Joint Economic Committee Republicans

Senator Sam Brownback *Ranking Member*
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RECENT ECONOMIC DEVELOPMENTS

September 14, 2010

Uncertainty Looms

While it appears that the nearly trillion-dollar government stimulus along with massive other government interventions—such as the Federal Reserve's unprecedented increase in the money supply—helped the economy achieve a few quarters of positive growth, it is unclear whether these interventions will have a lasting effect. Uncertainty about future tax rates and growth potential in the United States (sparked by massive deficit and debt increases) has caused businesses to be hesitant to expand or increase employment and individuals to be more cautious with their spending and investments. With employment still declining and the unemployment rate still well above 9%, the labor market has not shown significant signs of improvement. And the housing market has been an even greater drag on growth than had previously been predicted. While it is clear that this will not be a U-shaped recovery, it seems the best we can hope for is low-level, gradual growth without a double-dip recession.

Highlights

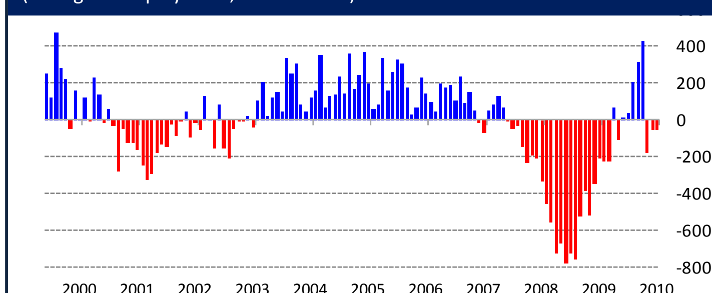
- The *unemployment rate* edged up to 9.6% in August (Fig. 1).
- *Payroll employment* fell by 54,000 in August (the private sector gained 67,000). Employment has fallen by 7.6 million since the recession began (Fig. 2).
- *Productivity* turned negative (-1.8%) in the 2nd quarter of 2010 (Fig. 3).
- *GDP* grew at a 1.6% annualized rate in the 2nd quarter, following 3.7% growth in the 1st quarter (Fig. 4, next page).
- *Consumer credit* continues to decline and is now $164 billion below its July 2008 peak (Fig.5, next page).
- *Home sales* plunged in July, with existing home sales down 27.2% and new single-family home sales down 12.4% (Fig. 6, next page).

Unemployment at 9.6%; Payroll Employment Still Falling and Down by 7.6 Million Since Start of Recession. The unemployment rate edged up to 9.6% in August and has been in the range of 9.5% to 9.9% since January of this year (Fig. 1). The size of the labor force rose by 550,000 in August, after having declined by 1.2 million over the prior three months. The labor force remains 650,000 below its peak in May of 2008, and is 4.7 million below what it would have been had labor force growth continued at its 2004 to 2007 pace of growth. Payroll employment fell by 54,000 in August after also declining by 54,000 in July and by 175,000 in June (Fig. 2). These declines were primarily caused by the loss of temporary Census jobs, which were responsible for a large portion of the sizeable gains in employment over the previous months.

Civilian Unemployment Rate Fig.1
(Percent of civilian labor force unemployed)

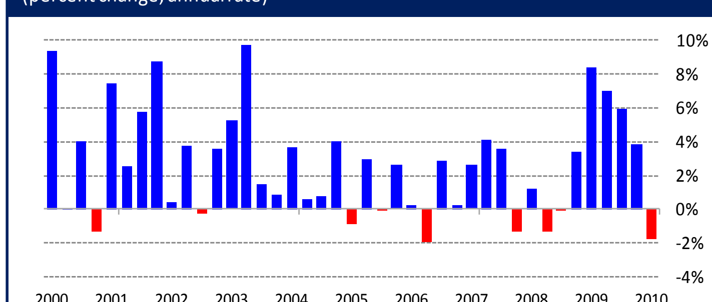
Source: Bureau of Labor Statistics; gray bars denote recessions

Payroll Employment Since 2000 Fig.2
(Change in employment, in thousands)



Source: Bureau of Labor Statistics

Productivity Growth Since 2000 Fig.3
(percent change, annual rate)



Source: Bureau of Labor Statistics

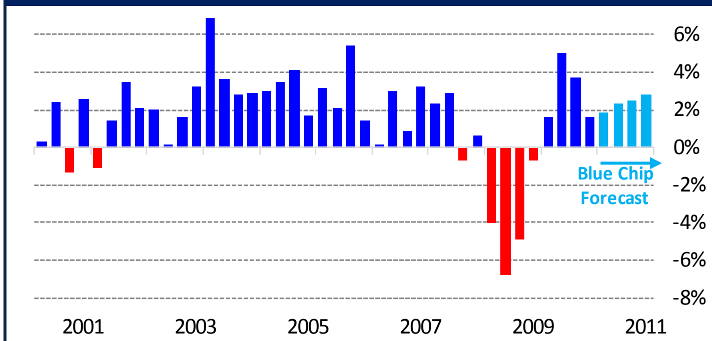
Productivity Growth Turns Negative. After growing at an exceptional pace between the 2nd and 4th quarters of 2009, productivity declined 1.8% in the 2nd quarter of 2010 (Fig. 3, previous page). The recent decline in productivity signals that businesses have squeezed all they can out of their current workforce, and if they desire to increase production, they will need to hire more workers. However, weak economic growth and an adverse or uncertain business and tax environment could prove significant threats to increased production.

GDP Grew at a 1.6% Annualized Rate in the 2nd Quarter. Real GDP rose at a 1.6% annualized rate in the 2nd quarter, following a 3.7% rate in the 1st quarter and a 5.0% rate in the 4th quarter of 2009 (Fig. 4). The larger increases in real GDP in the 1st quarter of 2010 and the 4th quarter of 2009 were primarily due to the restocking of depleted inventories. Recent GDP growth has fallen short of expectations. In June of 2010, the Blue Chip Consensus (BCC) predicted growth rates of 3.0% in the 3rd quarter of 2010 and 3.1% in the 4th quarter (and had predicted growth of 3.5% for the 2nd quarter). Since then, the BCC has lowered its forecast to 2.3% for the 3rd quarter and 2.5% for the 4th quarter. As such, it seems recovery efforts to date have not achieved their desired, lasting effect.

Record Consumer Credit Decline Continues. Consumer credit has experienced a record decline, having fallen in 20 of the last 22 months (Fig. 5). A previously reported increase in credit in April was revised to a decline, and consumer credit is now $163 billion below its peak from July of 2008 (the next largest decline on record was $16 billion between 1990 and 1992). This unprecedented decline will take significant time and activity to recover.

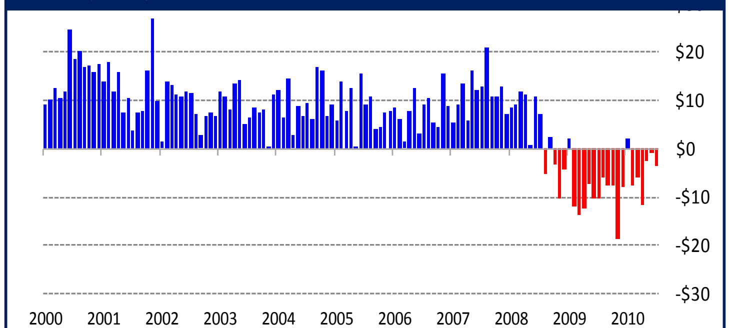
Housing Market Down Sharply Following Tax Credit. Although sales fell even before the previously scheduled expiration of the homebuyer tax credit in June (for which the closing date expiration has been extended from June 30th to September 30th), both new and existing home sales fell sharply in July to levels not seen in decades (Fig. 6). In July, existing home sales plunged 27.2% (single-family existing sales fell 37.1%) while new single-family home sales fell 12.4%. New single-family home sales are at their lowest level since records began in 1963 and existing single-family home sales are at a level not seen since 1995. Despite significant efforts and federal spending aimed at reducing foreclosures and improving the housing market, housing continues to be serious hindrance to economic recovery. Perhaps the only positive aspect of the housing market is record low mortgage rates for those who are able to obtain financing.

Economic Growth Since 2000 Fig.4
(Inflation-adjusted annualized GDP growth)



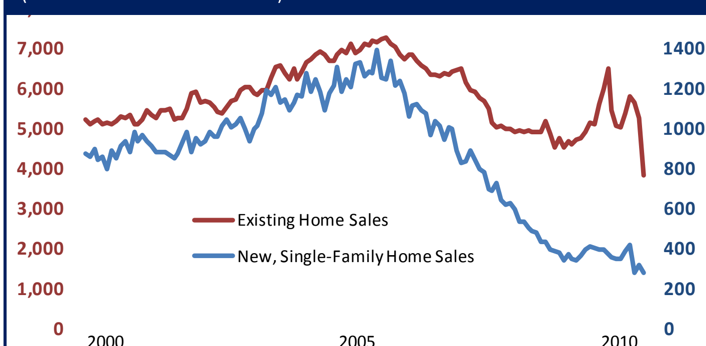
Sources: Bureau of Economic Analysis; Blue Chip Economic Indicators 9/10/2010

Change in Consumer Credit Outstanding Fig.5
(monthly change, in billions)



Source: Federal Reserve Board

Existing and New Home Sales Fig.6
(Annualized units in thousands)



Source: National Association of Realtors

Upcoming Indicators

Federal Reserve – The Fed's next policy meeting is scheduled for September 21.

GDP – The third estimate of 2nd quarter GDP is scheduled for release on September 30.

Employment – The Bureau of Labor Statistics reports on the September employment situation on October 1. State and Regional Employment for August will be released on September 21.