Introduction

• I remain optimistic on national growth as I have in the Outlooks beginning in the Fall of 2012.
  • One caveat is that growth may be a little slower in 2016 and there are more risks.
• It has been 78 months since the official NBER end of the Great Recession, or the 5th longest in U.S. history. [we are due for a recession 😞)
• As of the October employment report released in November, 2015 U.S. job growth is on track to be good by post 2000 standards, but not as good as 2014, which was the best since 1999.
Introduction

• To put this in perspective, the 7 years before the Great Recession were the slowest 7 years of job creation since the Great Depression.
  • Some economic headwinds increase the risks to this forecast.
• Ohio is trailing the U.S. as it historically does but 2015 was a good year and the state seems poised to prosper in 2016.
Introduction

• Policy institutions continue to press for infrastructure investments and they worry about climate change as a major threat.
• Demographics present challenges but I am optimistic that these can be met and there are some positives to an aging population.
Introduction

What am I going to do today:
1. Discuss U.S. forecasts made by the IMF and OECD.
2. Provide some idea of possible risks to the forecasts. Discuss current hot policy topic in enhancing growth: build infrastructure.
3. Describe how Ohio is performing relative to the nation and to other Great Lakes States.
4. Briefly mention the 3Cs.
5. Discuss demographic challenges. One thing I won’t discuss is immigration as it is unknown.
Source: Bureau of Labor Statistics
Note: Percentage change is calculated using the estimate for December from the previous year. For 2015, the preliminary estimate for October is used instead.
IMF and OECD Forecasts

- IMF and OECD forecasts are well respected and they usually are “cautious” in not being too far from consensus.
- Among advanced economies, the U.S. remains a leader.
- Europe is still stagnate except in places that suffered very severe recessions like Spain.
Global GDP growth: modest projected upturn (given smooth slowdown in China and more robust investment in advanced economies)

Does India deserve more attention?

<table>
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<th></th>
<th>2014</th>
<th>2015</th>
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<th>2017</th>
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IMF Oct. 2015 Forecast:
*World Economic Outlook, Adjusting to Lower Commodity Prices.*

<table>
<thead>
<tr>
<th>World Output</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<td>1.3</td>
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<tr>
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<tr>
<td>Japan</td>
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<td>0.6</td>
<td>1.0</td>
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<td>United Kingdom</td>
<td>3.0</td>
<td>2.5</td>
<td>2.2</td>
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<tr>
<td>Canada</td>
<td>2.4</td>
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<tr>
<td>Other Advanced Economies</td>
<td>2.8</td>
<td>2.3</td>
<td>2.7</td>
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</table>
Real investment exhibits sluggishness and mixed projected improvement.

Projected improvement assumes favourable structural and demand policy settings.
Economic Fundamentals

• The U.S. does not seem to have the ability to carry out any kind of fiscal/growth policy.
  • Will a Republican Senate help? It is too early to tell, but early indications are not that great. They can’t pass a highway bill for example…..

• U.S. government budget balance is now slightly better than the long-run historical average.

• One concern is that the Fed’s monetary policy is hard to predict. When will there be “takeoff” and to what extent will short-run interest rates rise?

• OCED/IMF recommend large investments in infrastructure, they worry about high U.S. inequality and OCED argues that there large risks from not investing in climate change “management”.
Collective action on public investment could support growth without worsening debt ratios

1st year effects of a ½ per cent of GDP public investment stimulus by all OECD economies

Change from baseline

Effect on GDP

% of GDP

1.0

JPN

0.8

USA

0.6

Euro

0.4

CAN

0.2

GBR

0.0

BRIICS

World

Effect on public debt stock

% of GDP

0.0

JPN

-0.2

USA

-0.4

Euro

-0.6

CAN

-0.8

GBR

OECD forecast

Collective action, quality projects, and structural policy efforts are required to realise these gains

Note: Simulation using the NiGEM model, based on a two-year increase in the level of government investment equivalent to ½ per cent of GDP measured in all OECD countries. The assumption is that countries can hit targets and achieve fiscal improvements.
Risks to U.S. growth-inter-related:

- Interest rate hikes and monetary policy uncertainty.
- Appreciation of the dollar hurts exporters.
- Ongoing weakness in Europe and concern about the long-term viability of the Euro.
- Middle East conflict and terrorism.
- Some good news is that adverse events from the Middle East are not currently associated with oil price spikes.
- Asian downturn and volatility/”bubbles” in China.
- This is especially associated with falling commodity prices as China is the 2nd largest economy.
Weaker import growth in China is a key element of the broader trade slowdown.

OECD forecast

Chinese import growth has slowed sharply

This has exerted downward pressure on commodity prices

China: Real GDP and import volumes

Commodity price changes and China’s share of global consumption

Note: 2015 is change in the first three quarters vs 2014. Import volumes are deflated based on OECD estimates. Nominal imports

Note: Commodities shown are aluminium, coal, copper, iron ore, lead, natural gas, nickel, oil, uranium and zinc.
Ohio and Midwest performance

• Coming out of the recession, Ohio outperformed the U.S. but beginning in 2012, the historic pattern of Ohio underperforming the US by about 0.5 to 1 percentage points a year remerged.

• Yet, there are some surprising pockets of strength. In the last year, OH manufacturing has been growing three times the national rate (though the national growth rate is slow). No apparent short-term nick from the oil bust.
Source: Bureau of Labor Statistics
Note: Percentage change is calculated using the estimate for December from the previous year. For 2015, the preliminary estimate for October is used instead.
Percent change in Nonfarm Employment
Dec 2007 – Oct 2015

Source: Bureau of Labor Statistics
Note: Percentage change is calculated using the preliminary estimate for October.
Percent change in Nonfarm Employment
Jan 2011– Oct 2015

MW has done better in recovery.

Source: Bureau of Labor Statistics
Note: Percentage change is calculated using the preliminary estimate for October.
Several million workers have disappeared but that leaves slack in labor force like early 1990s

Source: Bureau of Labor Statistics & US Census
Workers are “disappearing” but pattern no worse than the national average.

Source: Bureau of Labor Statistics & US Census
Clinton County has lost 1/4th its employment through dropping out of the labor force.

Source: Bureau of Labor Statistics & US Census
Ohio’s main weakness is stagnant population growth. We lose young and more educated workers. It keeps the official unemployment low, but it is a drag on job growth and the economy.
Brief Discussion of the 3 C’s

• The general story is that the most prosperous is in order of Columbus, Cincinnati, and Cleveland.

• Yet, since the recession, all three look fairly good compared to their national peers.
Cleveland and Cincy were hit hard from the recession.

Source: Bureau of Labor Statistics
Note: Percentage change is calculated using the preliminary estimate for October.
But all seem to be recovering from the recession.

Source: Bureau of Labor Statistics
Note: Percentage change is calculated using the preliminary estimate for October.
Ohio’s Workforce Demographics

- Ohio like the nation has an aging workforce.
- VSP worry that the aging workforce will create labor shortages and lower growth (e.g., few young families buying homes and lower productivity).
- I not so worried. It will induce firms to increase labor productivity—e.g., driverless cars.
- It will increase wages in general.
- It will reduce income inequality.
- For my sanguine story to hold for Ohio, we do need to turn around migration by improving future economic expectations.
Migration and mobility has been falling—which raises unemployment/nonemployment and slows adjustment

Figure A-1.2 Type of Move: 1948-2015 (Selected Years)

* This figure is derived from rounded estimates. When rounded estimates are summed, they may become different from unrounded estimates. Summing caused the 2014 type of move total (11.5 percent) to appear larger than the 2015 type of move total (11.6 percent).

** The migration question was asked differently between 1971 and 1980. Only 1971 and 1976 have a 1-year estimate comparable to all other years (1948-2015).


Available at: http://www.census.gov/hhes/migration/data/cps/historical.html
## Four Age Groups

<table>
<thead>
<tr>
<th>Group</th>
<th>Age</th>
<th>Cohort in 2015</th>
<th>Birth Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Young Adults</td>
<td>20-34</td>
<td>Millennials</td>
<td>1981 to 1995</td>
</tr>
<tr>
<td>Intermediate-Age Adults</td>
<td>35-49</td>
<td>Generation X</td>
<td>1966 to 1980</td>
</tr>
<tr>
<td>Older Adults</td>
<td>50-69</td>
<td>Baby Boomers</td>
<td>1946 to 1965</td>
</tr>
<tr>
<td>Seniors</td>
<td>70+</td>
<td>Pre-Baby Boomers</td>
<td>through 1945</td>
</tr>
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Thanks to Jordan Rappaport, Federal Reserve Bank of Kansas City
### US Employment Breakdown by Age—manufacturing is a little older.

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Total</th>
<th>Construction</th>
<th>Manufacturing</th>
<th>Professional, Scientific, and Technical Services</th>
<th>Health Care and Social Assistance</th>
<th>Accommodation and Food Services</th>
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<tbody>
<tr>
<td>14-18</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
<td>8%</td>
</tr>
<tr>
<td>19-21</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>22-24</td>
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<td>4%</td>
<td>5%</td>
<td>5%</td>
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<td>25-34</td>
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<tr>
<td>45-54</td>
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<td>55-64</td>
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<td>4%</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
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</table>

Note: 4<sup>th</sup> Quarter, 2014
Source: Quarterly Workforce Indicators: [http://qwiexplorer.ces.census.gov/](http://qwiexplorer.ces.census.gov/)
# Ohio Employment Breakdown by Age

We are only a little older than the nation but we can manufacturing is older

<table>
<thead>
<tr>
<th>Age Range</th>
<th>Total</th>
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<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>14%</td>
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<tr>
<td>22-24</td>
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<td>4%</td>
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<td>5%</td>
<td>12%</td>
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<td>25-34</td>
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Note: 4th Quarter, 2014
Source: Quarterly Workforce Indicators: [http://qwiexplorer.ces.census.gov/](http://qwiexplorer.ces.census.gov/)
Behavior of young adults is key reason for falling mobility. They live at home longer. This could reflect changing culture or lack of good jobs.

Thanks to Jordan Rappaport, Federal Reserve Bank of Kansas City
Mobility is falling even as marriage rates decline (singles are more mobile.) This may hurt male employment outcomes.

Thanks to Jordan Rappaport, Federal Reserve Bank of Kansas City
so delaying marriage increases share of households living in apartments

Share of Households Living in Apartments by Household Type (2013)

Thanks to Jordan Rappaport, Federal Reserve Bank of Kansas City
Conclusions

• 2016 looks to be a reasonably good year, but there are risks around the world.
• Falling mobility is bad for the economy as people don’t move to economic opportunity.
• Ohio’s poor record on attracting net migration is a key reason for why the state’s job growth lags the nation, but it explains OH’s low unemployment rate.
• An aging workforce presents challenges, but I think they will be manageable, especially if there are modest/high levels of immigration.
• Changes in the behavior of the young adults will present challenges and opportunities.
Thank you

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AEDE, The Ohio State University

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(614) 688-4907 partridge.27@osu.edu

Swank Program Website for policy brief.

http://aede.osu.edu/programs/swank/