Joint Economic Committee
Republicans
Representative Kevin Brady *Vice Chairman*
Senator Jim DeMint *Senior Republican Senator*

REPUBLICAN STAFF COMMENTARY

Uncharted Depths: Welcome to Barack Obama's "Recovery Bummer"

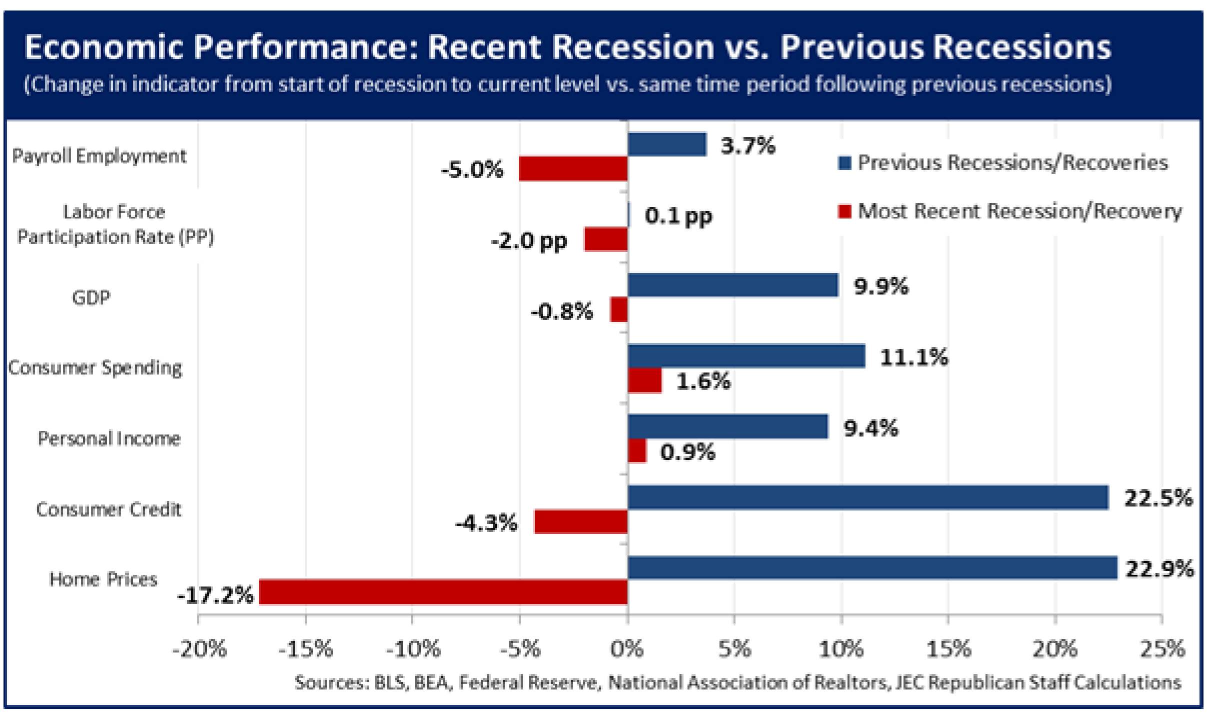
6/23/2011

Two years after the official end of the Great Recession, and one year after the Obama Administration declared "Mission: Accomplished" on the economy by celebrating the dawn of "Recovery Summer," the United States economy remains in dire straits. And on closer inspection, the situation is even worse than the headlines suggest.

This report compares today's economic data—including employment, gross domestic product (GDP) growth, consumer spending and credit, housing, and personal income—with that from previous recessions and recoveries, and finds that economic conditions are worse today than in any recovery since at least World War II.

Highlights

- Since the start of the recession, total employment has declined 5.0%; the labor force has shrunk by 2.0 percentage points; and long-term unemployment is at 45.1%.
- GDP growth (only 1.8% in the 1st quarter of 2011) has failed to keep pace with that of past recoveries.
- Consumer spending, personal income, and consumer credit have all lagged significantly behind past recoveries.
- The housing market remains depressed. Home prices are down 17.2% from the start of the recession, compared to an average price increase of 22.9% in past recoveries.

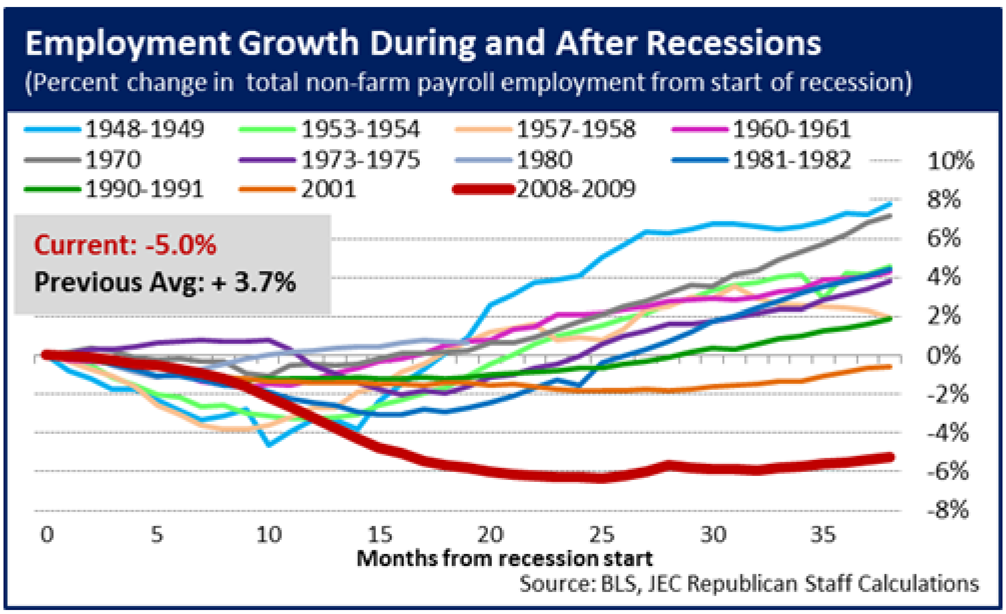


EMPLOYMENT

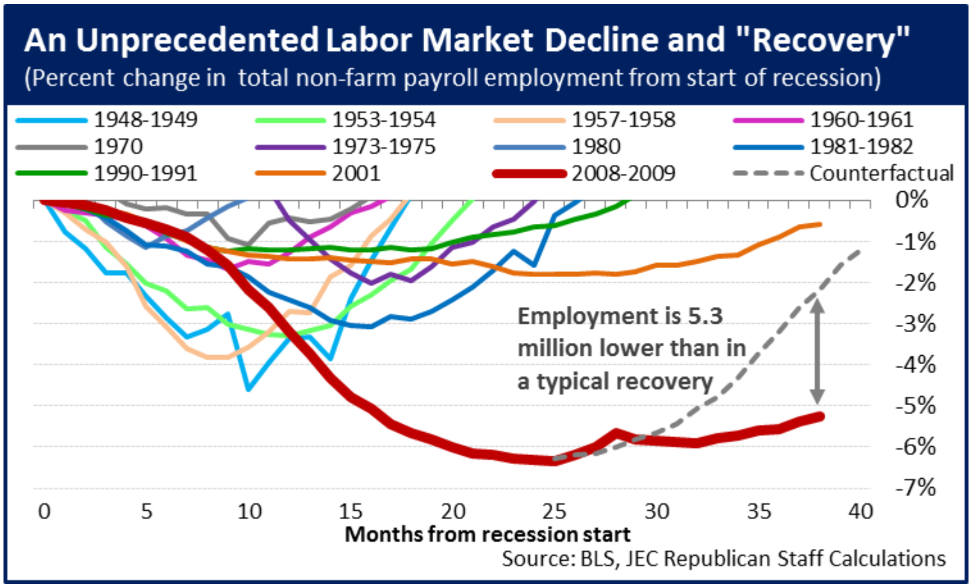
It has been 23 months since the recession ended in June 2009, and 28 months since President Obama signed an $814 billion stimulus bill—which White House economists said would keep unemployment from climbing even to 8 percent.

The unemployment rate in the United States today is 9.1 percent, and it has been at or above 9 percent for a record 23 of the past 25 months (since records began in 1948). The unemployment rate is 4.1 percentage points higher than when the recession began. This compares to an average increase of only 1.2 percentage points over that same time period in previous post-WWII recessions.[1]

Even worse, total employment is now 5.0 percent *below* what it was at the start of the recession, 38 months ago. This compares to an average *rise* in employment of 3.7 percent over the same period in prior post-WWII recessions.

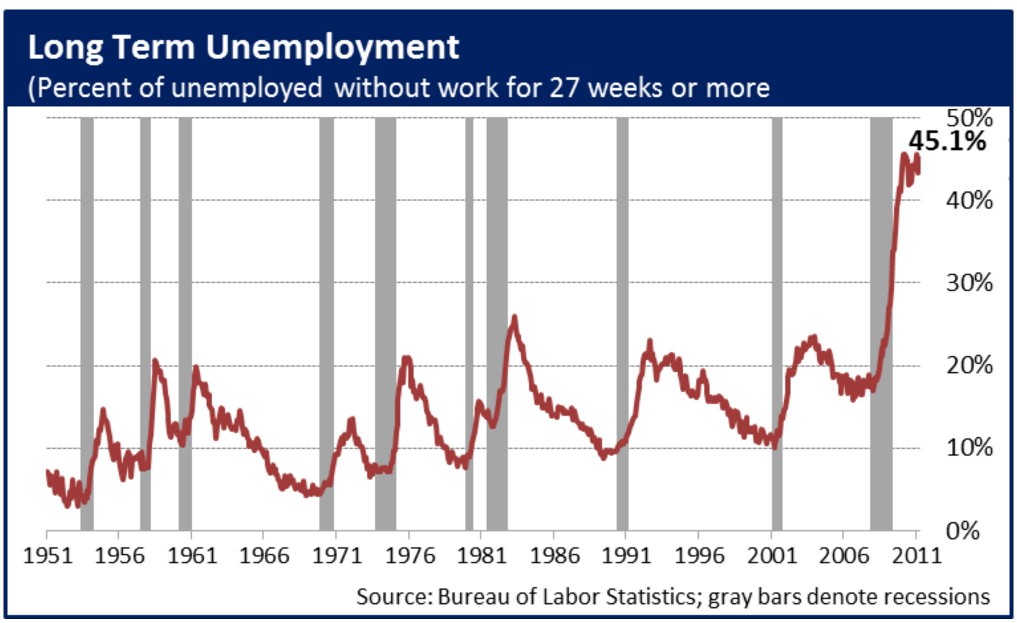


The chart at the top of the following page highlights the magnitude of the decline in employment as well as the absence of symmetrical, "bounce-back" job-creation that has occurred in virtually all previous recessions. Had employment followed a typical symmetrical pattern, there would be 5.3 million more payroll jobs in the economy than there are today.

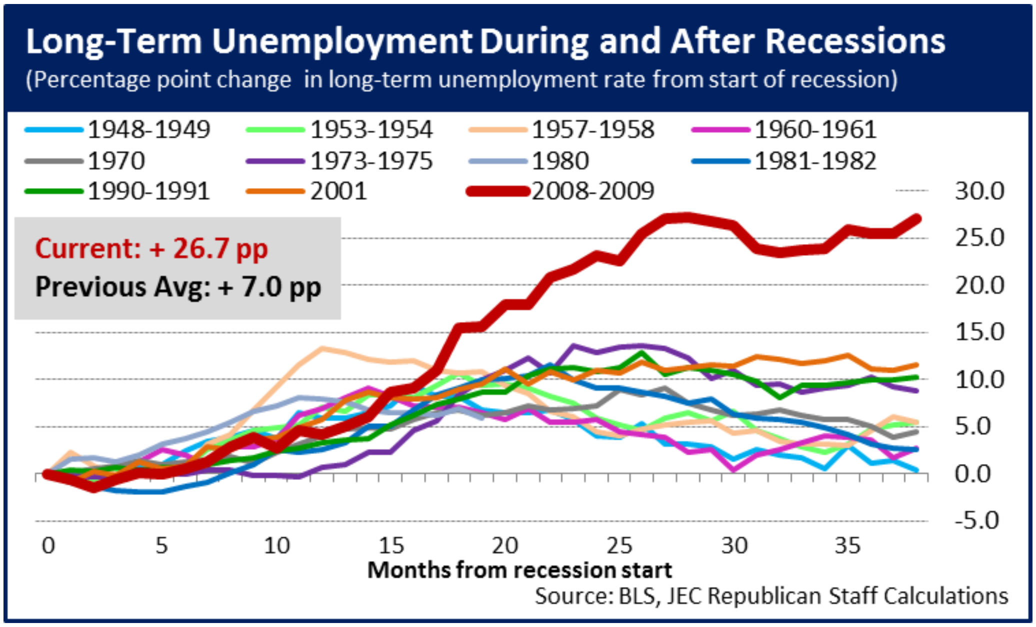


LONG TERM UNEMPLOYMENT

A particularly troubling component of the current labor market is the record-high level of long-term unemployment (the percentage of those unemployed who have been out of work for six months or more).



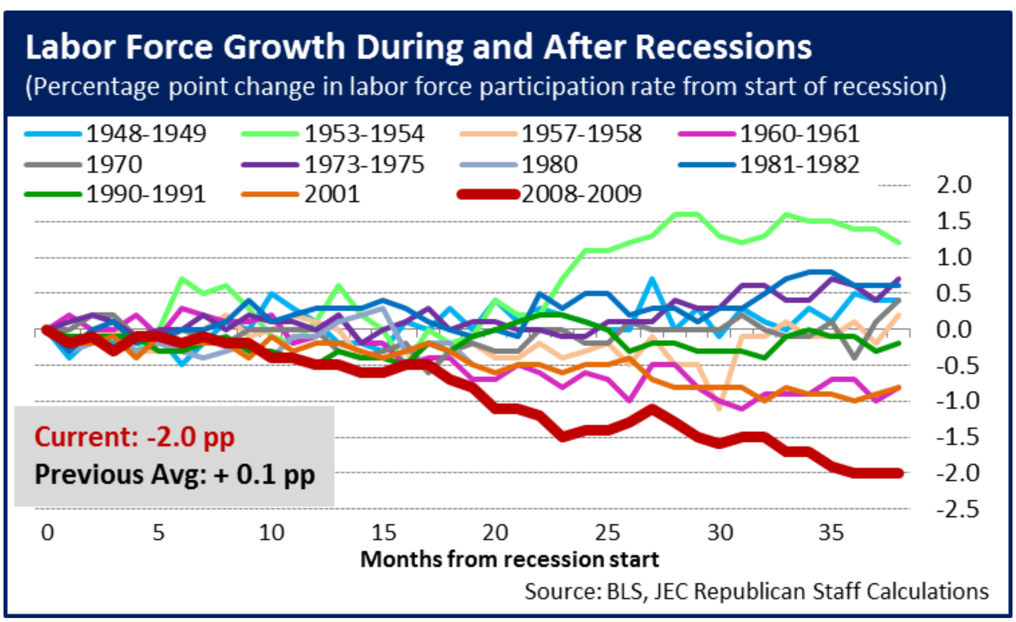
The proportion of the unemployed who have been without work for *more than six months* is 45.1 percent—a 26.7 percentage points increase since the beginning of the recession. This compares to a historical average increase of only 7.0 percentage points over that same period in previous, post-WWII recessions.



As Federal Reserve Chairman Ben Bernanke has emphasized, long-term unemployment is particularly concerning because "people without work for long periods can find it increasingly difficult to obtain a job comparable to their previous one, as their skills tend to deteriorate over time and as employers are often reluctant to hire the long-term unemployed."[2]

LABOR FORCE

Another particularly troubling component of the current recession has been the rapid decline in labor force participation. From the start of the most recent recession to May of 2011, the labor force participation rate has *declined* by a record 2.0 percentage points, from 66.2 to 64.2 percent. In previous post-WWII recessions, the labor force participation rate *rose* an average of 0.1 percentage point over that same time period.

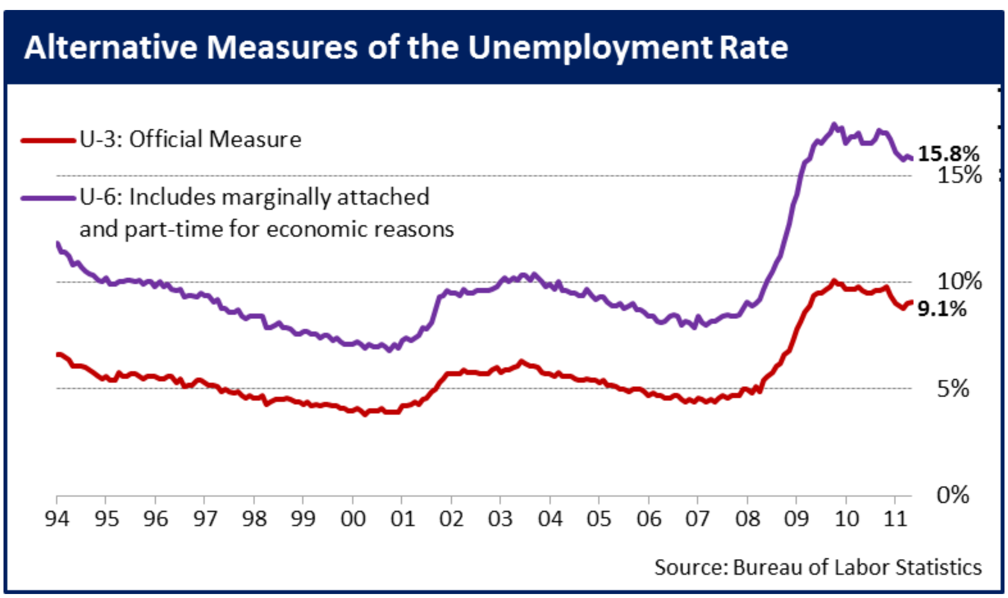


If the labor force had continued to grow at the same pace that it did from 2004 through 2007, there would be 6.7 million more people in the labor force than there are now.[3]

The fact that the labor force has declined so sharply means that the unemployment rate is unlikely to improve significantly anytime soon. As previously discouraged workers who left the labor force begin to re-enter it, there will be more people looking and competing for jobs. If the approximately 6.7 million workers who are not in the labor force now, but who would be in the labor force in a healthy economy were to all simultaneously re-enter it, the unemployment rate would rise from 9.1 percent to roughly 12.8 percent.

ALTERNATIVE MEASURES OF UNEMPLOYMENT

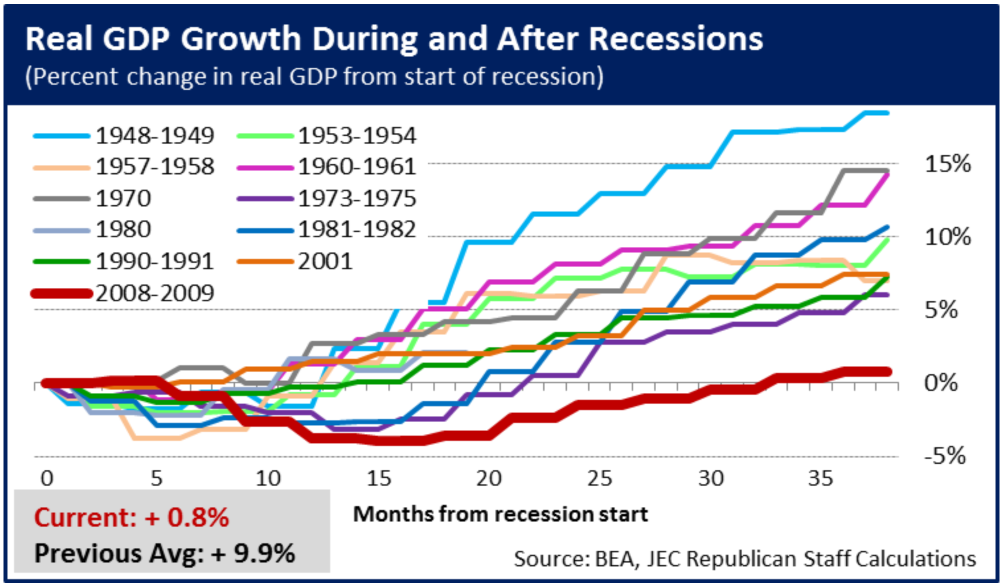
While the headline unemployment measure stood at 9.1 percent in May 2011, this statistic does not capture the unemployment and underemployment of workers "marginally attached" to the labor force and those who are working part-time but want full-time work. Including these workers reveals a much higher unemployment rate of 15.8 percent in May 2011.



GDP GROWTH

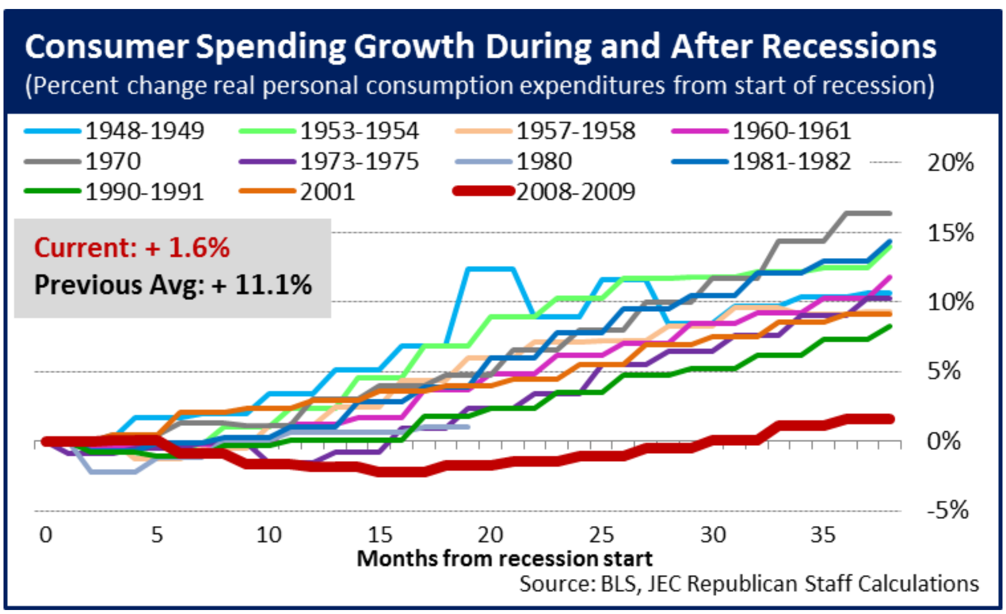
GDP grew at an annual rate of only 1.8 percent in the first quarter of 2011, and has grown at a disappointingly slow pace thus far during the recovery. In the first year after the recession, GDP grew 3.0 percent, compared to an average growth rate of 6.6 percent following prior post-WWII recessions.

To date (through the 1st quarter of 2011), real GDP has risen 0.8 percent over the 13 quarters since the recession began, compared to an average increase of 9.9 percent in past recessions.



CONSUMER SPENDING

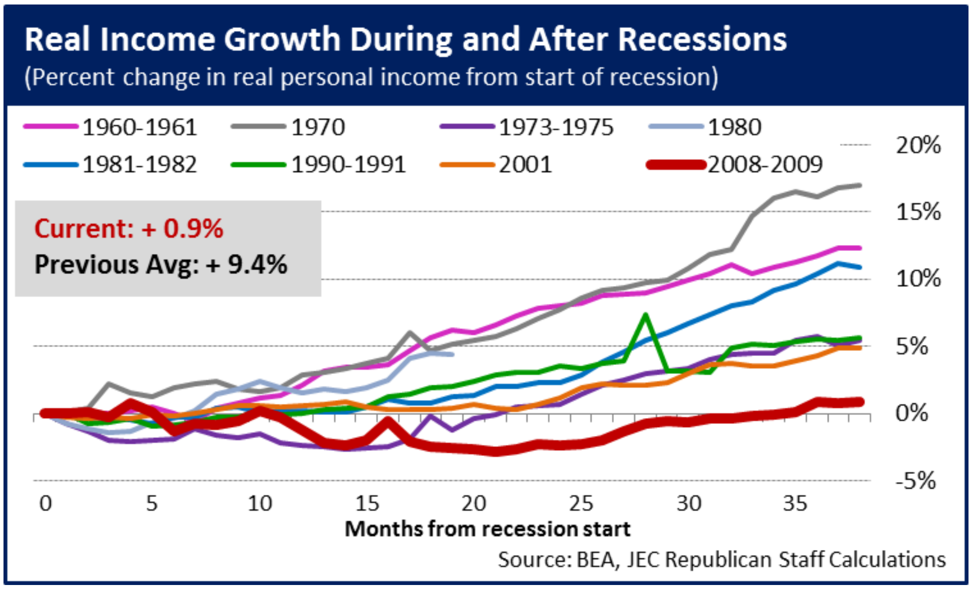
Consumer spending makes up roughly 70 percent of GDP. But in the 38 months between the start of the recession and March 2011 (the most recent data), real consumer spending increased only 1.6 percent, compared to growth nearly seven times as high—11.1 percent—over the same period in previous post-WWII recessions.



In order for the economy to recover, consumers need to start spending again. But in order to start spending, consumers need income and access to credit, both of which have been lagging behind in the current recession.

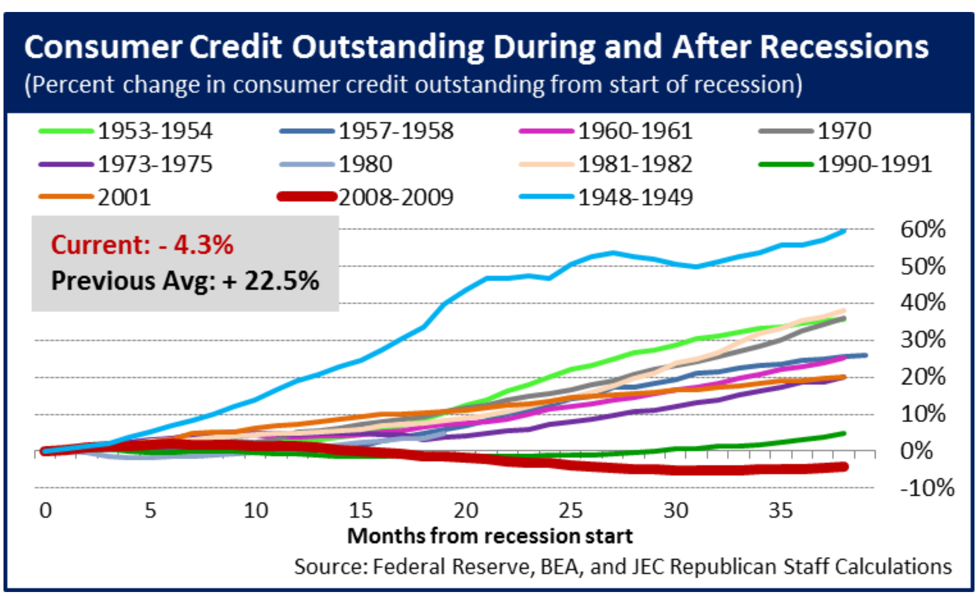
PERSONAL INCOME

Income growth has been particularly weak coming out of this recession. From the start of the recession to April 2011 (the most recent data), real personal income has grown just 0.9 percent. This compares to average income growth of 9.4 percent over the same time period for previous post-1960 recessions.[4]



CONSUMER CREDIT

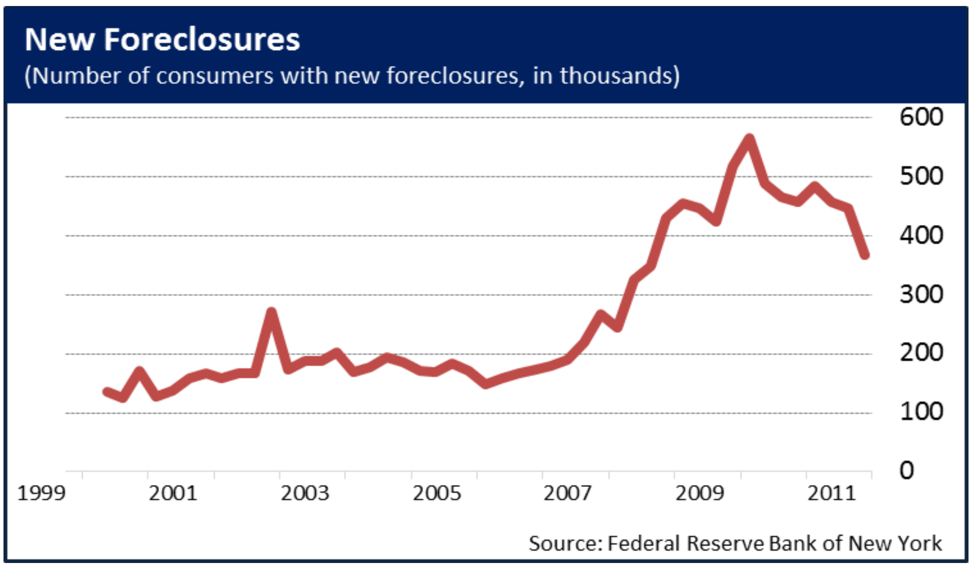
From the start of the recession to April of 2011, the amount of consumer credit outstanding has *declined* by 4.3 percent. This compares to a *rise* of 22.5 percent over that same period in previous post-WWII recessions.



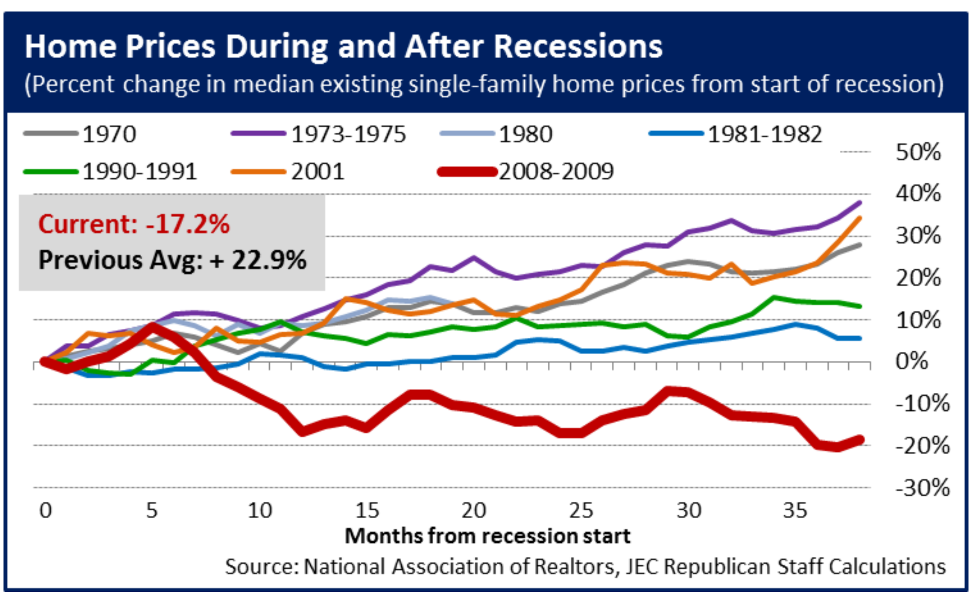
The decline in credit availability has not only affected home owners, whose access to credit has been decimated by the housing collapse, but particularly many small business owners. Without access to credit, many businesses have been unable to maintain regular operations and have had to lay off employees, postpone planned investment and expansion, or close up shop altogether.

HOUSING

Arguably the primary driver of the current recession, the housing market has been extremely hard hit. Despite large amounts of federal spending programs and tax credits aimed at propping up the housing market, home prices remain depressed, foreclosures remain extremely high, and a record-high 28 percent of homeowners remain in negative equity, owing more on their homes than their homes are worth.[5]



Since the start of the recession, the median single-family home price is down 17.2 percent. This compares to an average increase of 22.9 percent over the same period in previous post-1968 recessions.[6]



CONCLUSION

On July 14, 2009, one month after the recession officially ended, President Obama gave a speech on the economy, saying:

> *Now, my administration has a job to do, as well, and that job is to get this economy back on its feet. That's my job. And it's a job I gladly accept. I love these folks who helped get us in this mess and then suddenly say, 'Well, this is Obama's economy.' That's fine. Give it to me.*

And on June 15, 2011—just this past week—Democratic National Committee Chair Debbie Wasserman Schultz said much the same on behalf of her party: "I think we clearly are responsible… I'm going to take ownership right now… We own the economy."

What the president himself calls "Obama's economy" and Rep. Wasserman Schultz says her party "owns" is, in fact, the worst economic recovery the American people have suffered through in a lifetime.

[1] Data comparing current levels to averages of previous post-WWII recessions include the ten recessions occurring between 1948 and 2001. The data in the graphs for the 1980 recession are limited to the first 18 months following the start of the recession because 18 months after the start of the 1980 recession commenced the beginning of the 198101982 recession. While the data in the charts are limited to the first 18 months following the start of the 1980 recession, the data levels comparing previous recessions to the most recent one include the full span of data for all recessions. All data comparisons are based on the most recent data available: for data on employment statistics, comparisons are made through the 40 months following the start of each recession; for data on income and home prices, comparisons extend 39 months beyond recession starts; and for consumer credit and consumer spending, comparisons extend 38 months beyond the start of each recession.

[2] Federal Reserve Chairman Ben Bernanke, "The U.S. Economic Outlook," Remarks at the International Monetary Conference, Atlanta, Georgia, June 7, 2011.

[3] The estimated figure of 6.7 million assumes the same 0.10 percent monthly growth rate in the labor force that occurred from 2004 to 2007 also occurred from January of 2008 onwards. This is a conservative estimate as the long-term historical average growth rate from 1948 to 2007 is 0.13 percent per month.

[4] Data on personal income was first recorded in 1960, so comparisons for this statistic are limited to those recessions occurring after 1960.

[5] Confirm record-high since data for this only goes back to 2009.

[6] Data on single-family home prices first began in 1968, so comparisons for this statistic are limited to those recessions occurring after 1968.