Joint Economic Committee
Republicans
Representative Kevin Brady
Vice Chairman Designate

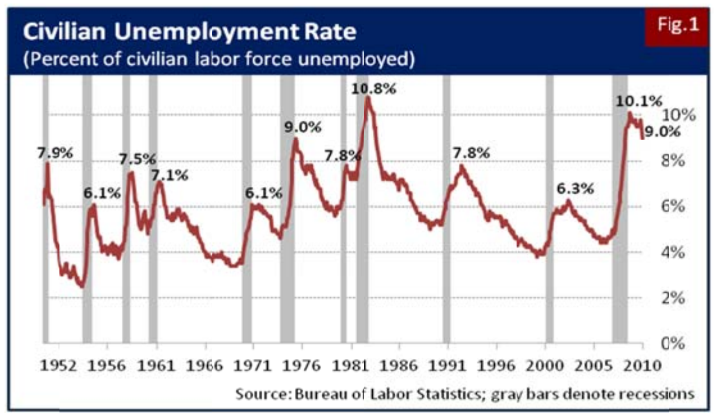
RECENT ECONOMIC DEVELOPMENTS 2/15/2011

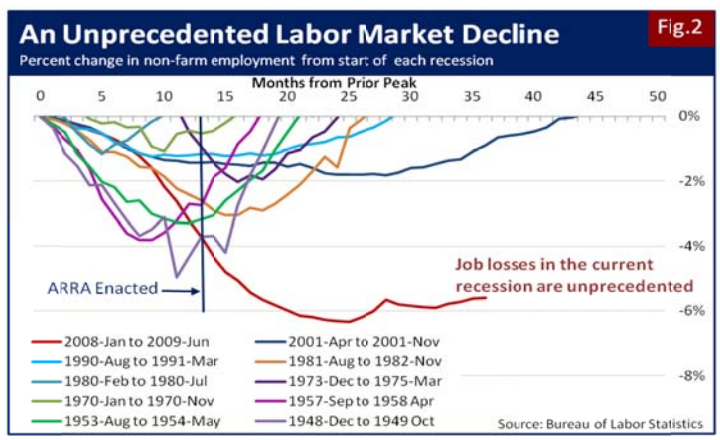
Economy On The Mend, But Where Are The Jobs?

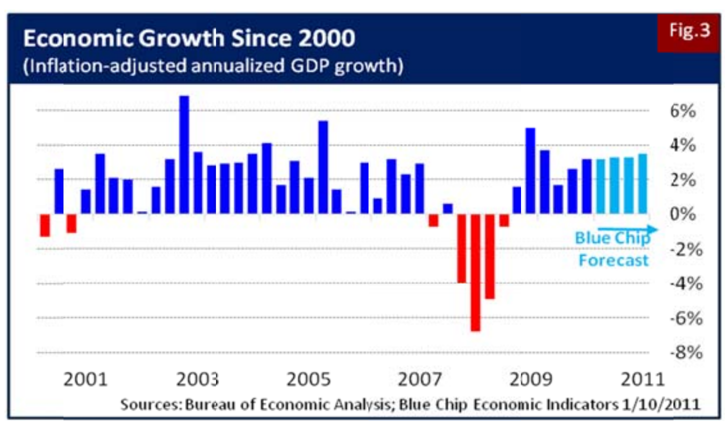
A number of economic indicators suggest that the pace of recovery is accelerating after more than a year of sub-par improvement. Households and businesses appear more optimistic about the future, and a now sustained increase in consumer credit suggests a welcome improvement in both the availability of credit as well as consumers' willingness to spend. However, the labor market remains troubled. Although the unemployment rate has fallen, the eventual re-entry of millions of discouraged workers who have left the labor force will place upward pressure on the unemployment rate for some time. Indeed, Chairman Bernanke said it will be years before the unemployment rate returns to more normal levels. And while the first round of quantitative easing (QE1) arguably produced the intended effects, the same cannot be said of the most recent round of quantitative easing (QE2).

Highlights

- The ***unemployment rate*** fell to 9.0% in January as more than half a million workers left the labor force (Fig. 1).
- ***Payroll employment*** increased by 36,000 in January but remains 7.7 million below its pre-recession level (Fig. 2).
- ***GDP*** grew at a 3.2% annualized rate in the 4th quarter, following 2.6% growth in the 3rd quarter (Fig. 3).
- ***Consumer credit*** has increased by $16 billion over the past three months, after declining $187 billion (Fig. 4, next page).
- The ***ISM indices*** have picked up to levels not seen since 2004 and 2005. (Fig. 5, next page).
- Interest rate responses to QE2 have been apathetic, if not adverse (Fig 6, next page).







Unemployment falls to 9.0%; Payroll Employment Rising but Far Below Previous Recoveries. The unemployment rate fell 0.4 percentage point in both December and January, from a rate of 9.8% in November to 9.0% in January (Fig. 1). Despite the decline in the unemployment rate, job gains have been lackluster over the past months. Payroll employment increased by 36,000 in

January, after rising 121,000 in December and 93,000 in November. In a healthy economy, job gains of 130,000 per month are necessary to maintain a stable unemployment rate. The discrepancy of a declining unemployment rate despite deficient job gains can be explained in part by a declining labor force. More than half a million workers left the labor force in January, and the labor force is currently 6.6 million below what it would have been if the same pace of growth that occurred from 2004 to 2007 had continued.

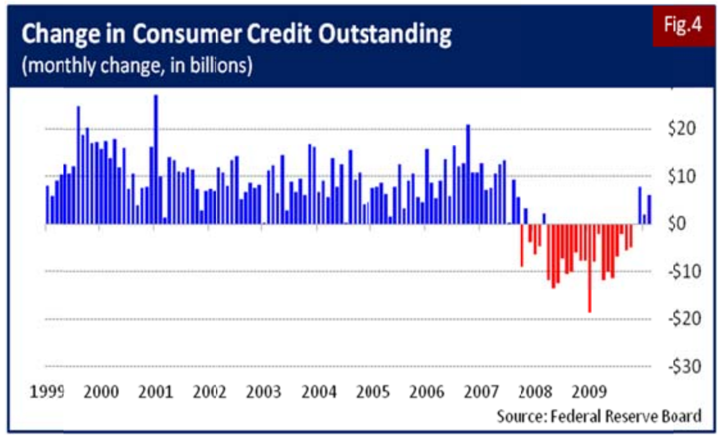
GDP Grew at a 3.2% Annualized Rate in the 4th Quarter. Real GDP rose at a 3.2% annualized rate in the 4th quarter (according to the advance estimate). This follows a 2.6% rate of growth in the 3rd quarter and a 1.7% rate in the 2nd quarter (Fig. 3, previous page).

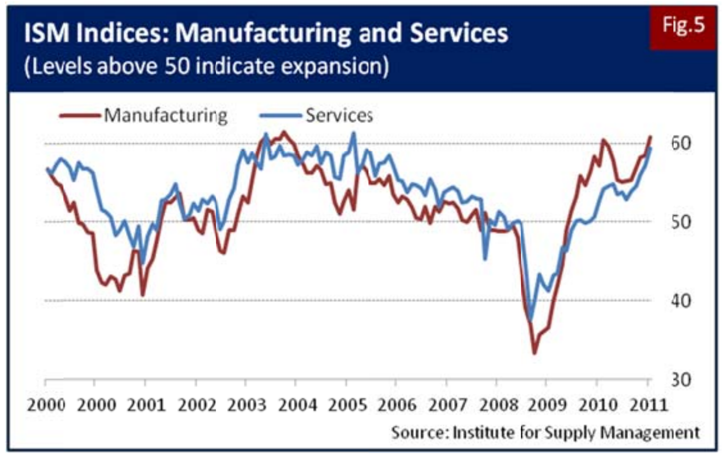
Consumer Credit Continues to Rise. Beginning in October, consumer credit reversed trend with three consecutive months of increase over which credit has expanded by $16 billion (Fig. 4). And December of 2010 marked the first time in 28 months—since August of 2008—that revolving credit (i.e., credit cards) increased. The past three months' increase in total credit follow a record 20 consecutive months of decline and a record $187 drop in credit. This massive deterioration, which was more than 11 times the next largest decline on record, will take significant time and activity to recover.

Net Worth on the Mend. Net worth of households and non-profits also appears to be on the mend. After declining by $1.4 trillion in the 2nd quarter of 2010, net worth increased $1.2 trillion in the 3rd quarter and is expected to rise in the 4th quarter. Net worth declined by $16.8 trillion from the 2nd quarter of 2007 to the 1st quarter of 2009, and has since regained $6.0 trillion of that loss.

ISM Indices Indicate Expansion. The ISM manufacturing index rose to a seven-year high of 60.8 in January while the ISM services index rose to a more than five-year high of 59.4 (Fig. 5). As levels above 50 indicate expansion, these indices suggest that the pace of recovery may be accelerating.

Fed's QE2 Not Producing Intended Effects. On November 3rd, the Federal Reserve announced a second round of quantitative easing (QE2) whereby it is purchasing an additional $600 billion of longer-term treasury securities (in addition to earlier QE1 purchases totaling $1.75 trillion). Although it appeared markets responded favorably to QE1, the upshot of QE2 has been an increase in interest rates (Fig. 6). The 10-year Treasury rate has risen 101 basis points since the announcement of QE2, and mortgage rates have risen 78 basis points (as of Feb. 11th). The rise in mortgage rates will certainly not help the still troubled housing market.





Upcoming Indicators

- **Employment –** The Bureau of Labor Statistics reports on the February employment situation on March 4.
- **GDP –** The second estimate of 4th quarter GDP is scheduled for release on February 25th.
- **Federal Reserve –** The Fed's next policy meeting is scheduled for March 15.