TAKE FIVE with Bill Emmons

May 7, 2013

Economic Update: Slow Recovery Enters Fifth Year

Talking Points

Assistant Vice President and Economist Bill Emmons provided an economic update for the second quarter of 2013. Bill discussed recent GDP and employment reports, focusing on both the Nation and the 8th Federal Reserve District.

<u>Slow Recovery Enters Fifth Year</u>

- The U.S. economy is chugging along at about a 2% average growth pace, marking the slowest recovery in living memory
- Job markets in 8th-District states are recovering slowly; in some of our states, employment levels are not likely to return to their 2007 peaks for several more years
- Reasons for the weak recovery include lingering effects of the severe financial crisis; significant demographic transitions, most notably the aging of the baby boomers; and the unwinding of some unsustainable trends such as housing and credit booms

In June, we will enter the fifth year of the current recovery. The upturn is very weak compared to prior recoveries, averaging only a bit more than 2% annualized growth in GDP. Even the recoveries of the early 1990s and the early 2000s, which at the time were considered quite weak, have outpaced our current slow pace by a considerable margin.

Some forecasters, including the Congressional Budget Office, project an acceleration of growth within the next few years. Even under that optimistic scenario, it is unlikely that the economy will return to the trend growth path seen between 1985 and 2007. If, instead, the economy continues on its current trajectory, future economic output will be considerably lower and grow more slowly than was thought likely before the recession.

The four weakest areas in terms of March 2013 unemployment rates are the West, Southeast, Great Lakes, and Northeast regions. Even within the 8th District, pockets of unemployment exceeding 10% remain, especially east of the Mississippi River. The weakness of local economies in Illinois and parts of Indiana, Kentucky, Tennessee, and Mississippi stems from the structures of those economies as well as the existence of judicial foreclosure systems, which slow the healing process in local housing markets.

Bill then compared employment recoveries in the current cycle to the two previous recoveries. Most 8th District States recovered faster than the rest of the Nation after the 1990-1991 recession, with Illinois the only exception. In contrast, most 8th District States lagged the Nation during the slow recovery after the 2001 recession. In the current cycle following the 2007-09 recession, employment remains depressed throughout the 8th District and most of the Nation. The slowest growing states in the 8th District are Illinois, Mississippi and Missouri. These states likely are several years away from a full employment recovery.

It appears that economic growth will continue, but at a subdued pace. Lingering effects of the financial crisis, the aging labor force, and the unwinding of housing and mortgage bubbles will prevent a strong recovery any time soon.