



# Report

A PROJECT OF THE PEW CHARITABLE TRUSTS AND USC ANNEBERG SCHOOL FOR COMMUNICATION

## **NEW LOWS FROM NEW HIGHS: Latino Economic Losses in the Current Recession**

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**The Pew Hispanic Center**

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The opinions expressed in this report are those of the authors and do not necessarily reflect the views of The Pew Charitable Trusts.

## ***EXECUTIVE SUMMARY***

The long-term effects of the recession will likely depress employment and incomes in Hispanic communities at least through the end of 2004, and judging from historical experience that time span will be longer than for any other major population group. Even if predictions of a turnaround later this summer prove valid, pocketbook issues will vex Latinos for several years after the national economy recovers.

Second-generation Latinos—U.S.-born children of an immigrant parent—are now experiencing high job losses. In recent recessions Hispanic unemployment has fallen hardest on low-skilled immigrants. This time, young people who are the products of U.S. schools are experiencing the highest unemployment rates among Latinos. Many work in skilled occupations, including managers, technicians and professionals, and many are in the early years of household formation. Prolonged joblessness could prove a historic setback for them, their communities and the nation.

These are among the key findings from a research project conducted by the Pew Hispanic Center to assess the recession's impact on the Latino population. The project report examines job losses for Hispanics in the recession thus far and forecasts their prospects for economic recovery. In addition to work by the Center's research staff, this report summarizes studies commissioned of leading economists that the Center is publishing in full separately. Professor Alan B. Krueger of Princeton University and Jonathan Orszag of Sebago Associates produced a range of forecasts for Hispanic unemployment, income and poverty. Professor Arturo Gonzalez of the University of Arizona undertook a detailed analysis of the course of the recession among Latino generations. Professor Francisco Rivera-Batiz of Columbia University examined the special conditions confronting Hispanics in New York City.

### Other major findings:

- The heaviest job losses for Latinos so far are concentrated in manufacturing and the retail trade, which together account for 40 percent of all Hispanic unemployment. The second generation, Latinos of Mexican origins and women have been hardest hit overall.
- Hispanic unemployment rates are high in the hospitality industry, as well as in transportation, sectors hard hit by the terrorist actions of

9/11. However, only a small portion of the Latino workforce is employed in these industries.

- California and New York, home to about half of all Hispanic workers, have Latino unemployment rates that are a full percentage point higher than the Latino rate nationally. Job losses for Latinos in New York City could reach as high as 15 percent by the end of 2002.

- Using the average of the Blue Chip Indicators of 50 leading econometric forecasts, Hispanic unemployment nationally is projected to hit 8.5 percent in the second quarter of 2002 before leveling off. It will begin to fall again in the fourth quarter of 2002 but will not recover its pre-recession levels until 2004. Under less optimistic scenarios, Hispanic unemployment could peak at approximately 10 percent in 2003. That would mean some 1.5 million Latinos out of work a year from now compared with 927,000 a year ago.

- Despite considerable economic gains in the late 1990s, the bulk of the Latino population has few resources to weather the recession. On average, household savings and other assets are minimal.

- Access to public safety-net programs such as unemployment insurance and food stamps are limited by labor conditions and eligibility requirements. Out of 1.26 million unemployed Latinos in December 2001, only 40 percent are likely to be receiving UI benefits, leaving some 756,000 in the cold.

During the late 1990s Latino communities scored impressive economic gains even as they absorbed a steady stream of new, low-skilled immigrants. Like the U.S. economy as a whole, the long-term prospects for Latinos are good, but a prolonged period of recession and recovery could prove costly. Large numbers of young people and recent immigrants are still establishing their place in the workforce and in society. The prolonged effects of this recession potentially will make that process much more difficult. And the downturn threatens to stall the economic progress marked by the growing Latino middle class.

## ***TABLE OF CONTENTS***

|  |           |
|--|-----------|
| <b>I. RIDING THE RISING TIDE OF THE NEW ECONOMY</b>      | <b>1</b>  |
| Vulnerabilities Amid the Gains                           | 2         |
| <b>II. THE RECESSION THUS FAR</b>                        | <b>5</b>  |
| The Young Second Generation Hit Hardest                  | 6         |
| Mexicans and Women Fare Poorly Thus Far                  | 8         |
| Low Skills Mean High Unemployment                        | 9         |
| By Industry, a Tightly Focused Recession                 | 10        |
| Bad in NYC, Not So Bad in LA                             | 11        |
| Looking for the 9/11 Effect                              | 12        |
| <b>III. FORECASTING UNEMPLOYMENT, INCOME AND POVERTY</b> | <b>12</b> |
| Family Income and Poverty Rates Slow to Recover          | 16        |
| <b>IV. RESOURCES FOR WEATHERING THE RECESSION</b>        | <b>17</b> |
| Personal Savings   | 17        |
| Unemployment Insurance                                   | 18        |
| Food Stamps  | 18        |
| Health Insurance   | 19        |
| <b>V. CONCLUSIONS: AFTERSHOCKS OF RECESSION</b>          | <b>19</b> |
| <b>NOTES</b>   | <b>20</b> |

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## ***I. RIDING THE RISING TIDE OF THE NEW ECONOMY***

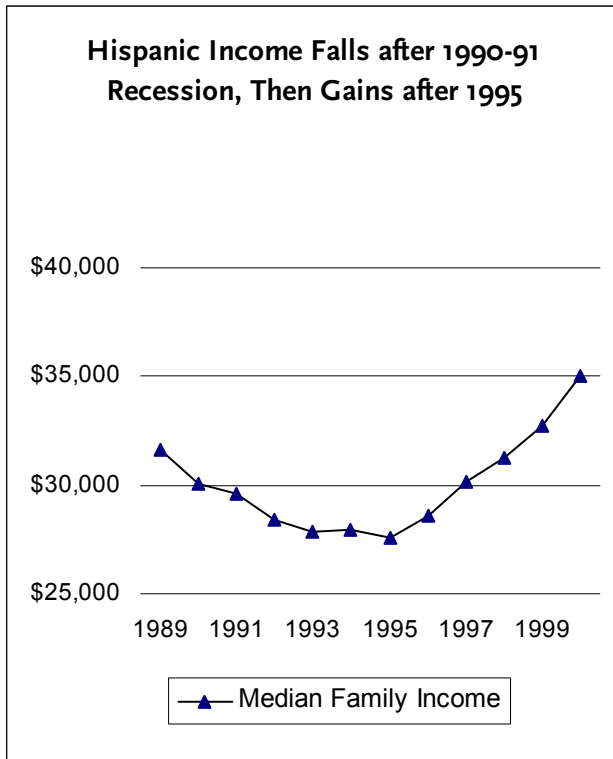
From March 1991 to March 2001, the United States experienced the longest economic expansion in its history. Nationally, the rate of unemployment dropped below four percent and tight labor markets created job opportunities for workers at all skill levels. As a result, the overall poverty rate fell to 11.3 percent in 2000, a low that had not been tested since 1974. Latinos participated in these gains belatedly, having taken longer than any other racial or ethnic group to recover from the 1990-91 recession. But in the final years of the expansion Latinos experienced rapid economic advances. The decade of expansion coincided with a period of rapid demographic change, most notably a 58 percent jump in the size of the Hispanic population. Though Latinos are still concentrated near the bottom of the economic ladder, that bottom is higher than it has been in decades.

From 1995 to 2000 median family income for Latinos rose by 27 percent in real terms, compared with 11 percent for all families. And it was the poorest Latinos who experienced the largest gains. Families in the bottom fifth of Hispanic population in terms of annual income experienced a 32 percent boost, while those in the top quintile of Hispanics saw only a 15 percent increase in their income. As a result of these gains at the bottom, Hispanic poverty rates fell by approximately one-third, from 30 percent in 1995 to 21 percent in 2000.

During this uninterrupted stretch of economic growth, millions of new immigrants got through the difficult initial phase of assimilation, advancing beyond entry-level jobs and learning how to get along in an American workplace. Many others, especially among the native born and the better educated, made it to the middle class, buying homes and establishing small businesses. Hispanic households with earnings of more than \$40,000 increased by about one-quarter during the boom decade compared with a rise of only one-seventh for non-Hispanic white households. Between 1992 and 1997 the number of businesses owned by Latinos increased by 30 percent, compared with 7 percent for businesses overall. Revenue for Latino businesses also grew faster than the norm. Most of these firms were small businesses and many employed other Hispanics so that their successes had a multiplier effect in Latino communities.

***The number of Latino-owned businesses grew by 30% from 1992 to 1997 versus 7% for businesses overall.***

Rapid population growth and sustained economic advances during the past decade transformed Latinos' place in American society. One can see the change



by contrasting the economic situation for Hispanics at the beginning of the economic expansion and at the end. In March 1991 the Hispanic labor force numbered 10.7 million and experienced a 9.8 percent unemployment rate. In March 2001 the rate was 6.2 percent and the Latino workforce had grown by 47 percent to 15.7 million. And during that decade of growth the median family income for Latinos rose from \$29,600 to \$35,000 (adjusted for inflation).

In short, Latinos went into this recession representing not

only a bigger chunk of the American economy but also one that was in better shape than last time. The rise of the Hispanic middle class and a small but growing professional class has generated new political clout. Pocketbook issues for Latino voters now go beyond the concerns of low-wage workers to also encompass the worries of shop owners, construction contractors, accountants, plant foremen and entrepreneurs.

### Vulnerabilities Amid the Gains

The success stories of the 1990s mask other historical realities that could alter Hispanic fates in the current recession: Latinos as a whole were very slow to recover from the 1990-91 recession, and most of their economic gains were scored only during the last few years of the expansion. Despite the notable advances, many Latinos remain concentrated in jobs vulnerable to layoffs and many lack the skills, education and financial resources that can make a recession easier to weather.

Following the recession that officially ended in spring 1991, it took until 1994 for African Americans to get back to their pre-recession economic status as measured by the unemployment rate and median family income. For Latinos, the recovery period was three years longer. The recession that officially lasted just eight months at the national level stretched out into seven years of losses, then stagnation, then finally progress forward for millions of Latino households. Several of the factors that caused the slow Hispanic recovery in the



mid-1990s are still in play, according to recent studies conducted for the Pew Hispanic Center and research done after the 1990-91 recession.

“Assessments of job losses during the recent recession [1990-91] consistently show that Hispanics were the biggest losers,” wrote Johanne Boisjoly and Greg J. Duncan in a 1994 report published by the Labor Department, and the key factors they identified as leading to those losses are still present today. Then and now the likelihood of being out of a job is closely tied to a worker’s education, language skills and experience in the U.S. labor market. Then and now Hispanic workers are likely to be younger than non-Hispanics, to be recent immigrants, to have less education, to fill less-skilled jobs and to work in industries that typically experience large labor reductions in a downturn.

Today, over half of the difference between the unemployment rates of Hispanics and non-Hispanic whites is tied to differences in education. One third of the Hispanic labor force has less than a high school education, and the rate of unemployment for such workers is nearly three times as high as that of Hispanic college graduates. Even among those who are employed, a sizable number of Latinos are barely making it. In 1999, for example, 10.7 percent of Hispanics who had been in the labor force for 27 weeks of the year or more lived below the official poverty level compared with 4.3 percent of the white labor force. These characteristics mean not only that large numbers of Latinos get hit early and hard during a recession but also that they lack the tools to readily change occupations when a rebounding economy creates opportunities.

Aside from their characteristics, Latinos are experiencing significant job losses in this recession because they were in the wrong place at the wrong time. Hispanic workers are heavily concentrated in sectors of the economy that have been especially hard hit, such as retail trade and manufacturing. This is not simply a function of low skills. The over-representation of Latinos in certain industries is also a function

of the jobs available in the localities where they settle, hiring networks, and their replacement of other groups who move onto different kinds of work. For example, manufacturing has been in a

***Hispanic workers are heavily concentrated in sectors of the economy that have been especially hard hit, such as the retail trade and manufacturing. This is not simply a function of low skills.***

slow decline for at least three decades, and over that period the share of whites working in manufacturing has dropped while the Latino share has increased.

Moreover, Latinos are highly interdependent. Hispanic-owned businesses are concentrated in Hispanic communities and often count on other Latinos

both as employees and customers. During good times this can spread and even intensify economic benefits when money is recycled within a community. But this “greenhouse” or “enclave” effect can work the other way during a downturn, multiplying the pains and cascading losses through an entire community.

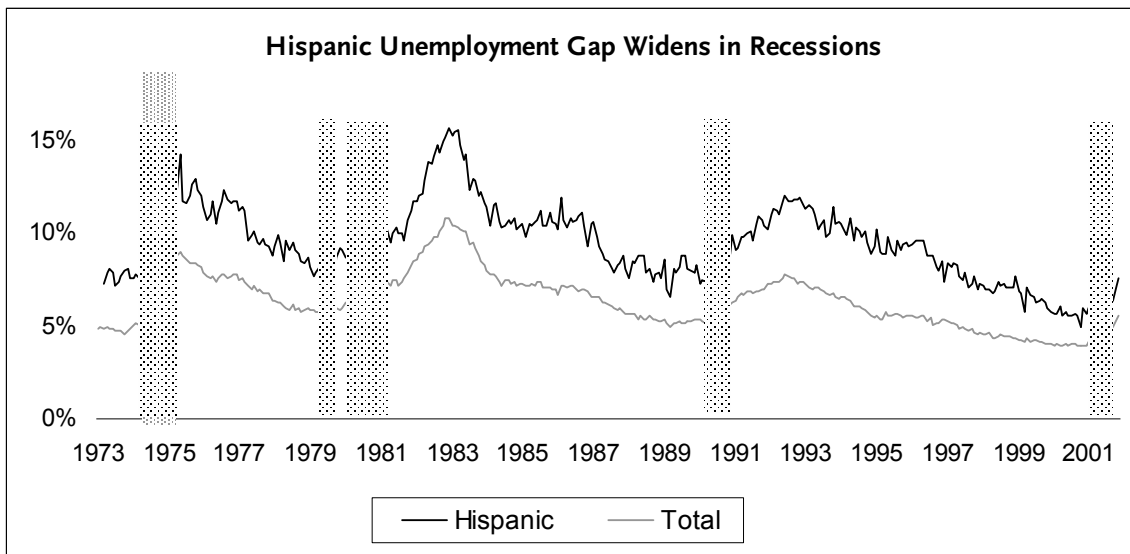
Rapid population growth due to immigration and high birth rates further complicate the economic picture for Latinos. About one-quarter of the Hispanic population is 15 to 30 years old. More than one-sixth of the Hispanic population is made up of immigrants who arrived in the past decade. So, even as more established and better educated Latinos move up into the middle class, the Hispanic workforce is constantly growing through the addition of young people and recent immigrants who usually have to start at the bottom.

Many Latinos are indeed fulfilling the American dream by working their way up the economic ladder, but every day a new and larger group of Hispanics start to fill their places on the bottom rungs. In fact, throughout the 1990s the lower-income Hispanic population grew faster than the middle class. As a result, on the eve of the current recession, about one third of all Latino households had less than \$20,000 in income per year, roughly equal to the share of households with middle-class earnings of \$40,000 per year or more. Low-income workers are more susceptible to layoffs in a downturn and are less able to adjust their career tracks to find new jobs. They are less likely to have health insurance and are more reliant on public safety-net programs such as food stamps. Among Hispanics, low-end workers face the added difficulties of often being new to the labor force and of lacking access to the safety net because of their immigration status.

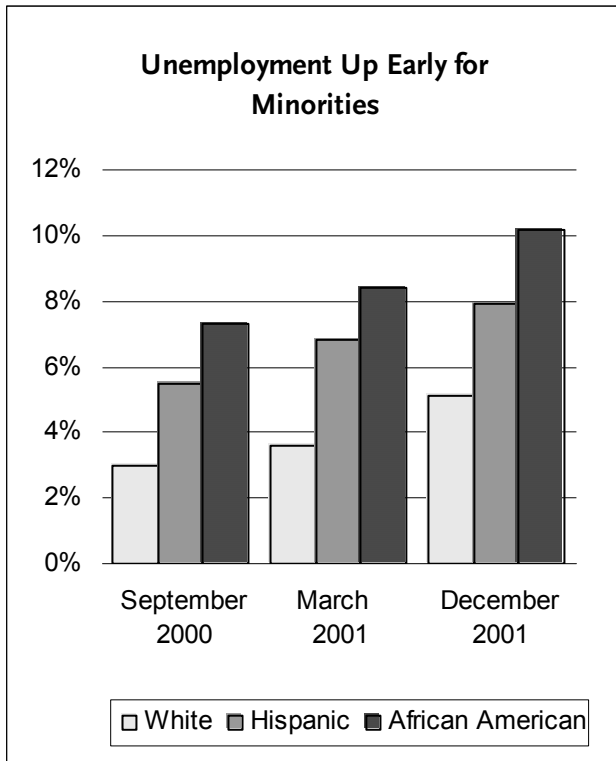
Among the achievers in Latino communities, there is another distinct, and somewhat poignant, economic vulnerability. As noted, many of the economic gains are fairly recent and as a result they are potentially fragile. Millions of Latinos bought homes, started new businesses or moved up to better jobs during the final years of the expansion. These Latinos bet their stake on the belief that the good days would keep on coming. Now, many face the prospect of being caught short.

## II. THE RECESSION THUS FAR

Latinos have not fared well in past recessions compared with some other segments of the U.S. population but they have done better than others. That pattern seems to be holding in the current downturn. On average over the past three decades the Hispanic unemployment rate has been 4 points higher than the rate for non-Hispanic whites. During recessions, the gap has widened. During expansions, the gap has narrowed, though it has never fully closed. In 1999 the spread in the unemployment rate narrowed to 3 points and then 2 points in 2000. Over the course of 2001 the gap broadened and by December it had reached 2.8 points. The inverse is true relative to black unemployment. Hispanics consistently show lower unemployment rates, and the gap between the two widens in recessions.



The current recession officially began in March 2001. By December 2001, nine months into the downturn, the Hispanic unemployment rate had reached 7.8 percent, which translated into 1,260,000 people out of work. That marked an increase of 281,000 in the number of Latino unemployed compared with March when the Latino unemployment rate stood at 6.2 percent. During the recessions of the 1980s and 1990s the climb in unemployment was steeper in the early phases, which suggests that Hispanics may be better off this time. On the other hand, the unemployment rate for Latinos began to go up in late summer 2000, and for African Americans the trend became evident by late autumn. Clearly, the recession began earlier for minority workers than it did for whites. This is largely attributable to the minority workers' concentration in industries such as manufacturing which led the way into the current recession.



Throughout the following section, the discussion refers to data from the Current Population Survey (CPS) of U.S. households. This survey is the federal government's major source of monthly information about the U.S. labor force. The Bureau of Labor Statistics releases regular key CPS statistics and makes the survey data publicly available. The data used in the figures are tabulations of the CPS made by the Pew Hispanic Center contrasting data from September 2000 when Latino unemployment began to

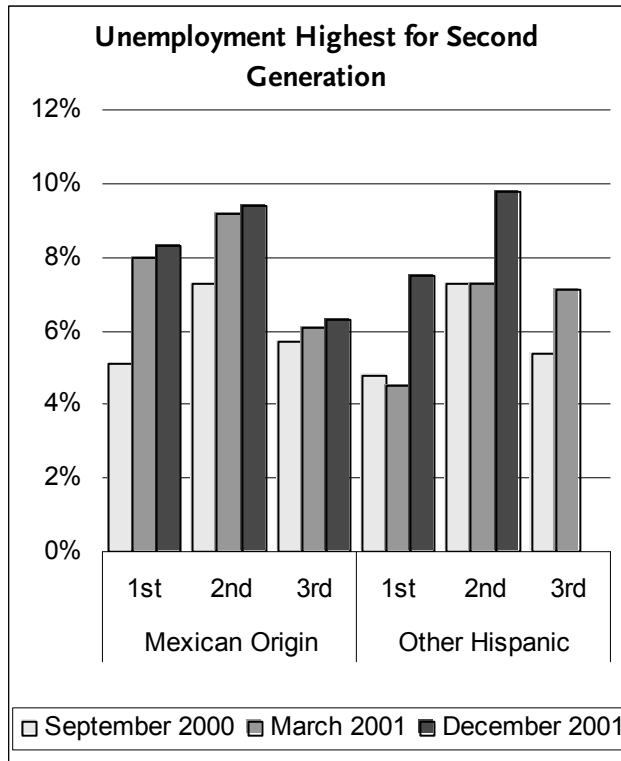
increase with data from March 2001, the official start date of the recession, and with just released data from December 2001.

### The Young Second Generation Hit Hardest

The most striking characteristic of the recession's impact on Latinos thus far, and potentially the most significant in the long run, is the disproportionately high unemployment developing in the second generation—those who are U.S.-born with at least one parent born abroad. This young population is 10 million strong but most are very young. Nearly 3 million are now in the labor force, and they are the products of U.S. schools, English speakers and familiar with American work habits. They are a big part of the future, not only for Latino communities but also for the nation as a whole.

As the baby-boom generation ages out of the workforce over the next two decades, the Latino second generation will be the fastest-growing source of new native-born workers available to fill its shoes. This is the first recession since the children of the big Latino immigrant waves of the 1980s began entering the labor market. And, so far, they are getting hit hard.

Research conducted for the Pew Hispanic Center by Arturo Gonzalez, an economist at the University of Arizona, found that since Latino unemployment began to climb in late 2000, the second generation has suffered higher rates of joblessness than either Hispanic immigrants—the foreign-born first generation—or later generations of native-born Latinos. By last December,



unemployment among second-generation Latinos was solidly above 9 percent and at other points during the recession buildup it has spiked up to 10 percent.

While the greatest numbers of newly unemployed immigrants are in low-skilled occupations, the losses in the second generation are more evenly spread out to include sizeable shares of professionals, managers, technicians and administrators. Unemployment among second-generation Latinos in these more skilled occupations is higher than for

non-Hispanics holding similar jobs. The most likely explanation for the greater job losses among second-generation workers is their youth. Lacking seniority, younger workers typically are hurt badly in recessions, especially in the early rounds of layoffs. Hispanic immigrants in 2001 averaged about 37 years of age, while second-generation Latinos averaged only 19 years. Third-generation Hispanics—persons born in the United States to two U.S.-born parents—were a little older at 26 years on average. But it is unlikely that age alone can explain the degree of second-generation unemployment.

In part, the second generation may be suffering more because it is better integrated into the economy than its immigrant parents' generation. Native-born Latinos are more likely to work in larger firms and in more formal industries. Switching to other jobs or simply reducing the number of hours worked is more difficult for them. This contrast is evident in Gonzalez's analysis of data on the strategies the unemployed are using to find work. Immigrant Latinos tend to rely more on friends and relatives, or they contact employers directly. Rather than turning to social networks or simply hitting the streets, second-generation Latinos tend to use more formal job-search methods such as sending resumes to prospective employers or filling out job applications.

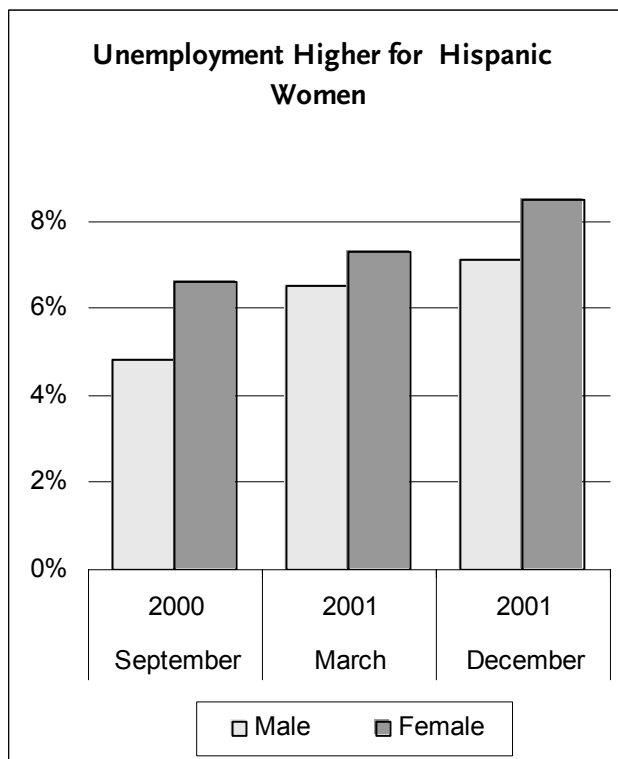
The higher rates of unemployment for the Latino second generation are puzzling because immigrants might be expected to suffer most in a recession. They have poorer levels of education than the native-born, have fewer English

skills, and are still learning the ropes in the U.S. labor market. Indeed, in the 1990-91 recession, Latino immigrants did experience more job losses than the native-born. But then during the decade-long expansion it was the immigrants who fared best. The decline in the Hispanic unemployment rate during the New Economy of the late 1990s was disproportionately concentrated among foreign-born Hispanics. In 1996, the unemployment rates of native-born and foreign-born Hispanics were roughly equal: 9.0 percent and 8.9 percent respectively. By 2000, the native-born Hispanic unemployment rate had fallen to 6.4 percent, while the foreign-born Hispanic unemployment rate dropped to 5.1 percent.

### Mexicans and Women Fare Poorly Thus Far

Unemployment rates for all major Hispanic national origin groups fell about 40 percent during the latter half of the 1990s. Those of Mexican origin experienced a decline from 9.7 to 5.9 percent, those of Puerto Rican descent from 11.2 to 6.4 percent, and the lowest unemployment figures are found among Cuban Americans, whose unemployment rate dropped from 7.4 percent in 1995 to 4.4 in 2000. In the early stages of the downturn in autumn 2001, increasing unemployment appeared more or less evenly distributed among the national sub-groups, but as the recession has gathered force, Latinos of Mexican origin have had a high level of job loss. In December 2001 the unemployment rate among Hispanics of Mexican descent was 7.9 percent, while among all

other Latinos it was 7.3 percent.



The recession is taking a notable toll among female Hispanic workers, who are experiencing a higher unemployment rate than Latino males. In December 2001 women of Mexican descent had an unemployment rate of 8.9 percent compared with 7.2 percent for Mexican males. Among all other Hispanic sub-groups the breakdown on gender was 7.8 percent for women versus 6.8 percent for men. This gender differential does not show up

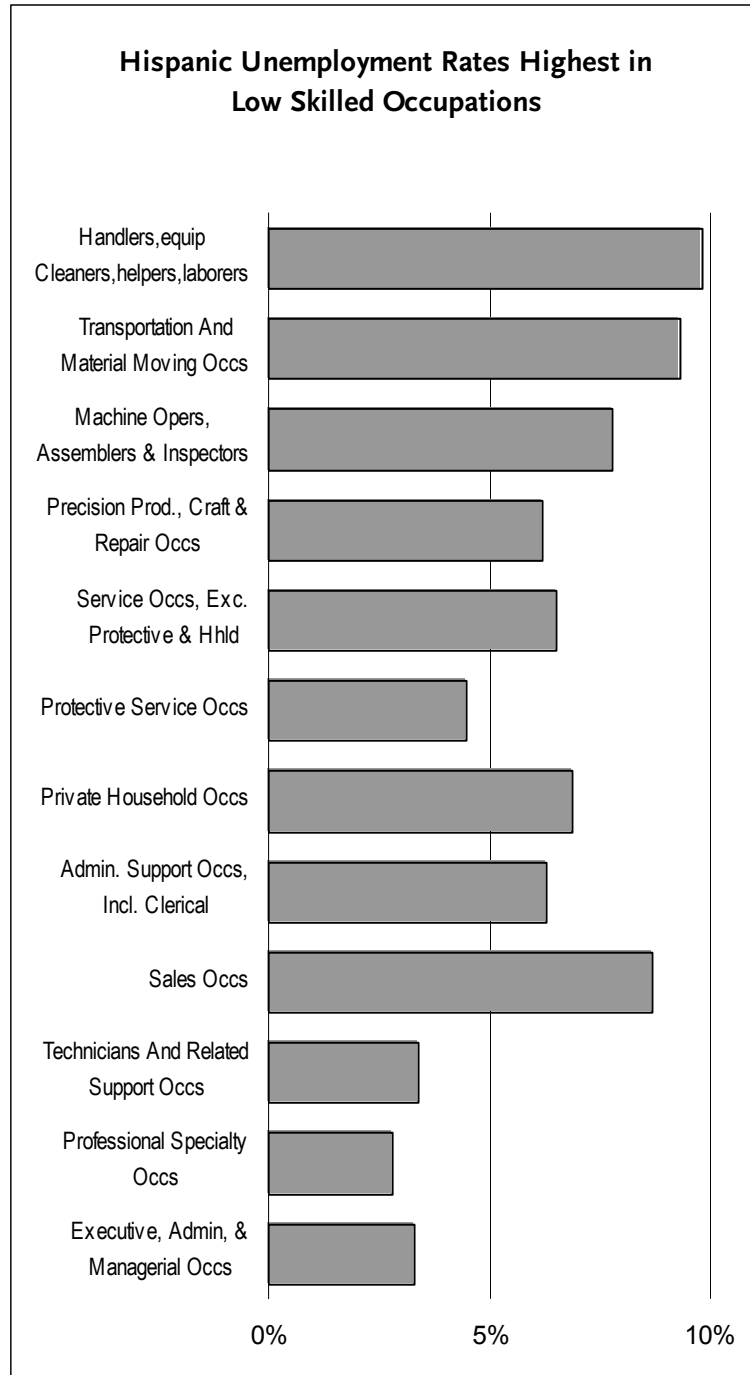
in the statistics for either non-Hispanic whites or African Americans. Males had higher unemployment in both these groups in November. The concentration of Hispanic women in the most vulnerable low-skilled and part-time jobs has made them front-line casualties in this recession.

Low Skills  
Mean High  
Unemployment

Examining Latino job losses according to occupations shows, not surprisingly, that workers with low skills have been most affected. This is both because Hispanic workers are concentrated in these occupations and because that is where the new recession hit first. Latino unemployment is particularly high at this time among handlers, equipment cleaners, helpers and laborers. About one-fifth of the workers in these low-skilled occupations are Latinos.

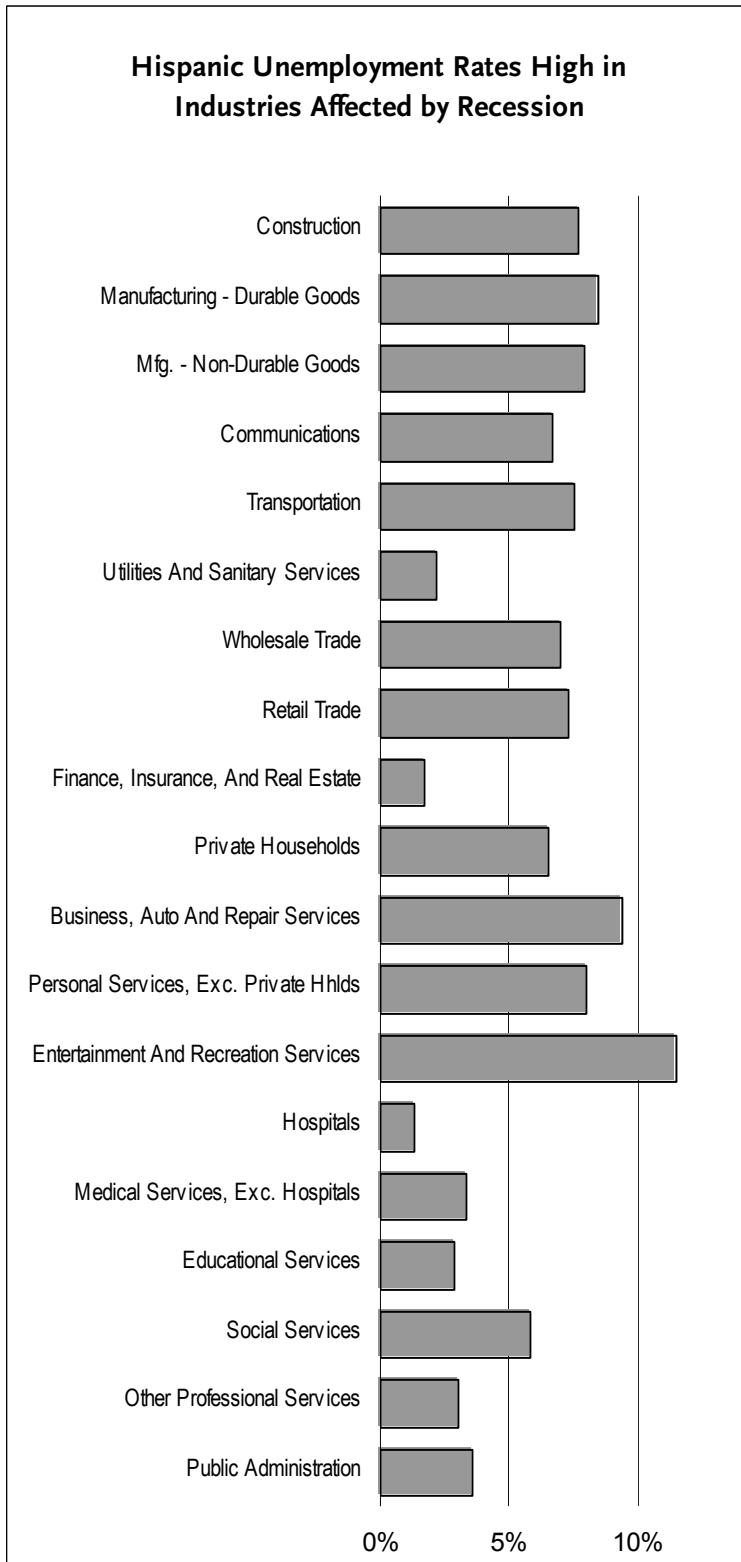
Unemployment is also high for

Hispanics in transportation and material-moving occupations. At the other extreme, Latino unemployment is at 3.3 percent of workers in executive, administrative, and managerial occupations but there are relatively few



Hispanics in these jobs. Unemployment in farming tends to be high at any

time. The December 2001 rate of 13 percent is not unusual.



By Industry, a Tightly Focused Recession

Looking at the breakdown of unemployment data by industry reveals a recession that is producing large and disproportionate job losses for Latinos in a few important sectors of the economy. The manufacturing sector alone has produced nearly one-fifth of all unemployed Hispanics— some 200,000 workers without jobs in December—although manufacturing accounted for only one-tenth of the nation’s unemployment. The job losses in manufacturing are part of a broad decline in the entire sector, but as factories and packing plants have cut their

workforce, Latinos have been hit harder than other groups.



While Hispanics are just 13 percent of the nation's manufacturing workers, they make up a much larger share—18 percent— of the manufacturing workers who have lost their jobs. Several factors appear to be at play. First is their concentration in nondurable goods manufacturing, where layoffs begin at the first sign of slackening demand. Unemployment claims from food processing doubled between September and November last year, and in the production of small rubber and plastic products, the layoffs multiplied sevenfold.

Beyond manufacturing, another fifth of the Latino unemployed are found in retail trade. Together with construction, these three sectors account for one half of Hispanic unemployment in December 2001.

African American workers went into this recession with an unemployment rate about 2 points higher than Hispanics and, on average, that spread has remained the same as joblessness for both groups has increased. As is the case with Hispanics, a large share, 27 percent, of black unemployment comes out of the retail trade. By contrast, though, African American job losses are higher in construction and repair services.

### Bad in NYC, Not So Bad in LA

Most Hispanics work and live in just a few states, with half working in California and Texas and almost another fifth working in Florida, New York and Illinois. The rate of unemployment in these states is well above the national average. In December 2001, Hispanics in California, New York and Florida faced unemployment rates of just over 8 percent, and those in Texas and Illinois of about 6 percent.

During the recession of the early 1990s, which had Los Angeles as its epicenter, unemployment for Hispanics in California peaked at more than 13 percent. Today, California's economy is stronger, particularly in the south where the Latino population is largest. Hispanic unemployment in Los Angeles is not quite 7 percent, although it is just over 9 percent in San Francisco.

Overall, the Latino population of New York City did not enjoy much of an economic bounce during the years of economic growth in the 1990s. This is due at least in part to a wave of demographic change that saw a rapid influx of Latino immigrants from the Dominican Republic, Mexico and South America and a substantial out-migration of Puerto Ricans. A study conducted for the Pew Hispanic Center by Francisco L. Rivera-Batiz,

***High levels of poverty and stagnant income among Hispanic New Yorkers are just two warning signs that New York Hispanics could face greater hardships than Latinos elsewhere during the current recession and its aftermath.***

an economist at Columbia University, shows that Latino poverty rates were the same, about 30 percent, at the end of the 1990s as they were at the beginning of the decade. In addition, Latino per capita income increased only slightly during this period while it rose forcefully for non-Hispanic whites in the city.

High levels of poverty and stagnant income among Hispanic New Yorkers are just two warning signs that New York Hispanics could face greater hardships than Latinos elsewhere during the current recession and its aftermath. Hispanic unemployment has already reached 7.9 percent in the New York metropolitan area, twice the rate for non-Hispanic whites and just less than the black jobless rate. Rivera-Batiz estimates that Latino unemployment in New York is likely to rise to between 12.8 and 15.2 percent by the end of 2002. Rivera-Batiz argues that the new, heavily immigrant Hispanic population of New York faces a substantial competitive disadvantage in the city's labor market because education and work experience generate higher economic returns there than in most of the rest of the country.

### Looking for the 9/11 Effect

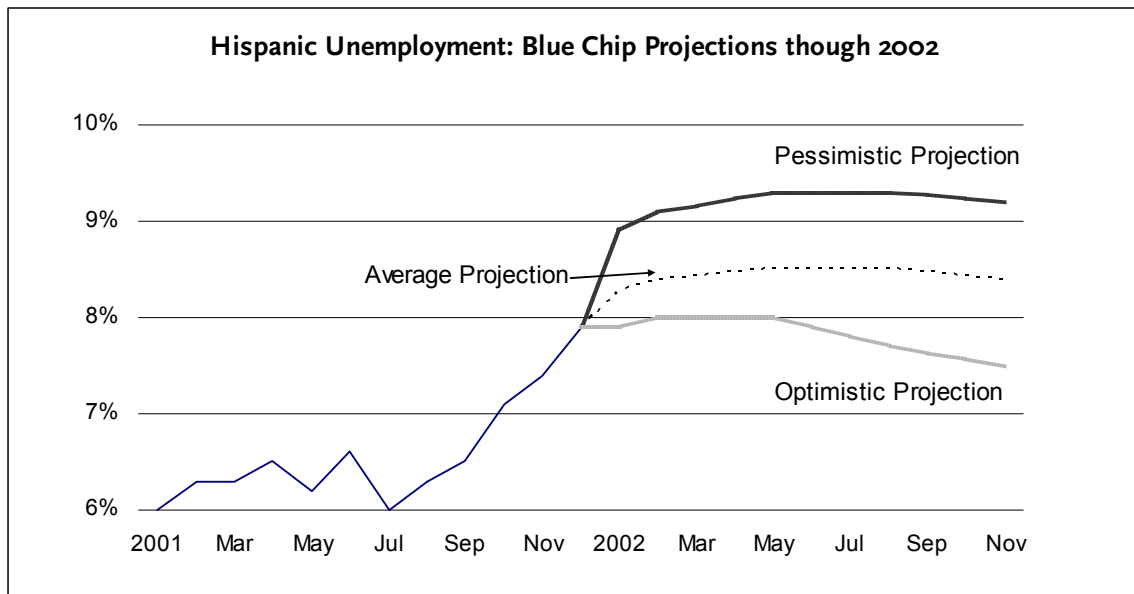
Massive layoffs in the hotel industry since September 11 have been widely publicized, but thus far it appears that the economic after-effects of the terrorist attack have been considerably localized for Hispanics. Currently, Hispanics make up about 11 percent of the total civilian workforce but account for 21 percent of the 1.4 million Americans employed in the hotel and motel industry. Inevitably they have taken a large share of the losses.

Unemployment of Latinos working in entertainment and recreation services is running at 11.5 percent, higher than in any other sector of the economy. In addition, some of the losses in the retail sector, which includes restaurant workers, are attributable to the drop in travel and entertainment following the September events. The impact of historically low hotel occupancy rates has been catastrophic in cities like Las Vegas, Miami and San Francisco, where tourism is an important source of employment for many Latinos. However, on a national scale the impact on Latinos has been much smaller. Jobless Hispanics from the entertainment and recreation sector account for less than three percent of overall Hispanic unemployment. In December 2001, there were 32,000 Latinos unemployed in that sector compared with 138,000 in construction.

### ***III. FORECASTING UNEMPLOYMENT, INCOME AND POVERTY***

Predicting how Latinos will fare in the current recession is necessarily a hazardous exercise. Economic forecasting has limitations in the most of

ordinary times. Now there is additional uncertainty stemming from the September 11 attack and its aftermath. Still, there are a variety of forecasting tools based both on current conditions and historical data that can be used to produce a range of estimates for the future course of the economy. In addition, there is a considerable body of research on the relationship between labor market indicators and the condition of the economy. As a result, it is possible to utilize historical experience and well-tested theories on the functioning of the American economy to construct models that show how a specific indicator, such as Hispanic unemployment, is likely to change in relationship to a macroeconomic indicator, such as overall unemployment.

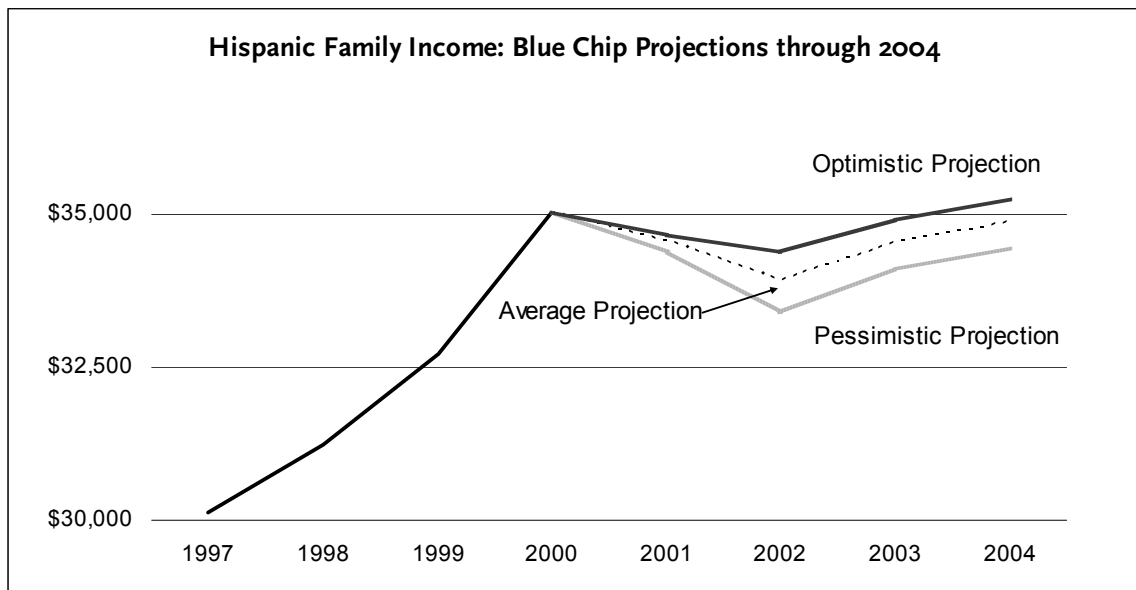


The Pew Hispanic Center commissioned Alan B. Krueger, the Bendheim professor of economics and public policy at Princeton University, and Jonathan M. Orszag, the managing director of Sebago Associates Inc., an economics and public policy consulting firm, to develop forecasts of key indicators of Hispanic economic well-being, including unemployment, family income and poverty. Using two different methodologies and several different assumptions about the economy's future course, Krueger and Orszag produced a total of 22 different projections. A review of their work as a whole offers a clear sense of the range of possible outcomes.

Given that Latinos work at every stratum of the labor force and in many different occupations, no forecasts can apply to the entire Hispanic population, but for the majority of Latino households that are low-to middle-income, the prospects are troubling. Elevated unemployment rates usually persist after a recession has officially ended, and the resultant losses in income often take even longer to recover. The effects of this recession, however, are likely to be

felt in Latino households for an especially prolonged period of time. Even if the economy rebounds this summer, as some optimistic but disputed forecasts suggest, Latino family income and poverty rates are not likely to get back to pre-recession levels until late in 2004. If the recession lasts longer or the recovery is slow and staggering, as other forecasts suggest, these key indicators of well being for Hispanics are not expected to bounce back until well into 2005 or beyond.

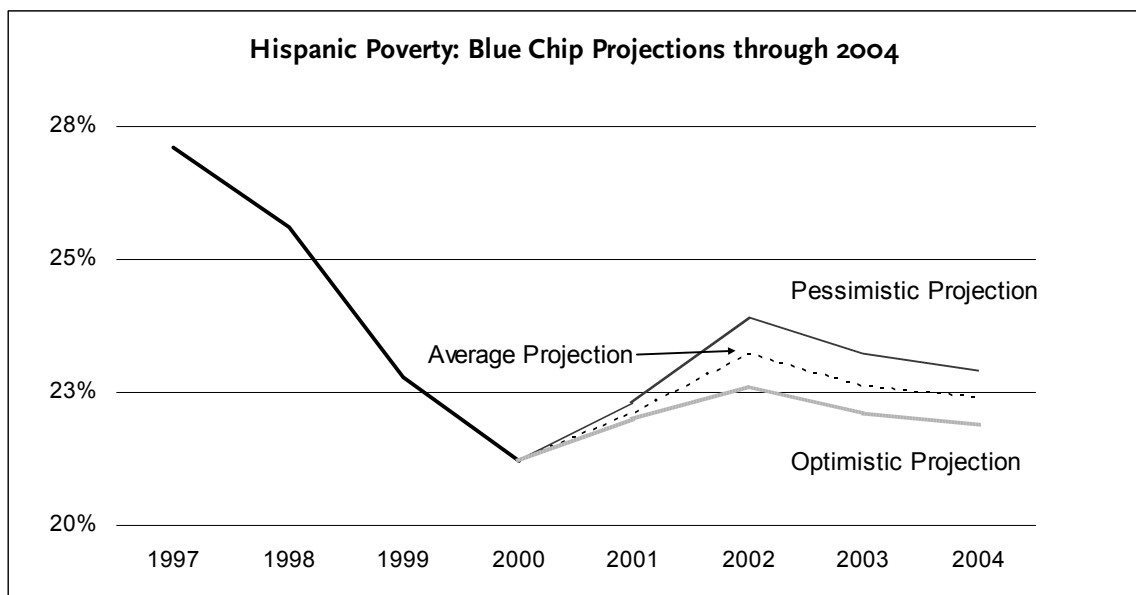
The after-effects of the recession could mean that millions of Latino working-class families, which had experienced steadily improving circumstances since the mid-1990s, will face four years of diminished incomes. For many others closer to the bottom of the economic ladder, these forecasts portend a year or two of real crisis followed by a prolonged and difficult struggle. As Harry P. Pachon, president of the Tomás Rivera Policy Institute put it, “Four years is a long time in the life of a family. It is an entire high school career. The difference will be between feeling optimistic and seeing things getting better and just scraping by and worrying all the time about where life is headed.”



In their co-authored study, Krueger and Orszag used two approaches to forecast future economic trends for the Hispanic population. The first used 50 independent forecasts of national unemployment as reported by the Blue Chip Economic Indicators, a newsletter that surveys private-sector economists. Using an average of these forecasts, the Hispanic unemployment rate is expected to peak at 8.5 percent in the second quarter of this year before leveling out. The Hispanic unemployment rate then begins to fall again in the fourth quarter of 2002.

Utilizing an average of the 10 most pessimistic Blue Chip forecasts, Hispanic unemployment could rise to 9.3 percent in the second quarter of 2002 before falling to 9.2 percent in the fourth quarter. This would mean that nearly 700,000 more Hispanics would be unemployed at the height of the recession than in autumn 2000, when Latino unemployment began to rise. Finally, based on an average of the 10 most optimistic Blue Chip forecasts, Hispanic unemployment would rise to 8.0 percent in the first quarter of 2002, then would start to drop in the third and fourth quarters to end the year at 7.5 percent. Under each of these three scenarios, however, Hispanic unemployment does not return to pre-recession lows until 2004.

The Blue Chip forecasts all fit within a fairly narrow range of scenarios that foresee the national economy recovering robustly in the middle of this year. Some top economists and business leaders have characterized this outlook as excessively optimistic in recent weeks. Federal Reserve Chairman Alan Greenspan, for example, has added his voice to those dampening expectations that the recession is almost over. "The long-run picture remains bright," Greenspan said in a San Francisco speech on January 11. "But I would emphasize that we continue to face significant risks in the near term, he said." Among the risks he cited was that "the unemployment rate may continue to rise for a while."



Partially to address concerns that the Blue Chip forecasts may be too optimistic, Krueger and Orszag used a second approach that relies on the historical record from the past three recessions to project how Hispanics will fare in the current downturn. The weakness in this forecasting tool stems from

the differing characters of each recession as well as the constant change both in the economy and in the Hispanic population.

If the current downturn mimics the path of the most recent recession, and perhaps the most comparable one, that of the early 1990s, Hispanic unemployment would rise to 9 percent by the end of 2002 and then to 10 percent in late 2003. In this scenario, Hispanic unemployment would not return to pre-recession levels until March 2008, while white and African American unemployment rates would return to roughly their pre-recession levels by early 2006.

### Family Income and Poverty Rates Slow to Recover

Using the same approaches they applied to Latino unemployment, Krueger and Orszag developed forecasts for Hispanic family income and poverty rates. Even under the most optimistic of the Blue Chip forecasts, Hispanic family income would continue to fall through 2002 and would not regain its pre-recession levels until 2004. If the current recession follows the path of the 1990-91 downturn, median Hispanic family income would not fully recover until 2010.

Hispanic poverty, while significantly improved during the 1990s, remains twice as high as the overall poverty rate, and it is closely tied to employment. For each percentage point rise in the national unemployment rate, Hispanic poverty increases by an average of 1.2 percentage points. Using the average of the Blue Chip forecasts, Hispanic poverty is expected to rise from 21.2 percent in 2000 to 23.2 percent in 2002 and would remain slightly above its pre-recession levels through 2004. Forecasts based on past recessions similarly suggest rising poverty this year and a long slow recovery that stretches to 2004 or beyond.

A variety of factors may help explain why the Latino population seems poised for a prolonged period of economic struggle. These include: Youth, low levels of education and skills, substantial numbers of immigrants, heavy concentration in industries and occupations that commonly experience cutbacks in the labor force during times of economic uncertainty. Moreover, large populations of Latinos live in a few cities where their own influx has been the major source of population growth for the past two decades. Finally, there is a heavy reliance on social networks to find jobs, especially among immigrants, and so it is not uncommon to find an entire extended family working for the same employer. These are some of the dominant characteristics of the Hispanic workforce. In different ways each of these factors made Latino workers an effective component of the economic expansion that lasted for a decade. As such these characteristics contributed to Latino economic successes

in the 1990s. The same characteristics now leave them vulnerable in a recession.

#### ***IV. RESOURCES FOR WEATHERING THE RECESSION***

##### Personal Savings

As unemployment rises during a recession it places pressures on families to draw on their available financial resources. Delaying purchases, even necessary medical expenses, and spending hard-earned savings are the first lines of defense.

| <b>Net Worth, Financial Assets, Liquid Assets, and Savings Among Hispanic Families, 1998</b> |                  |                |
|--|------------------|----------------|
| <b>All Families</b>  | <b>Hispanics</b> | <b>Overall</b> |
| Median Net Worth   | \$9,720          | \$71,700       |
| Mean Net Worth   | \$86,895         | \$282,980      |
| Median Financial Assets  | \$1,200          | \$17,320       |
| Mean Financial Assets  | \$32,656         | \$134,271      |
| Median Liquid Assets   | \$600            | \$2,500        |
| Mean Liquid Assets   | \$8,239          | \$15,242       |
| Percent with Savings   | 29.5%            | 41.7%          |

Research conducted for the Pew Hispanic Center by Krueger and Orszag shows that Hispanic families' personal assets will not buffer them much from prolonged spells of unemployment. Data from the Federal Reserve's Survey of Consumer Finances found that in 1998 the median net worth of Hispanic families was \$9,720 or one seventh that of the average U.S. family. By comparison, the median net worth of African American families was \$15,500 in 1998. The data also show that the typical Hispanic family had just \$600 in liquid financial assets like checking and savings accounts. While rising incomes in the last few years of the economic expansion may have improved this situation for some Latino families, recent data suggests that very little of that increased income was put away for a rainy day. According to the Bureau of the Census, only 26 percent of Hispanics reported receiving income from savings in 2000, compared with 55 percent of whites.

Government safety-net programs have often softened the effects of recession for eligible workers and their families and have helped the economy

rebound by maintaining at least a minimum level of consumption among recipients. Of all the nation's major racial and ethnic groups, Hispanics appear likely to benefit the least from these programs during the current recession.

### Unemployment Insurance

Unemployment insurance (UI) provides eligible workers support when they have been laid off due to no fault of their own and are able, available and looking for work. Each state's benefits are different, but UI generally replaces 40 to 50 percent of previous wages for up to 26 weeks. Yet only about 40 percent of all unemployed workers receive UI benefits and that figure is considered high for the Hispanic workforce. Most workers are ineligible for UI because they seek only part-time work or because their work histories do not satisfy the programs requirements. In December 2001 there were 1.26 million unemployed Latinos, according to the Bureau of Labor Statistics (BLS). If 40 percent received UI benefits, some 756,000 went without.

### Food Stamps

In March 2001, 17.3 million people, mostly children, benefited from food stamps. The maximum permissible benefit for a family of four is \$434 per month while the average benefit was less than \$75 per person per month. The preponderance of applications for food stamps is due to a sharp drop in earnings, the loss of the primary wage earner, or the head of household had exhausted the 26 week maximum for unemployment insurance.

During past recessions food stamps have provided a critical sustenance to many Latinos who found themselves out of work. However, the share of the Hispanic population eligible for food stamps in this downturn is much smaller. The 1996 welfare reform law made most legal immigrants who have not acquired U.S. citizenship ineligible for food stamps (unauthorized migrants were always ineligible), and it imposed elaborate new application procedures for those who do qualify. The number of non-citizens eligible for food stamps dropped by 41 percent as a result of welfare reform, according to a Department of Agriculture study. In 1996, 4.7 million Latinos received food stamps. By 2000 improved economic status and the effects of welfare reform had brought the number down to 3.1 million Latinos, less than one-fifth of the total participants according to the Agriculture Department.

### Health Insurance



Two in five Hispanics of working age do not have any health care insurance even when they are fully employed. Among all workers who get health care coverage through their jobs, about 30 to 40 percent lose their insurance when they lose their jobs, according to a recent report by the Commonwealth Fund. Most workers can “buy back” into their health care plans by making payments under the COBRA program, but relatively few do—about one-fifth—because of the high cost of the premiums. Latinos are less likely than workers of other racial and ethnic groups to have COBRA coverage. Under federal law workers at firms with fewer than 20 employees are not eligible for COBRA, and Latinos are disproportionately overrepresented in such firms.

## ***V. CONCLUSIONS: AFTERSHOCKS OF RECESSION***

Having gone into this recession in better overall economic shape than ever before, Hispanic workers may suffer less than they have in past downturns. But unemployment losses have been heavy and Hispanics are still in for a prolonged period of losses as this recession runs its course. For Hispanics this downturn is already about 15 months old, given that their unemployment rate started to tick up in September 2000, a full six months before the official start date of the recession. And, even under the most optimistic scenarios, it will take Latinos until 2004 to fully recover, leaving them lagging behind the economic upswing by up to a year or more.

***As with the U.S. economy as a whole, the long-term prospects for Latinos are good. But, this four-year period of recession and recovery could prove a costly economic detour for the Hispanic population given its particular characteristics.***

As with the U.S. economy as a whole, the long-term prospects for Latinos are good. But, this four-year period of recession and recovery could prove a costly economic detour for the Hispanic population given its particular characteristics. Large numbers of young people and recent immigrants are still establishing their place in the workforce and in society. The prolonged effects of this recession potentially will complicate that process. The downturn also threatens to stall the economic progress marked by the growing Latino middle class.

The last years of the 1990s expansion produced notable benefits for both of these broad swaths of the Latino population—those who are just getting started and those who were well-established and moving ahead. The unskilled might

only earn poverty wages, but jobs were so plentiful that they did not have to worry about going unemployed. Latino voters were making themselves felt in U.S. politics. And, Latino popular culture had penetrated the mainstream market enough to make Hispanics and Hispanic ways a much more familiar aspect of the American landscape for many whites and African Americans. Finally, 2000 census counts released last spring quantified extraordinary demographic growth and gave formal recognition to the Latino population's place as a large and permanent member of the American family.

The recession and the long recovery will not neutralize all of this forward momentum, but it will be slowed. Whether this will be a drastic redirection for the Latino population depends on many factors not the least of which are the length of the recession and the pace of the recovery. Also, several policy proposals put forth by both Democrats and Republicans could mitigate some of the economic losses faced by Latinos by either strengthening safety net programs or stimulating renewed economic growth. Regardless of how these factors play out, the new recession has already closed one chapter in the Latino story—the exuberant economic gains and the ready jobs of the late 1990s. The beginning of the next chapter is being written in this recession.

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