U.S. employment growth stalled during the past year. Despite some recent episodes of relatively strong job additions, net employment growth dropped from a year-over-year change of 3% in January 1995 to only 1.5% in March 1996. Historically, such decelerations often occur before recessions, but this is not always the case, as the mid-eighties showed. Currently, the market and professional forecasters seem to believe that the economy is experiencing a temporary slowdown, rather than a full-blown recession.

A review of the past year's state employment figures supports this impression. Almost by definition, recessions reflect employment reductions in a significant number of states. One useful way to gauge the health of state labor markets is to measure their current rate of employment growth relative to their long-run growth (over the past 15 years). This accounts for trend differences, like migration toward the Sunbelt states, that are not features of the business cycle.

In each recession of the past 16 years, as dated by the National Bureau of Economic Research, a majority of states experienced slow or negative employment growth. ("Slow" is defined as a rate that is less than half of what a state typically experiences.) During the mid-eighties, although there were 16 such states, the economy ultimately (continued on next page)
picked up again without entering a recession.

The current distribution of state growth rates is remarkably balanced. As of March 1996, 23 states had employment gains that were below their 15-year growth rate, while five states were at less than half their average rate: Alaska, Maine, Maryland, Wisconsin, and Hawaii (where the change was negative). The slower-growing states were offset by eight whose net jobs growth was more than double their long-run rate, including Illinois, Louisiana, and Oregon.

In any case, this pattern suggests a substantial slowdown from January 1995, when more than half of all states were growing at rates that more than doubled their long-run averages, and only two had slow growth. Some major states, like Pennsylvania, Michigan, and Ohio, were exhibiting net job additions as high as three times their long-run averages. Jobs growth in these three states is now proceeding at about half that pace. Indeed, these states probably could not sustain such robust growth rates, which would rapidly deplete their slow-growing labor forces.

In general, the current employment slowdown has occurred fairly evenly, with states maintaining their relative rankings, albeit at a lower rate of jobs growth.