Has the U.S. economy recovered?

The slow economic recovery from the recession of 2007-09 continues, with forecasters generally projecting the U.S. economy will grow at an annual rate of about 3 percent in the coming quarters. They also foresee an improving jobs picture, although many Americans remain outside the job market and those who do have jobs have seen earnings stagnate. New Federal Reserve Chair Janet Yellen says she will follow the policy of her predecessor Ben Bernanke in tapering the central bank’s monetary stimulus program known as quantitative easing, but that she will keep the program going as long as the economy needs the boost. The European Union, the largest U.S. trading partner, is also beginning to show signs of recovery.

Economists generally agree the United States has freed itself from the hole caused by the recession that began in December 2007, technically ended in June 2009, and pushed the unemployment rate to 10 percent by the fall of 2009. Market observers say that as of mid-2014 the gross domestic product (GDP), the broad measure of economic health, is positioned to expand between 2.8 percent and 3 percent a year over the next 18 months or so, perhaps slightly more than 3 percent. That’s a recovery, but one of the most lackluster and protracted in modern times and “an enigmatic and uneven generator of broad prosperity,” as a recent Wall Street Journal report characterized it.

The Employment Picture

The most recent job report numbers, while suggesting moderate growth on one level, send a mixed message upon closer examination. In early June, the Bureau of Labor Statistics (BLS) reported that the total number of civilian jobs in May was at an all-time high of 138.46 million. That marked the point when the nation recaptured all the jobs lost in the recession, although the population has also grown. It was the fourth month in a row that the economy added more than 200,000 jobs. Unemployment in May was 6.3 percent, unchanged from the previous month, and the lowest since September 2008.

However, as in the previous month, the BLS report also contained troubling undercurrents. The labor force participation rate — the share of Americans 16 or older who are actively seeking work or have a job — was unchanged from April and matched the January level, which was the
lowest since 1978. About 92 million Americans 16 or older were not in the labor force in May, according to the BLS. Those employed part time, either because they had their hours cut or couldn’t find full-time work, came in at 7.3 million, little changed from April and nearly 3 million higher than before the recession.

**Unpretty Numbers**

Recent statistics suggest profound challenges to recovery and indicate that a return to the pre-recession days of 5.5 percent or less unemployment and robust back-to-back years of economic growth are at least many months off.

Although the economy has been expanding since the end of the recession, that expansion remains sluggish, with the GDP in the first quarter of 2014 shrinking at an estimated annual rate of 1 percent. That’s down from an increase of 2.6 percent in the fourth quarter of 2013.

Economists assert, however, that the heavy snow and freezing temperatures that swept through much of the United States in early 2014 kept consumers out of shopping malls and deterred those thinking about buying a car or house, new or used.

Despite stock market indices that are near or around record highs, and the prospect of increased hiring in coming months, many Americans are not sharing in an improving economy. A recent Census Bureau report noted that for the first time, at the end of 2011 more Americans were on one or more of the government’s means-tested benefit programs than those who held year-round full-time jobs. A record 47.6 million Americans were enrolled in the food stamp program alone in fiscal 2013, up from 33.5 million four years earlier. While corporate profits are at the highest level in 85 years, employee compensation is at the lowest in 65 years, as a percentage of the total economy.

On top of all this? Workers’ wages and benefits — which were stalled by the recession — won’t dramatically increase anytime soon, with increases of about 3 percent for the year, or a net gain of 1.6 percent after inflation, according to the Hay Group, an international consulting firm that tracks pay trends. And while household debt in 2013 has fallen from a peak of $12.7 trillion in the third quarter of 2008, it has not fallen far. As of December 2013, total household debt stood at $11.5 trillion, and was trending back up as total debt increased 2.1 percent from the previous quarter. Still, overall consumer debt remains 9.1 percent below the 2008 peak.

**Picture Brightens**

Nonetheless, many market analysts are in rare unanimity on two fronts. They project that the economy will grow at an annual rate of around 3 percent over the next year and a half and that it will create a minimum 200,000 new jobs each month — a number that should support continuing economic improvement.
There are signs of this improvement on several fronts, but some experts note that the country still faces huge challenges.

The housing industry — the sector whose collapse in 2007 led directly to the recession — remained uneven through the spring, but is headed for an upswing during the remainder of 2014, according to analysts such as Kiplinger, the financial publisher. Existing home sales are projected to fall just short of 2013’s level of 5.1 million in 2013. Sales of new single-family homes are expected to rise by 8 percent to 470,000, on top of even stronger gains in the past two years. Yet others, including Federal Reserve Chair Janet Yellen, find the market still struggling and facing huge challenges. “One cautionary note, though, is that readings on housing activity — a sector that has been recovering since 2011 — have remained disappointing so far this year and will bear watching,” she said in May.

As the big automakers entered spring 2014, they reported sales that beat expectations. A sampling showed Chrysler sales climbed by 13 percent in March; GM saw a 4.1 percent jump; Ford, a 3.3 percent rise. Analysts estimated that the pace of auto sales climbed to an annualized total of 15.8 million units, up from 15.2 million in February.

U.S. industrial manufacturers’ outlook has risen to its brightest level in eight years, according to a leading poll. The Conference Board Consumer Confidence Index also improved in the spring, rising to 82.3 from 78.3 in late winter.

The Institute for Supply Management (ISM), whose surveys are considered a leading indicator of the economy’s direction, also registered a positive outlook. Of the 18 industries reporting, reported growth during April. The ISM survey was tempered, however, with concerns about “international economic and political issues potentially impacting demand.”

The Economic Advisory Committee of the American Bankers Association, the trade association of the nation’s $14 trillion banking industry, estimates that annual GDP growth this year will come in solidly at 3 percent compared with a 2.3 percent annual average since the end of the recession in 2009. Calling 2014 a “breakout year,” the forecast predicts improvement in employment.

The committee, which includes chief economists from the largest North American banks, cited several reasons for its modestly rosy outlook: reduced uncertainty with congressional adoption of
a two-year budget agreement without big tax increases and spending cuts; stronger business spending and a significant increase in exports; a 12.3 percent hike in investment in housing as wages increase and unemployment continues to fall; and an accommodative central bank that will continue to keep interest rates extremely low.

Alan Levenson, chief economist for T. Rowe Price, provides a different perspective. “Overall, the economy continues to grow, though at rates that are disappointing by historic standards,” he says. “Not so long ago, an economy growing at 3 percent would have been viewed as disappointing, while in the present climate, that 3 percent rate of growth is seen as very positive.”

**Janet Yellen and Tapering**

Before departing as Federal Reserve chairman in early 2014, Ben Bernanke made it clear that the unusual monetary policy known as quantitative easing, or QE, which the Fed initiated on his watch in 2008 to ward off economic collapse, was coming to a close. Under quantitative easing the Bernanke Fed pumped more than $2 trillion into the financial system through the purchase of mortgage-backed securities, Treasury notes and other instruments. In past economic cycles, the Fed would have attempted to boost the economy by cutting interest rates, but the rates it directly influences have been near zero since the 2008 financial crisis.

When Yellen took over from Bernanke in February, she began overseeing the unwinding or tapering of the Fed’s balance sheet, which had been built up through three rounds of quantitative easing under Bernanke.

Yellen asserted the Fed will continue the tapering — begun by Bernanke just before he stepped down in January — by decreasing the Fed’s monthly bond buying to $55 billion while attempting to hold one key interest rate known as the federal funds rate to between zero and one-quarter percent. She also said the Fed would continue buying mortgage-backed securities and longer-term Treasury securities, but at a reduced pace.

She emphasized the Fed would remain nimble in the face of what she has called “twists and turns” the economy still could confront. As part of that nimbleness, she has declined to give even an approximate date when the tapering would end or to say whether the Fed’s balance sheet would be shrunk to pre-crisis levels.

She also has said monetary policy would not be guided by whether the unemployment rate drops below 6.5 percent, once considered a target figure for the Fed to begin gradually raising interest rates. She asserted that the unemployment rate alone was not “a sufficient statistic to measure the health of the labor market.”

Instead, she has said, Fed policies also would be dictated by the numbers of part-time workers unable to obtain full-time jobs, the long-term unemployed and those who have dropped out of the work force entirely. The policies also would be tempered by deep concerns voiced by some
analysts that the tapering, if not strategically implemented, could unleash an unwelcome deflationary stretch.

**European Union**

The U.S. economic relationship with the 28-nation European Union (EU) is the largest in the world, generating trade in goods and services — in both directions — of about $2.7 billion a day in 2012. As the United States struggles to achieve a solid footing, the outlook for its leading international trading partner is critical.

Following a crippling 18-month decline, the EU returned to positive growth in the second quarter of 2013, continued to recover in the second half of the year, and is on the mark to continue economic expansion in 2014, though at a tepid pace.

Forecasters are guardedly optimistic that the economy of the EU will grow by 1.6 percent this year and by 2 percent in 2015, according to predictions from the European Commission. The Eurozone — the 18 countries that have adopted the euro as their national currency — will grow by 1.2 percent this year and by 1.7 percent in 2015.

While unemployment will stabilize, GDP growth of around 1 percent leaves little hope of reducing high European unemployment — more than 25 percent in Spain and Greece, for instance, and more than 50 percent among the youth in those two countries. Anemic growth rates also do not bode well for the “disturbing political divide” between the EU’s southern and northern member countries and “a further fragmentation” of EU politics, according to Desmond Lachman, a resident fellow at the conservative American Enterprise Institute in Washington.

**Black Box**

Then there is what David Payne, a staff economist at Kiplinger Letter, refers to as the “black box.” That’s a negative that might be lurking unseen and whose sudden appearance could cause major economic dislocations, similar to the bursting of the housing bubble before the financial crisis.

More recently, Ukraine was a sort of black box that remained hidden until that country’s differences with Russia exploded into the open in late winter, blindsiding financial markets. The Ukraine/Russia issue remains an imponderable for major economies — one of many, many imponderables weaving through a shaky world.

**Chronology**

2007
December  Recession officially begins.
2008
September  Global financial panic ensues following bankruptcy of Lehman Brothers Holdings
Inc., the fourth-largest U.S. investment bank. Mortgage backers Fannie Mae and Freddie Mac placed in government conservatorship. Federal Reserve announces $85 billion bailout of insurer AIG.

October-December
President George W. Bush signs bill authorizing $700 billion in taxpayer funds to shore up troubled U.S. financial institutions. U.S. auto company executives request government loans, and troubled banks including Wachovia Corp. and National City are merged with competitors. European countries tip into recession. Federal Reserve begins first round of “quantitative easing” stimulus policy, later known as QE1, by buying $600 billion in mortgage-backed securities. U.S. job losses total 2.6 million by year’s end.

2009
February-March
President Obama signs American Recovery and Reinvestment Act, or stimulus bill, providing $787 billion in funds for infrastructure, energy and other programs aimed at saving and creating jobs. Dow Jones Industrial Average falls to 6,547, having lost more than half its value in 18 months.

June
U.S. economy stops contracting, marking end to 18-month recession, the longest since World War II. Gross domestic product shrank by more than 5 percent during the period.

October
Unemployment peaks at 10.1 percent, the highest in 26 years.

2010
March
Federal Reserve ends QE1 after purchasing $1.25 trillion in securities from banks.

November
As economy continues tepid growth, Fed begins QE2, purchasing $600 billion in securities. Republicans win control of U.S. House of Representatives after criticizing $787 billion stimulus bill and promising to cut federal spending to reduce $1 trillion budget deficit.

2011
March
Indexes show 20 percent drop in home values since early 2007. U.S. unemployment rate dips to 8.8 percent.

2012
February
Obama and Congress agree to extend 2 percent payroll tax reduction and to extend unemployment benefits for the long-term unemployed.

September
Although the 2007-09 recession ended years earlier, the Fed continues its quantitative easing (QE) program, designed to pump money into the economy to help boost employment, promising to buy $40 billion worth of mortgage-backed securities per month until the economy is on a solid footing. Unemployment edges down to 7.8 percent.

December
Fed announces it will expand its QE program, purchasing $45 billion in longer term Treasury securities per month in addition to the mortgage-backed securities.

2013
January
Despite economic growth of just 0.4 percent in the last three months of 2012 and unemployment of 7.9 percent, Obama and Congress agree to raise payroll taxes 2 percent and hike income taxes on single filers making more than $400,000 per year.

March-April
$85 billion of government spending cuts known as “sequestration” begin as part of effort to reduce federal deficit. U.S. economy shows signs of continued slow recovery with annualized growth of 2.5 percent in first quarter of 2013.
Unemployment declines to 7.5 percent…. U.S. stock market hits record high.

April-June Following an 18-month decline, the European Union, the United States’ largest trading partner, returns to positive growth.

December Fed Chairman Ben Bernanke unveils the unwinding or tapering of QE, set to begin in January 2014.

2014

February Janet Yellen, newly installed Fed chair, follows Bernanke’s lead in continuing tapering.

March Economy shrinks 1 percent in the first quarter of 2014, though many attribute the dismal performance to severe winter weather during the early part of year…. A variety of surveys point to a brighter path for the economy in coming months.

April Fed slows its purchases of mortgage-backed securities to $25 billion per month and longer-term Treasury securities to $30 billion…. Unemployment falls to 6.3 percent, as 288,000 new jobs are created, yet labor participation rate drops to 35-year low.

May Yellen tells Congress the federal funds rate will remain low and that, although tapering will continue, QE will not end until the economy is on a truly solid footing…. Total number of jobs lost during recession has recovered; unemployment remains at 6.3%.

Footnotes


Ibid.


About the Author

William Crawford is a Chicago-based freelance writer specializing in business and economics.