

## Economic Update: Happy Anniversary! Sort of...

by Patrick J. O'Keefe, Director of Economic Research

According to the National Bureau of Economic Research ("NBER"), the official arbiter of the business cycle, the recession ended and recovery began three years ago (June 2009).

### *Happy anniversary!*

The NBER determined the 2008-2009 contraction had been "the longest of any recession since World War II," exceeding those of the mid-1970s and early-1980s. (Chart 1)

### *Happy anniversary! Sort of...*

But in marking the beginning of the recovery, the NBER offered the caveat: "Economic activity is typically below normal in the early stages of an expansion, and it sometimes remains so well into the expansion."

Although the Bureau's comment regarding slow growth described the early quarters of the recovery (NBER's statement issued some 15 months after it began), it was prescient. The current recovery not only started lower, it has proceeded slower than the two durational also-rans. (Chart 2)

### Output

As measured by real Gross Domestic Product ("GDP")—that is total output of goods and services adjusted for inflation—the economy had recovered fully from

the two earlier downturns within three quarters of their "official" ends.

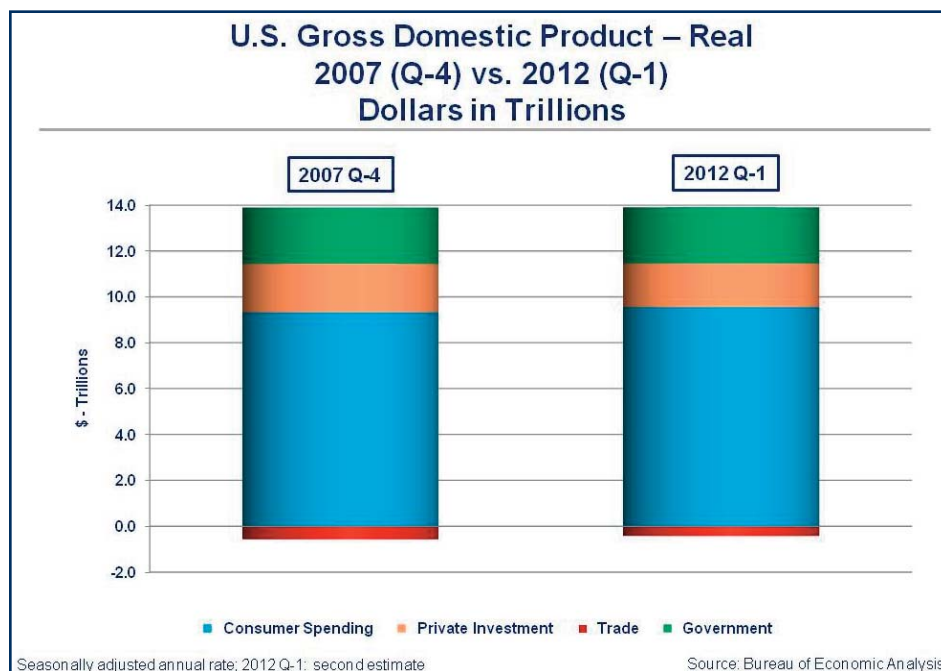
But the 2008-2009 decline was more severe than its durational also-rans, and was exacerbated by meltdowns in financial and property markets. As a consequence of the downturn's depth and the recovery's laggardly pace, it took nine quarters for real GDP to return to its pre-recession level.

In the first quarter of 2012, after eleven consecutive quarters of growth, real GDP is 1.2% larger than at the end of 2007. (Chart 3)

### Employment

The jobs recovery began in March 2010, when private sector employment rose for the first time in more than two years. Since then, private employers have added jobs for 27 consecutive months; over that period, adjusting for 2010's Census-related spike, public sector employment has trended downward. (Chart 4)

On net, the jobs recovery has resulted in an increase in total employment of 3.8 million (2.9%)—with private employment gains of 4.3 million partially offset by a loss of 500,000 public sector jobs.



Despite the net improvement, there were 5.0 million fewer jobs in May 2012 than at the end of 2007; private counts are down 3.9% and government jobs off 1.8%. (*Chart 5*)

The jobs recovery's gains have been concentrated in the private sector, but unevenly distributed within it. Compared to their pre-recession shares of private employment, three industries which comprised less than one-tenth of all private jobs—professional/technical services (6.3%), temporary help (2.2%), and resource extraction (0.6%)—accounted for more than one-quarter of the rebound (respectively: 11.5%, 12.2%, and 3.8%).

Conversely, retail and construction (pre-recession shares of 13.6% and 6.5%) have significantly underperformed (8.5% and -0.3%).

### Incomes

After slumping during the downturn, total and after-tax incomes are substantially above pre-recession levels. (*Chart 6*)

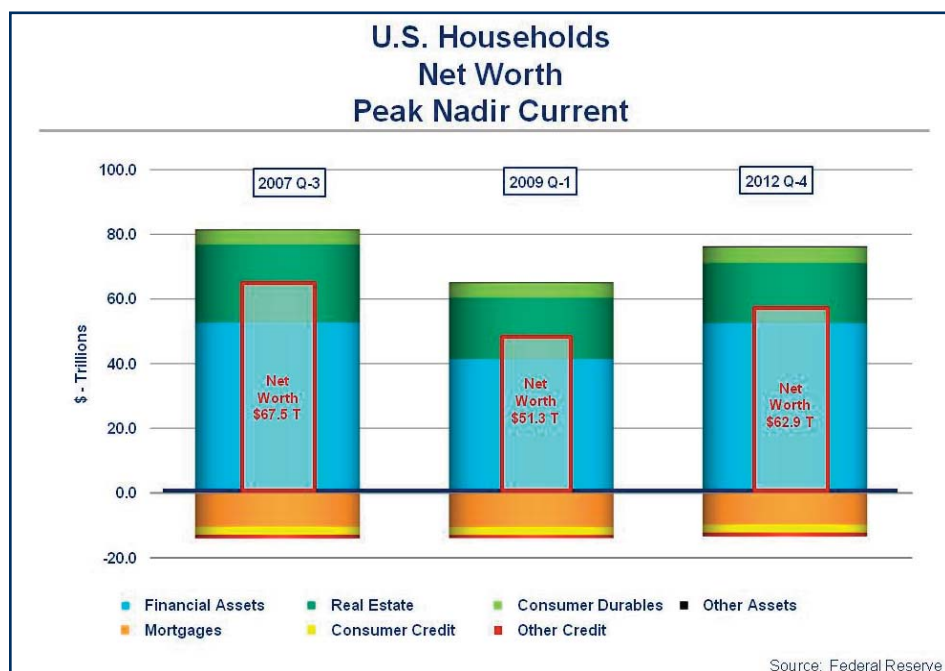
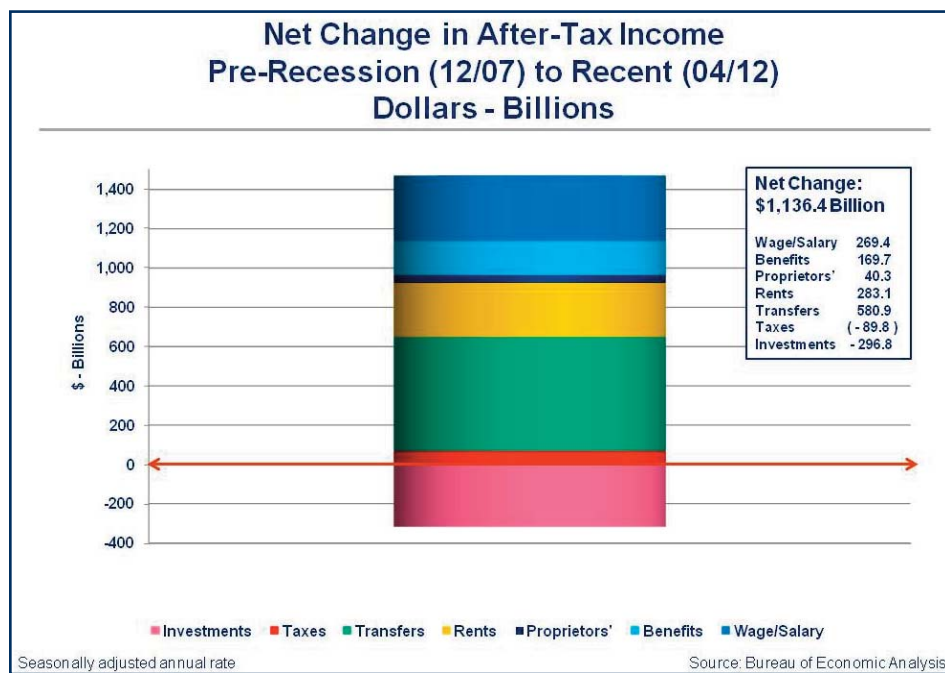
Indeed, compared to immediately before the downturn (December 2007), nominal after-tax incomes have increased \$1.1 trillion (10.6%). But the impact of the weakness of the jobs recovery is readily apparent in the composition of the after-tax net. (*Chart 7*)

Wage and salary disbursements (i.e., dollars in paychecks) comprise less than one-quarter (23.7%) of the net gain, while income transfers account for one-half (51.1%).

It is unsurprising that earnings would contribute a diminished proportion of after-tax incomes during a downturn and early in a recovery. Of concern, however, is that earnings' share has been bottom-bouncing despite more than two years of jobs growth. (*Chart 8*)

### Consumer Spending

Real household incomes are near 2008's



stimulus-augmented peak. (*Chart 9*) As a result, consumer spending—adjusted for inflation—has trended upward since mid-2009. (*Chart 10*)

Retail sales, which account for almost 45% of total consumer spending, have also been rising steadily. (*Charts 11 and 12*)

Prior to May, consumer sentiment had been improving robustly, recording the

largest nine-month increase since 1983. (*Chart 13*) And as households gained confidence, they bolstered spending by reducing savings. (*Chart 14*)

### Net Worth

In the first quarter of this year, household net worth was \$62.9 trillion. (*Chart 15*) Although down 6.8% from the mid-2007 peak, it was substantially higher (22.6%) than its post-meltdown nadir, when it was down 24.0%. (*Chart 16*)

Much of the yo-yoing of household sector's bottom-line reflected the swing in financial asset values, which plummeted more than one-fifth (21.5%) during 2008's panic. In the ensuing rebound, they recouped all but a sliver (1.8%) of those losses.

Although households' financial assets have recovered, their tangible assets—more specifically, owner occupied homes, the primary asset of most households—remain more than one-fifth (22.8%) below the mid-2007 peak. (*Chart 17*)

Consequently, homeowner equity is at an all time low. (*Chart 18*)

The recovery in financial asset values has certainly contributed to the sustained

rise in consumer spending. But it has been largely offset by the drag of homeowner equity.

*Happy anniversary! ...Sort of*

As noted earlier, the recovery from the 2008-2009 contraction started lower and has proceeded slower than earlier protracted downturns. Its sub-par pace has produced uneven results, most evidently in the labor market.

On most indicators, the U.S. economy has decelerated during the most recent quarter (April-June); but it appears that the economy is slowing, not contracting. And while there are any number of fiscal and credit-related issues—in the U.S. and abroad—with the potential to

derail the recovery, they have been contained (at least thus far).

So let's celebrate (sort of) three years of economic expansion and look forward to continued (but slow) growth for the remainder of 2012. As to 2013 and beyond, let's see what the autumn brings. ■

*Accompanying charts appear on the following pages.*



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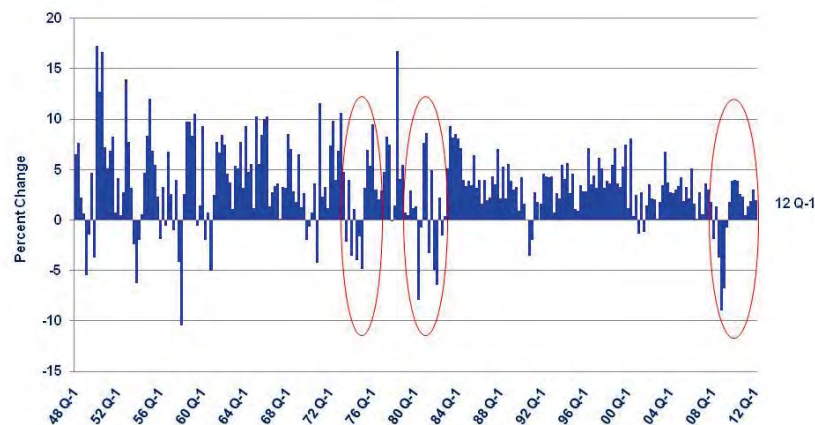


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Summer 2012

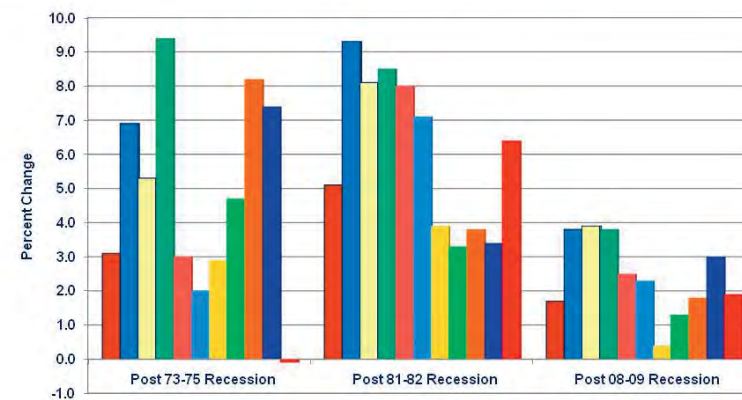
**Chart 1** U.S. Gross Domestic Product - Real  
Percent Change - Quarterly  
1948 – 2012



Seasonally adjusted annual rate; 2012 Q-1: second estimate

Source: Bureau of Economic Analysis

**Chart 2** U.S. Post-Recession Recovery Rates  
Real Gross Domestic Product  
Quarterly Percent Change



Seasonally adjusted annual rate; 2012 Q-1: second estimate

Source: Bureau of Economic Analysis

**Chart 3** U.S. Gross Domestic Product – Real  
2007 (Q-4) vs. 2012 (Q-1)  
Dollars in Trillions



Seasonally adjusted annual rate; 2012 Q-1: second estimate

Source: Bureau of Economic Analysis

**Chart 4** U.S. Employment  
Monthly Change - Private and Public  
2008 - 2012



Seasonally adjusted

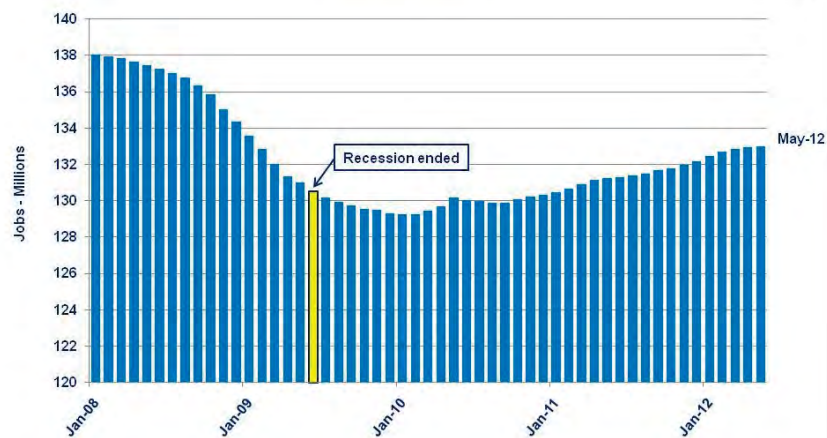
Source: Bureau of Labor Statistics

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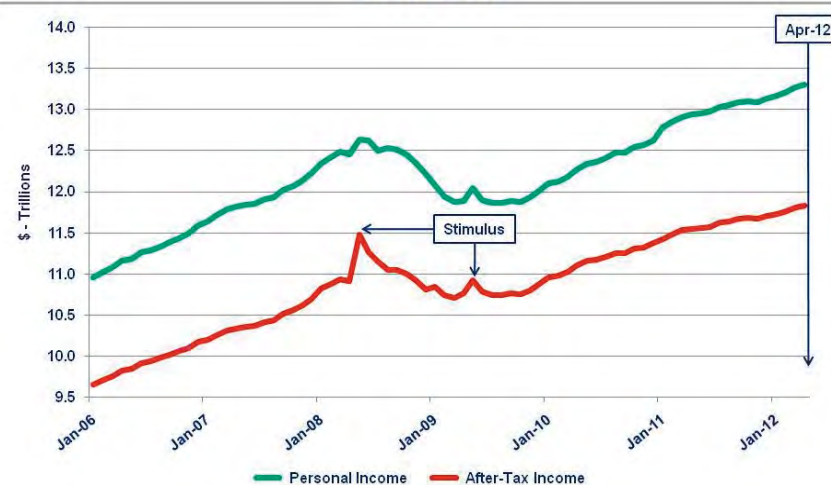
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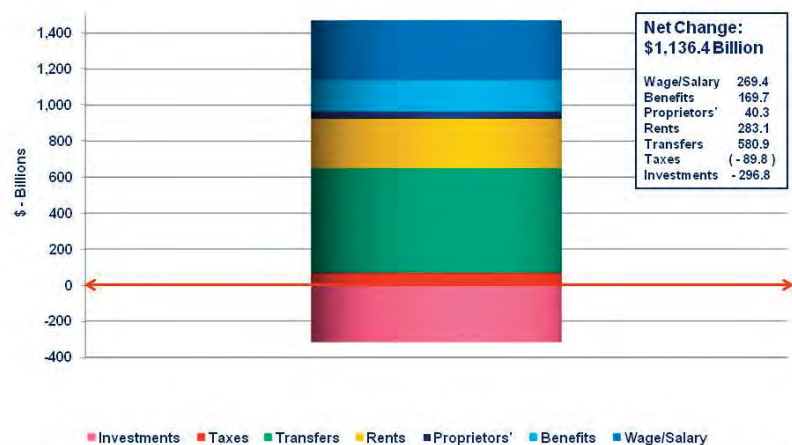
**Chart 5**  
U.S. Total Nonfarm Employment  
2008 - 2012



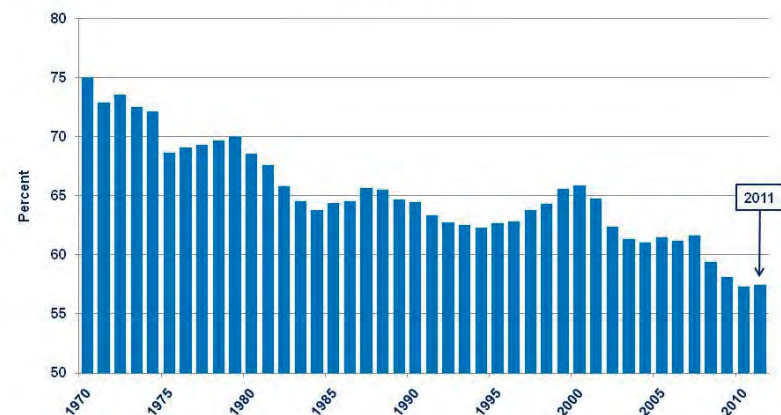
**Chart 6**  
U.S. Personal Income  
Total and After-Tax  
2006 - 2012



**Chart 7**  
Net Change in After-Tax Income  
Pre-Recession (12/07) to Recent (04/12)  
Dollars - Billions



**Chart 8**  
U.S. Wage & Salary Income  
As Percent of After-Tax Income  
1970 - 2011





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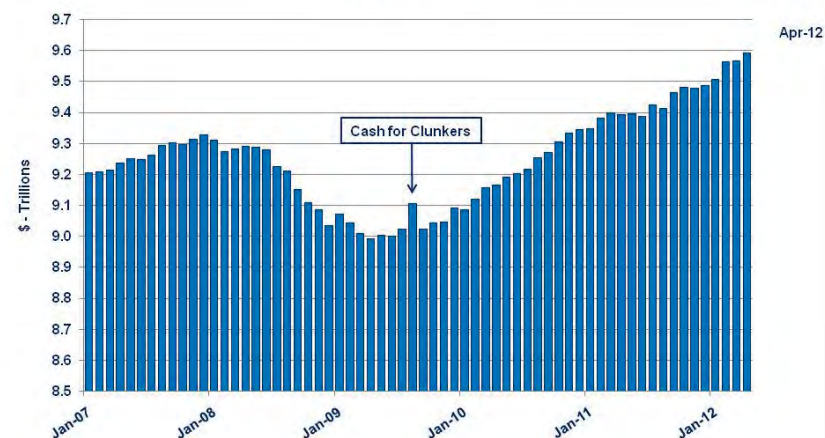
**Chart 9** U.S. Personal Income – Real  
Total and After-Tax  
Dollars - Trillions



Seasonally adjusted annual rate

Source: Bureau of Economic Analysis

**Chart 10** U.S. Personal Consumption Expenditures – Real  
Dollars - Trillions  
2007 - 2012



Seasonally adjusted annual rate

Source: Bureau of Economic Analysis

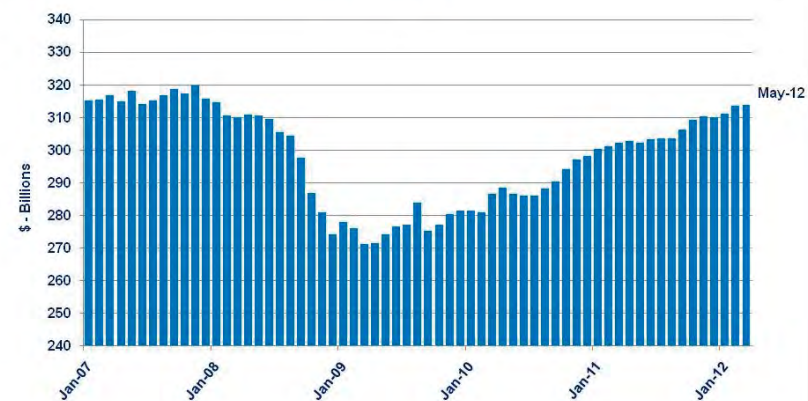
**Chart 11** U.S. Retail Sales  
Total and Ex-Autos  
2005 - 2012



Seasonally adjusted

Source: Census Bureau

**Chart 12** U.S. Retail Sales - Real  
Dollars - Billions  
2007 - 2012



Market based PCE deflator (2005=100); seasonally adjusted

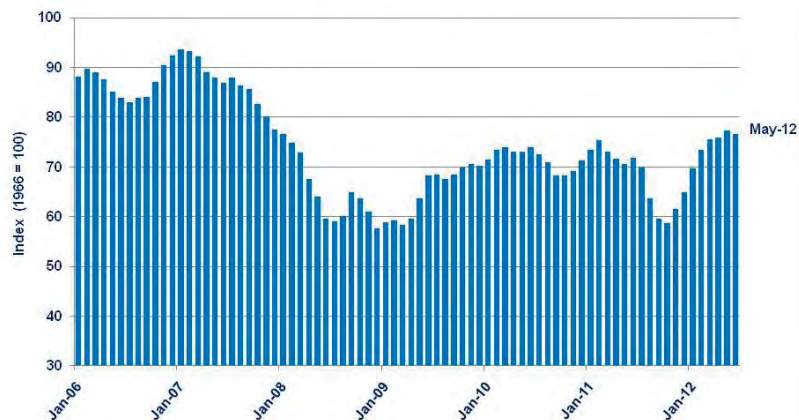
Sources: Census Bureau and Bureau of Economic Analysis

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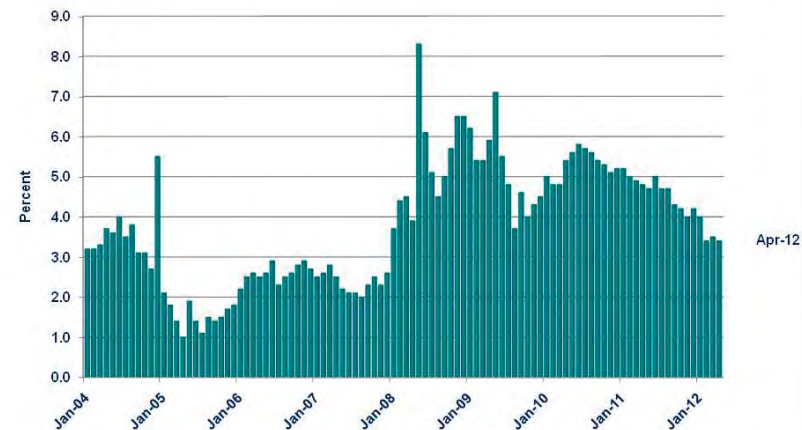
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**Chart 13 Consumer Sentiment Index - 3 Month Average**  
Thomson Reuters/Michigan University  
2006 - 2012



Source: Reuters/University of Michigan

**Chart 14 U.S. Personal Savings Rate**  
Savings as Proportion of After-Tax Income  
2004 - 2012



Seasonally adjusted

Source: Bureau of Economic Analysis

**Chart 15 Households' Net Worth**  
2007 - 2011  
\$ - Billions

		2007 Q-3	2012 Q-1	% Δ
<b>Assets</b>		<b>81,494.1</b>	<b>76,298.2</b>	<b>-6.4%</b>
	Financial	52,723.1	52,524.1	-0.4%
	Real Estate	24,091.1	18,607.8	-22.8%
	Consumer Durables	4,421.6	4,821.2	9.0%
	Other	258.3	345.1	33.6%
<b>Liabilities</b>		<b>14,034.8</b>	<b>13,432.6</b>	<b>-4.3%</b>
	Home Mortgages	10,435.3	9,733.7	-6.7%
	Consumer Credit	2,479.3	2,494.5	0.6%
	Other	1,120.2	1,204.4	7.5%
<b>Net Worth</b>		<b>67,459.2</b>	<b>62,865.6</b>	<b>-6.8%</b>

\*Includes nonprofit organizations

Source: Federal Reserve

**Chart 16 U.S. Households Net Worth**  
Peak Nadir Current



Source: Federal Reserve

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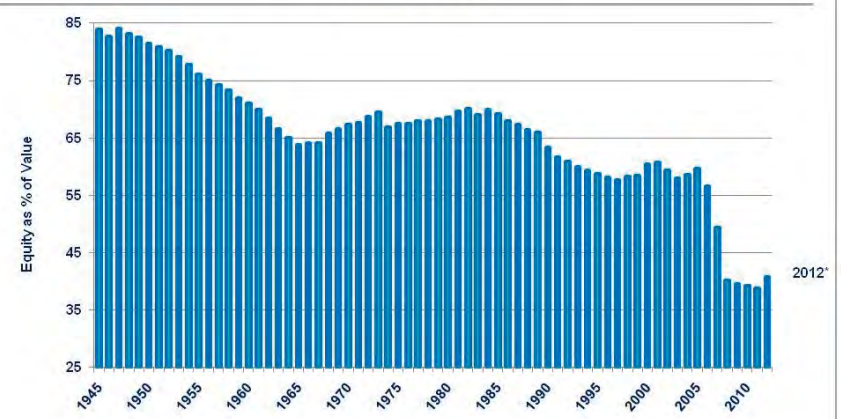
**Chart 17** Households<sup>1</sup> Net Worth  
2007 - 2011  
\$ - Billions

		2007 Q-3	2012 Q-1	% Δ
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<sup>1</sup>Includes nonprofit organizations

Source: Federal Reserve

**Chart 18** U.S. Homeowner Equity  
1945-2012



Owners' equity as percentage of real estate value at end of year, \*2012 Q-1

Source: Federal Reserve