector alone may explain some of the rise in the unemployment rate among Hispanic workers, losses in the manufacturing sector do not explain the difference in the rise in unemployment between Hispanic workers and the overall labor force. While employment in the manufacturing sector fell by 16 percent from December 2007 to December 2009, Hispanic workers were only slightly over-represented in this industry sector. At the start of the recession, 11.6 percent of the Hispanic workforce was employed in the manufacturing sector compared to 11.2 percent of the overall population.

Figure 7. Hispanic Workers Were Over-Represented in Contracting Sectors and Under-Represented in Expanding Sectors At Recession's Start

Distribution of Hispanic Employed Persons and Total Employed Persons in Selected Industries, 2007 Annual Average



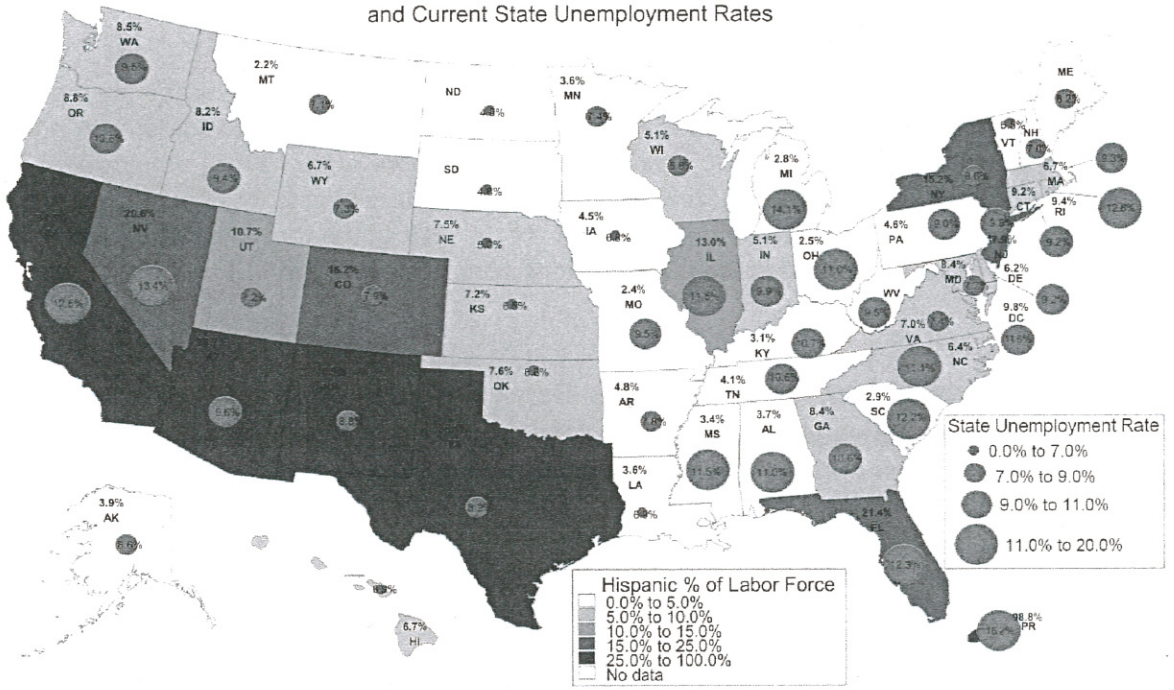
Note: Numbers in parentheses represent the percent change in employment within the industry over the recession (December 2007 to December 2009).
Source: Joint Economic Committee Majority Staff calculations based on data from the Bureau of Labor Statistics.

Further exacerbating unemployment during the recession, Hispanics also were significantly less likely to work in education and health services, an industry that expanded 4 percent between December 2007 and December 2009, even in the wake of widespread job losses across other sectors [see Figure 7]. In 2007, only 14.4 percent of employed Latinos were working in the education and health services industry, compared with 21.0 percent of the overall employed population.

Geographic differences may also explain part of the sharp rise in the Hispanic unemployment rate during this recession. Many states with large concentrations of Hispanic workers, such as California, Florida, and Nevada, have faced large employment losses and corresponding increases in the unemployment rate [see Figure 8]. These also happened to be the states that suffered tremendously from the collapse of the housing market.

Figure 8. Hispanic Unemployment: Geography Matters

Percent of Hispanic Workers in Labor Force, 2009 Annual Average, and Current State Unemployment Rates



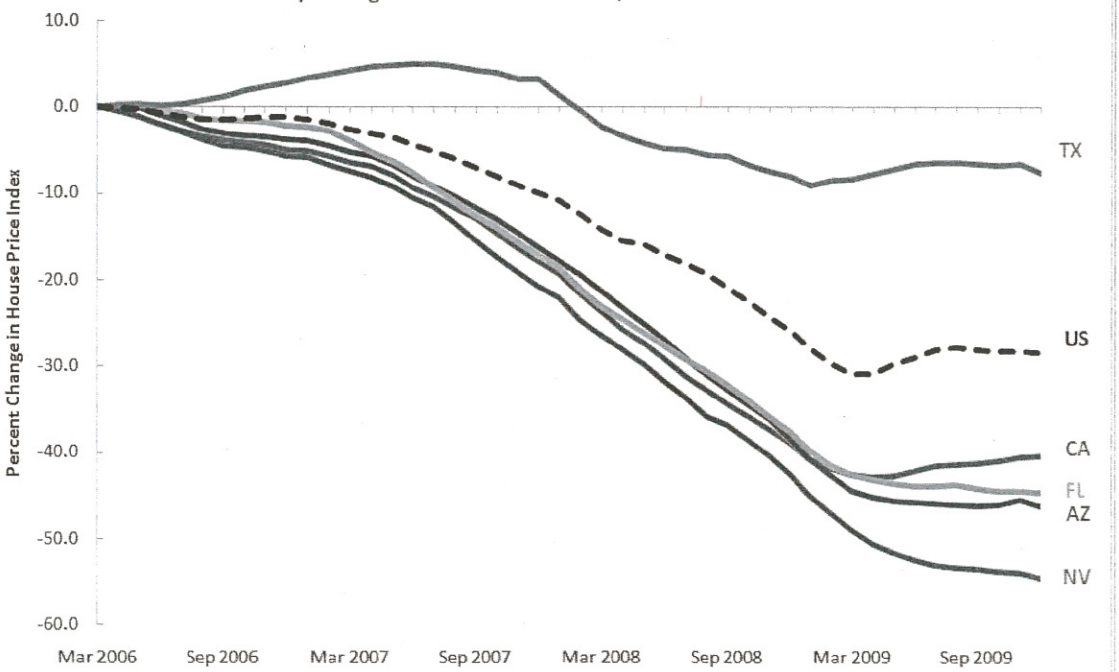
Source: JEC Majority Staff calculations based on Bureau of Labor Statistics, Current Population Survey, Preliminary 2009 Data on Employment Status by State and Demographic Group, 2009 annual averages (size of Hispanic labor force by state); for Puerto Rico: U.S. Department of Census, 2006-2008 American Community Survey 3-Year Estimates; State and Puerto Rico unemployment rates from BLS, Current Population Survey, March 2010.

While home prices nationwide fell 30.8 percent from the peak in March 2006 to the trough in April 2009,[11] home prices in Nevada, Arizona, Florida, and California fell by much more than the national average[12] [see Figure 9]. Only two states with large Latino populations, Texas and New Mexico, saw smaller home price declines and lower foreclosure rates than the national average.[13]

At the same time, Nevada, Arizona, Florida, and California saw large increases in foreclosure rates. In the first quarter of 2007, foreclosure rates in these states were under 1.2 percent, but then increased rapidly as the recession progressed.[14] For example, by the end of 2009, the foreclosure rate was 9.8 percent in Nevada and 13.4 percent in Florida, while the national foreclosure rate was 4.6 percent.

Figure 9. Decline in House Prices of Selected States

Monthly Change in House Price Index, March 2006 - December 2009



Source: Joint Economic Committee Majority Staff Calculations based on data from Loan Performance House Price Index. (Seasonally Adjusted by Haver Analytics)

Addressing the Problems Facing Hispanic Workers

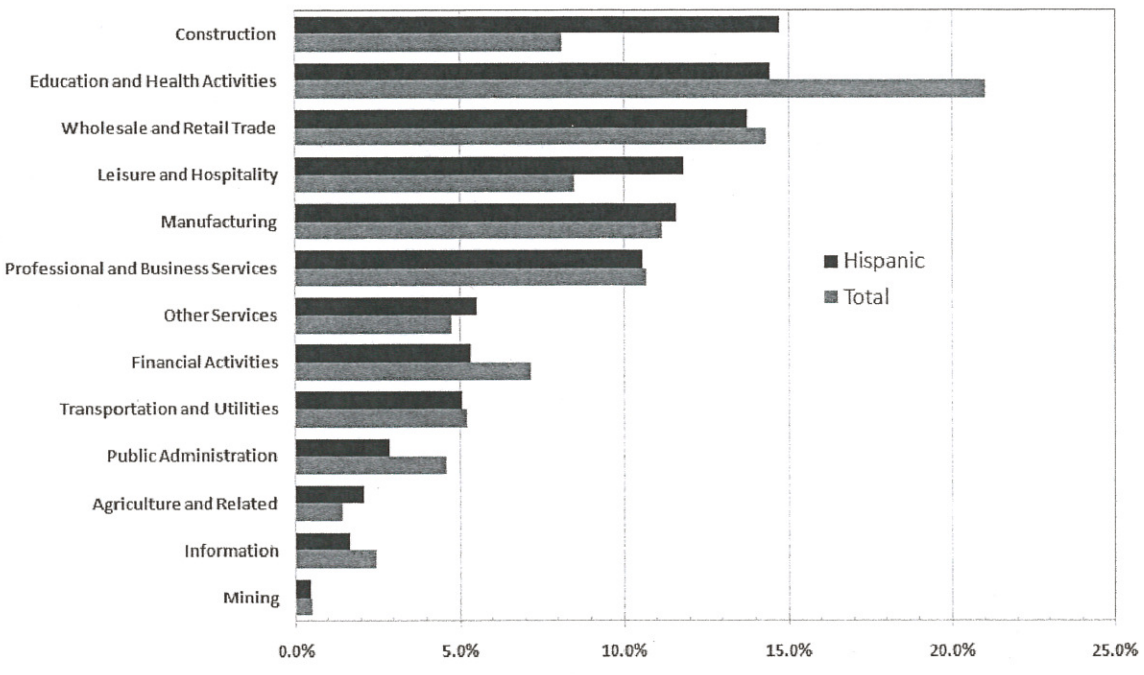
The Great Recession caused a shuffling in the distribution of Hispanic employment across industries [see Figures 10 and 11]. In 2007, Hispanics were most likely to be employed in the construction industry, but by 2009, Hispanics were most likely to be employed in the education and health activities and wholesale and retail trade sectors. Construction dropped to fourth most-common industry of employment.

Policies to create jobs during the recovery must ensure that the unemployment rate drops for all workers, regardless of race or ethnicity. Hispanic workers are over-represented in certain industries that either may not be expanding or may grow slowly during the recovery, and targeted policies to make sure that these workers have the skills to move into expanding sectors may be necessary. Additional policies to encourage mobility of the labor force from states still experiencing a housing slump may also be warranted. Members of the Hispanic community will undoubtedly benefit from job-creation and training policies that are designed to reduce unemployment, but policies that target specific sectors and regions may be more effective at combating Hispanic unemployment.

Furthermore, Hispanic workers have persistently earned a fraction of what the typical worker earns, with median earnings 28 to 31 percent less than those of all employees. Most recently, in the first quarter of 2010, median usual weekly earnings of Hispanic workers were $554, compared to $754 for all workers. This wage gap has made it more difficult for Hispanic workers with a job to accumulate sufficient savings to cushion them in the face of job loss or other financial emergencies.[15]

Figure 10. Distribution Employment by Industry in 2007

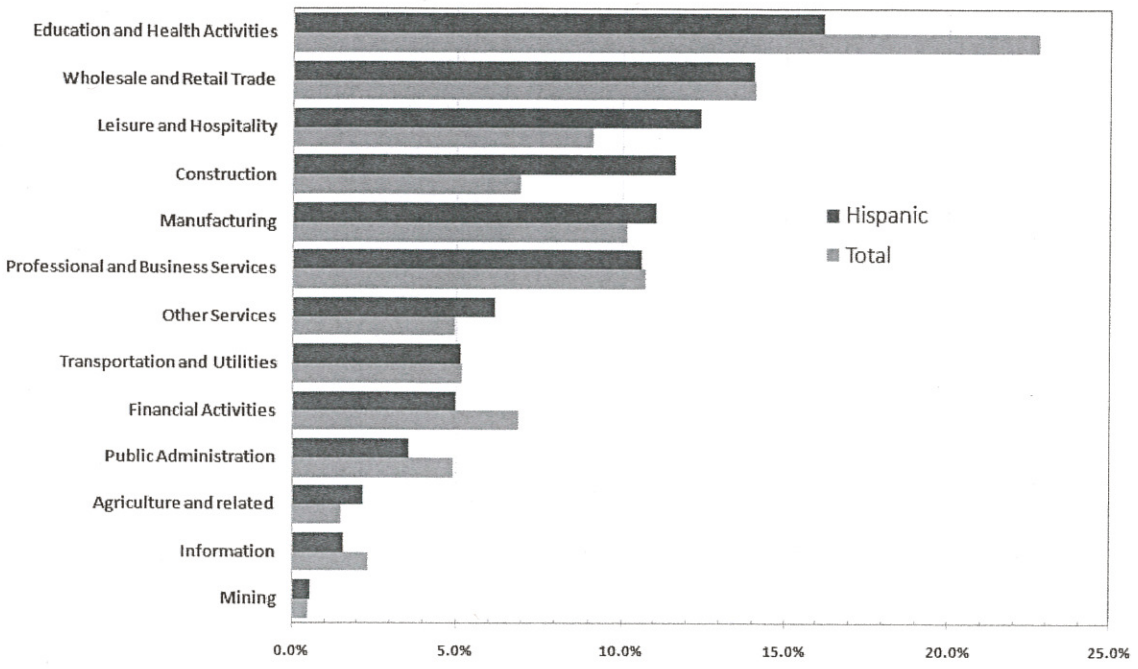
Distribution of Hispanic Employed Persons and Total Employed Persons
2007 Annual Averages



Source: JEC Majority Staff calculations based on data from the Bureau of Labor Statistics.

Figure 11. Distribution of Employment by Industry in 2009

Distribution of Hispanic Employed Persons and Total Employed Persons
2009 Annual Averages



Source: Joint Economic Committee Majority Staff calculations based on data from the Bureau of Labor Statistics.

[1] For purposes of the Current Population Survey, Hispanic/Latino/Spanish is considered an ethnicity rather than a racial category. Respondents are asked first if they are of Hispanic, Latino or Spanish ethnicity. In a following question, respondents are asked to identify their race(s) with choices of White, Black or African American, American Indian or Alaska Native, Asian, and Native Hawaiian or Other Pacific Islander. Therefore, respondents who are of Hispanic ethnicity will also be classified separately by race.

[2] State house price declines based on Loan Performance House Price Index for various states, seasonally adjusted by Haver Analytics using X12-ARIMA. Data not available for New Mexico.

[3] Home price declines based on peak to trough dates which vary by state. Housing prices fell 54.5 percent in Nevada from March 2006 to December 2009, 46.3 percent in Arizona from March 2006 to December 2009, 44.8 percent in Florida from April 2006 to December 2009, and 42.9 percent in California from March 2006 to April 2009. In contrast, prices fell 13.3 percent in Texas from the peak in June 2007 to the trough in January 2009.

[4] Loan Performance House Price Index not available for New Mexico. However, the Federal Housing Finance Agency (FHFA) House Price Index for New Mexico shows that the index for New Mexico fell only 6.6 percent from 2007 Q4 to 2009 Q4 compared to an 8.7 percent decline for the United States as a whole. Using the FHFA HPI understates the extent of the housing collapse since it excludes nonprime and jumbo mortgages.

[5] Foreclosure inventory rate, Mortgage Bankers Association, Residential mortgage loans on 1 to 4 unit buildings. Arizona's foreclosure rate rose from 0.5 percent to 6.1 percent, California from 0.8 percent to 5.6 percent, Nevada from 1.2 percent to 9.8 percent, and Florida from 1.0 percent to 13.4 percent. In contrast, the foreclosure rate rose from 1.2 percent to 2.0 percent in Texas and 0.8 percent to 2.99 percent in New Mexico.

[6] Bureau of Labor Statistics, Current Population Survey, Table 2: Median Usual Weekly Earnings, Full-time wage & salary workers by age, race, and sex, quarterly averages.

[7] Bureau of Labor Statistics, Current Population Survey, Table 2: Median Usual Weekly Earnings, Full-time wage & salary workers by age, race, and sex, quarterly averages.

[8] Data are not seasonally adjusted.

[9] Bureau of Labor Statistics, Current Employment Statistics.

[10] *Ibid.* Construction employment rose in March 2010, for the first time since June 2007, by 15,000 jobs.

[11] State house price declines based on Loan Performance House Price Index for various states, seasonally adjusted by Haver Analytics using X12-ARIMA. Data not available for New Mexico.

[12] House price declines measured from peak to trough. Housing prices fell 54.5 percent in Nevada from March 2006 to December 2009, 46.3 percent in Arizona from March 2006 to December 2009, 44.8 percent in Florida from April 2006 to December 2009, and 42.9 percent in California from March 2006 to April 2009. In contrast, prices fell 13.3 percent in Texas from the peak in June 2007 to the trough in January 2009.

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[15] Bureau of Labor Statistics, Current Population Survey, Table 2: Median usual weekly earnings full-time wage & salary workers by age, race, and sex, quarterly average, not seasonally adjusted in current dollars.