2013-2014 Agricultural Policy and Outlook Conference Series

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).
• 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

Where we stand:
• 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.

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.
• 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.