The Real Economic Recovery has Finally Stood Up

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Presented at OSU VP Economic Outlook
December 3, 2012
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Introduction

- I have been more pessimistic than the consensus on economic growth since 2006.
- Unfortunately, my pessimistic predictions have been quite accurate.
- I now think we may have some positive surprises and that the US performance is not as bad as might be thought.
  - Financial crises take a long time to recover.
- Alternatively, the “New Normal” is that the boom of the 1990s is long over. Growth will be more restrained for now.
Introduction

What am I going to do today:

1. Provide some idea of where we are currently both nationally and in Ohio.
2. Discuss some forecasts by OECD, IMF, and NABE to give a feel for the current consensus.
3. Discuss how the US stacks up compared to other countries.
4. Describe the important role of housing real estate in the forecasts and in household behavior.

5. Discuss the broad-based nature of the current economic expansion (good) and show some examples of “urban legends” in what is driving the economy.
Year over Year U.S. Employment Growth

National Employment Growth

Percent Change in Employment

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<tbody>
<tr>
<td>Change in Employment</td>
<td>-6</td>
<td>-5</td>
<td>-4</td>
<td>-3</td>
<td>-2</td>
<td>-1</td>
<td>0</td>
<td>1</td>
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</table>
Ohio Employment Growth

Year over Year Employment Growth

Percent Growth

<table>
<thead>
<tr>
<th>Month</th>
<th>Year over Year Employment Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-10</td>
<td></td>
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<tr>
<td>Mar-10</td>
<td></td>
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<tr>
<td>May-10</td>
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<td>Jul-10</td>
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<td>Sep-10</td>
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<td>Nov-10</td>
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<tr>
<td>Jan-11</td>
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<td>Mar-11</td>
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<td>May-11</td>
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<td>Jul-11</td>
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<td>Sep-11</td>
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<td>Nov-11</td>
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<tr>
<td>Jan-12</td>
<td></td>
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<tr>
<td>Mar-12</td>
<td></td>
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<tr>
<td>May-12</td>
<td></td>
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<tr>
<td>Jul-12</td>
<td></td>
</tr>
<tr>
<td>Sep-12</td>
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</tbody>
</table>
Forecasts

National Assoc. of Business Economists
October 2012 Median Consensus
Outlook: “tepid”

- They expect real GDP to increase 1.9% this year, 2.4% in 2013, accelerating to a 3% pace by the end of the year.
- Job growth will continue at about 155,000 a month. (by no means a boom)
- Housing starts are expected to increase 23% in 2012 and 13% in 2013.
Forecasts

- IMF October 2012 World Economic Outlook is 2.2% in 2012 and 2.1% in 2013. By comparison, they see all advanced economies growing 1.3% and then 1.5%.
OECD OCTOBER 2012 FORECAST

United States: Demand and output

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Fourth quarter</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Current prices $ billion</td>
<td>Percentage changes from previous year, volume (2005 prices)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP at market prices</td>
<td>15 075.7</td>
<td>2.2</td>
<td>2.0</td>
<td>2.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Private consumption</td>
<td>10 729.1</td>
<td>1.9</td>
<td>2.1</td>
<td>2.9</td>
<td>2.0</td>
</tr>
<tr>
<td>Government consumption</td>
<td>2 579.6</td>
<td>-1.0</td>
<td>-0.5</td>
<td>-0.8</td>
<td>-0.3</td>
</tr>
<tr>
<td>Gross fixed investment</td>
<td>2 298.5</td>
<td>5.7</td>
<td>4.4</td>
<td>7.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Public</td>
<td>480.2</td>
<td>-4.0</td>
<td>-0.6</td>
<td>-1.1</td>
<td>-3.2</td>
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<tr>
<td>Residential</td>
<td>338.7</td>
<td>11.8</td>
<td>12.4</td>
<td>15.6</td>
<td>13.7</td>
</tr>
<tr>
<td>Non-residential</td>
<td>1 479.6</td>
<td>7.4</td>
<td>3.8</td>
<td>6.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Final domestic demand</td>
<td>15 607.2</td>
<td>2.0</td>
<td>2.1</td>
<td>3.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Stockbuilding¹</td>
<td>36.6</td>
<td>0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Total domestic demand</td>
<td>15 643.7</td>
<td>2.2</td>
<td>2.1</td>
<td>3.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>2 094.2</td>
<td>3.6</td>
<td>4.1</td>
<td>6.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>2 662.3</td>
<td>2.8</td>
<td>4.0</td>
<td>6.6</td>
<td>1.7</td>
</tr>
<tr>
<td>Net exports¹</td>
<td>-568.1</td>
<td>0.0</td>
<td>-0.1</td>
<td>-0.3</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 92 database.
Comparison with the rest of the world.
Real GDP growth
Percentage change over same period previous year

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Downside risks to forecast

- “Fiscal cliff” is about 5% of GDP but I am not overly worried. The incentives are so strong for both parties to act.

- Euro crisis remains problematic. The real problem is not Greece or Portugal (etc) and austerity, the real problem is reforming the Euro so that it is a credible political union, not a poorly designed currency union.
  
  Without the Euro, (say) Greece would have cut the budget, lowered interest rates, and depreciated the currency and their economy would have adjusted.
S.A. Monthly Housing Starts on an Annual Basis

Monthly Housing Starts

Thousands

Industry level decomposition

- Good news is the broad based nature of economic growth.
- Another factoid is some urban legends in terms of what is driving growth.
National Employment

Change in Employment (Feb 2010-Oct 2012)

Thousands

-1000

0

1000

2000

3000

4000

5000

Total Private
Non-Durable
Durable
Mining
Wholesale
Retail
Transportation
Utilities
Construction
Manufacturing
Government
Information
Finance
Professional
Education
Health
Leisure
Services

18
National Employment

Change in Employment (Oct 2011-Oct 2012)
National Employment

Percent Change in Employment (Feb 2010-Oct 2012)
National Employment

Percent Change in Employment (Oct 2011-Oct 2012)
Ohio Employment

Change in Employment (Feb 2010-Oct 2012)

Thousands

-50 0 50 100 150 200 250 300 350 400

Total Private  NonDurable  Durable  Mining and Logging  Wholesale  Retail  Construction  Manufacturing  Government  Information  Finance  Professional  Education  Health  Leisure  Service
Ohio Employment

Change in Employment (Oct 2011-Oct 2012)

Thousands

-20 0 20 40 60 80 100 120

Total Private  NonDurable  Durable  Wholesale  Retail  Construction  Manufacturing  Government  Information  Finance  Professional  Education  Health  Leisure  Service
Ohio Employment

Percent Change in Employment (Feb 2010-Oct 2012)
Ohio Employment

Percent Change in Employment (Oct 2011-Oct 2012)
National Durable Manufacturing

Change in Employment (Feb 2010-Sep 2012)

- Net Durable
- Motor Vehicles
- Motor Vehicle and Parts

Percent Change in Employment (Feb 2010-Sep 2012)

- Net Durable
- Motor Vehicles
- Motor Vehicle and Parts

Change in Employment (Sep 2011-Sep 2012)

- Net Durable
- Motor Vehicles
- Motor Vehicle and Parts

Percent Change in Employment (Sep 2011-Sep 2012)

- Net Durable
- Motor Vehicles
- Motor Vehicle and Parts

Notes: Motor Vehicles NAICS: 313361000 Motor Vehicle and Parts NAICS 31336001
Notes: Mining NAICS: 10210000, Coal NAICS: 10212100, Oil and Gas Extraction NAICS: 10211000, Oil and Gas Support Activities NAICS: 10213112
Ohio Durable Manufacturing

Change in Employment (Feb 2010 - Oct 2012)

Thousands

<table>
<thead>
<tr>
<th>Net Durable</th>
<th>Motor Vehicles</th>
<th>Motor Vehicle and Parts</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>-5</td>
<td>-4</td>
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Change in Employment (Oct 2011 - Oct 2012)

Thousands

<table>
<thead>
<tr>
<th>Net Durable</th>
<th>Motor Vehicles</th>
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<tbody>
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<td>-5</td>
<td>-2</td>
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Percent Change in Employment (Feb 2010-Oct 2012)

<table>
<thead>
<tr>
<th>Net Durable</th>
<th>Motor Vehicles</th>
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</thead>
<tbody>
<tr>
<td>12</td>
<td>4</td>
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Percent Change in Employment (Oct 2011-Oct 2012)

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<thead>
<tr>
<th>Net Durable</th>
<th>Motor Vehicles</th>
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<tbody>
<tr>
<td>4</td>
<td>2</td>
<td>0</td>
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Notes: Motor Vehicles NAICS: 313361000 Motor Vehicle and Parts NAICS: 31336001
Conclusions

◊ I expect the US economy will continue to modestly expand in 2013 and avoid problems due to fiscal contraction and Europe.
   ➡ I think Ohio will slightly trail the US average, which is not so bad in a 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

◊ Yet, 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.
Thank you

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