The State and National Economy: 2014

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Introduction

• I have been more pessimistic than the consensus on economic growth since 2006, though my forecasts have been largely accurate.

• Roughly the story I told last year was that economic growth slowed considerably after 2000. Job growth in particular has lagged. The seven years before the Great Recession (2000-07) were the slowest seven years since the 1930s (until the recession).
National Employment Growth

Introduction

- After the Great Recession ended in June 2009, the same slow growth pattern reestablished itself.
- Many possible causes. Some notable ones are:
  - Slow productivity growth reasserting itself.
  - Very slow rise in educational attainment.
  - Collapse of fiscal discipline.
  - Rent seeking vs. entrepreneurship.
  - Lack of aggregate demand.
  - Income inequality
Introduction

What am I going to do today:

1. Provide some idea of where we are currently both nationally and in Ohio.
2. Discuss manufacturing and the so-called “manufacturing renascence.”
3. Discuss some forecasts by OECD, IMF, and NABE to give a feel for the current consensus.
Introduction

4. Discuss how the US stacks up compared to other countries.
Ohio vs. the region and the U.S.

• “Kasich’s talk in Davos attracts attention.”
  Joe Vardon, Columbus Dispatch, January 25, 2013.
  http://www.dispatch.com/content/stories/local/2013/01/25/kasichs-talk-attracts-attention.html

• At the World Economic Forum, Kasich discussed:
  • “Kasich also, as promised, mentioned a little about what he sometimes calls the “Ohio miracle” — or the confluence of the closing of an $8 billion budget deficit in 2011, a jobs sector that’s growing and a predicted $1 billion surplus for the state by June 30.”
  • “…We want to be one of the first movers, and we believe if we’re a first mover that not only will ‘re-shoring’ occur, but we also believe that we will see a tremendous growth in manufacturing inside of our state.”
Nonfarm Employment
January 2007 - August 2013
Benchmarked to January 2007 = 100

Annual Percentage Change in Nonfarm Employment

January 2007 - August 2013

Nonfarm Employment
January 2007 - August 2013
Benchmarked to January 2007 = 100

Where we stand—summary.

- Ohio job growth lags the U.S. by about 4 percentage points since January 2007.
- The long-term pattern of Ohio lagging the nation by about 0.5 to 1.0 percentage points a year appears to reasserted itself.
- The long-term pattern of Ohio lagging Illinois, Indiana, and Wisconsin in the region, while leading Michigan, has reasserted itself.
- Claims of an Ohio miracle appear to be premature.
Is there a manufacturing renascence?

- Manufacturing’s share of GDP has remained constant since the late 1940s even as its share of the labor force has declined at about the rate of its relatively rapid productivity growth (Marquis and Trehan, 2010).
- Manufacturing’s employment share is falling over time.
- Unlike total employment, manufacturing’s employment has far from recovered from pre-recession levels in the U.S. and Ohio.
  - At the U.S. level, it has only increased 0.3 in the last 12 months.
- The cycle of Post-WWII recessions is creative destruction of labor-intensive manufacturing. Today is no different.
Shares of Nonfarm Employment in Manufacturing

Manufacturing Employment
January 2007 - August 2013
Benchmarked to January 2007 = 100


2013-2014 Agricultural Policy and Outlook Conference Series
Is there a manufacturing renascence?

- One of the key legs of the so-called ‘renascence’ stories is that energy costs are falling.
- Yet, energy costs represent a very small share of total costs and are greatly overwhelmed by labor costs and productivity changes in the U.S. and abroad.
- Other parts of the U.S. and the world have shale energy deposits, meaning the advantage will be largely cancelled out.
- For Ohio and other areas experiencing new energy development, a key limiting factor to manufacturing is that it is easier to ship the product by pipeline to the Gulf to existing industry, rather than build a whole new industry from scratch locally.
- Finally, in terms of jobs, manufacturing of today employs very few people.
## 2002 Energy Requirements for Electricity and Natural Gas in Manufacturing

<table>
<thead>
<tr>
<th>Industry</th>
<th>Direct Requirement</th>
<th>Indirect Requirement</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>0.045</td>
<td>0.073</td>
<td>U.S. Bureau of Economic Analysis</td>
</tr>
<tr>
<td>Beverage</td>
<td>0.036</td>
<td>0.121</td>
<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td>0.011</td>
<td>0.014</td>
<td></td>
</tr>
<tr>
<td>Textile</td>
<td>0.062</td>
<td>0.040</td>
<td></td>
</tr>
<tr>
<td>Textile product</td>
<td>0.044</td>
<td>0.023</td>
<td></td>
</tr>
<tr>
<td>Apparel</td>
<td>0.033</td>
<td>0.039</td>
<td></td>
</tr>
<tr>
<td>Leather and allied product</td>
<td>0.034</td>
<td>0.047</td>
<td></td>
</tr>
<tr>
<td>Wood product</td>
<td>0.032</td>
<td>0.058</td>
<td></td>
</tr>
<tr>
<td>Pulp, paper, and paperboard</td>
<td>0.080</td>
<td>0.079</td>
<td></td>
</tr>
<tr>
<td>Converted paper product</td>
<td>0.046</td>
<td>0.076</td>
<td></td>
</tr>
<tr>
<td>Printing and related support activities</td>
<td>0.030</td>
<td>0.054</td>
<td></td>
</tr>
<tr>
<td>Petroleum and coal products</td>
<td>0.051</td>
<td>0.048</td>
<td></td>
</tr>
<tr>
<td>Basic chemical</td>
<td>0.099</td>
<td>0.031</td>
<td></td>
</tr>
</tbody>
</table>

Each entry represents the output required, directly and indirectly, of the industry named at the beginning of the row for each dollar of delivery to final demand of the industry named at the head of the column.

Source: U.S. Bureau of Economic Analysis
<table>
<thead>
<tr>
<th>Industry</th>
<th>US Employment</th>
<th>OH Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pulp, paper, and paperboard</td>
<td>111,667</td>
<td>3,628</td>
</tr>
<tr>
<td>Basic chemical</td>
<td>140,957</td>
<td>10,170</td>
</tr>
<tr>
<td>Agricultural chemical</td>
<td>35,757</td>
<td>2,280</td>
</tr>
<tr>
<td>Iron and steel from purchased steel</td>
<td>83,115</td>
<td>9,007</td>
</tr>
<tr>
<td>Nonferrous metal production</td>
<td>2,694</td>
<td>561</td>
</tr>
<tr>
<td>Total for Manufacturing</td>
<td>11,487,496</td>
<td>620,308</td>
</tr>
<tr>
<td>Total US Employ</td>
<td>127,820,442</td>
<td>4,908,571</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics, QCEW
Forecasts - NABE

• NABE expects continued improvements in the housing market, though the rate of improvement will slow.

• On the policy front:
  • “About 46% of the panelists believe that this year’s cuts in federal spending (sequestration) will reduce the growth rate of real GDP for the fourth quarter of 2013 by half a percentage point or less.”
  • “The panelists suggest that there is an 80% probability that the Federal Reserve will reduce its asset purchase program in 2014.”
  • I think the end of the asset purchase program will have only a modest ‘negative’ effect on growth.
IMF Forecast

• IMF September 2013 update World Economic Outlook is, “the United States and Canada: a Modest Recovery”
• “Although growth in the United States remains tepid amid strong fiscal consolidation, improving conditions bode well for a gradual acceleration in growth.”

[emphasis in original]
<http://www.imf.org/external/pubs/ft/weo/2013/02/>
IMF Forecast

• The good news is that the IMF sees little downside risk to their U.S. forecast. They predict gradually tightening of monetary policy and continuation of the Sequester.

• Like virtually every economist, they argue the Sequester is too severe and weakens immediate growth.

• The medium term federal deficit path is fairly good. GDP/Debt ratios are approaching sustainable levels.

• One downside risk to long-term growth is the scarring of under-employed workers.
1. Real Activity Indicators\(^1\) (contribution to growth; percent)

**United States**
- Blue: Private consumption
- Red: Private nonresidential investment
- Orange: Private residential investment
- Green: Net exports

**Canada**
- Blue: Private consumption
- Red: Private nonresidential investment

**GDP growth (percent change)**
- 2000-07
- 08-09
- 10-12
- 13-14

Source: IMF Economic Outlook

2013-2014 Agricultural Policy and Outlook Conference Series
1. United States: Real GDP Growth (percent)
2. Japan: Real GDP Growth (percent)
3. Euro Area: Real GDP Growth (percent)

Source: IMF Economic Outlook
### Table: OECD Interim forecasts for GDP growth in the major economies

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>0.1</td>
<td>1.1</td>
<td>2.5</td>
<td>2.5</td>
<td>2.7</td>
<td>2.8</td>
<td>1.7</td>
</tr>
<tr>
<td>China</td>
<td>7.8</td>
<td>6.6</td>
<td>7.0</td>
<td>7.2</td>
<td>8.1</td>
<td>7.8</td>
<td>7.4</td>
</tr>
<tr>
<td>3 largest euro area countries&lt;sup&gt;2&lt;/sup&gt;</td>
<td>-2.0</td>
<td>-0.8</td>
<td>1.6</td>
<td>1.3</td>
<td>1.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0</td>
<td>3.8</td>
<td>2.6</td>
<td>2.6</td>
<td>2.4</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Germany</td>
<td>-1.8</td>
<td>0.0</td>
<td>2.9</td>
<td>2.3</td>
<td>2.4</td>
<td>0.9</td>
<td>0.7</td>
</tr>
<tr>
<td>France</td>
<td>-0.7</td>
<td>-0.6</td>
<td>1.9</td>
<td>1.4</td>
<td>1.6</td>
<td>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Italy</td>
<td>-3.7</td>
<td>-2.2</td>
<td>-1.0</td>
<td>-0.4</td>
<td>-0.3</td>
<td>-2.4</td>
<td>-1.8</td>
</tr>
<tr>
<td>UK</td>
<td>-0.9</td>
<td>1.1</td>
<td>2.9</td>
<td>3.7</td>
<td>3.2</td>
<td>0.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Canada</td>
<td>0.9</td>
<td>2.2</td>
<td>1.7</td>
<td>4.8</td>
<td>2.5</td>
<td>1.7</td>
<td>2.0</td>
</tr>
</tbody>
</table>

1. Based on GDP releases and high-frequency indicators published by the 23rd of August; seasonally adjusted. 2. Weighted average of Germany, France and Italy.

Source: OECD Interim Forecast.

http://www.oecd.org/eco/outlook/economicoutlook.htm
Conclusions

• I expect the US economy will continue to modestly expand in 2014 and avoid problems due to fiscal contraction and Europe.
  • I think Ohio will trail the US average, which is consistent with historical perspective.
  • Growth will be strongly supported by ongoing recovery in housing.
• The new normal is growth will be more restrained until we have a productivity increases-- probably due to innovation.
Conclusions

• US performance looks much better when compared to other advanced economies.

• Another strength of the U.S. and Ohio economies are the broad-based nature of their recoveries that do not rely on the strength of single industries.

• Yet, stories of a manufacturing renascence are premature.
Thank you

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