MONTICELLO STRATEGIES

PO Box 57
Deerfield, NH 03037
603-620-7500
raypinard@monticellostrategies.com

When Will Employment Return to Normal?

By Raymond E. Pinard
February 2012

We are 32 months into recovery from the Great Recession, so why doesn't it feel like a recovery? The depth of the recession and weak job growth.

In the most recent recession, from December 2007 to June 2009, the U.S. economy shrunk by 5.1 percent, industrial production declined 17 percent, and nearly nine million jobs were lost, a job base decline of 6.4 percent. This job loss is more than three times the 2 percent average job loss in the previous six recessions. In the Great Recession, the economy lost more production, and more jobs, than in any recession since the end of the World War II.

Comparing US Recessions and Job Recoveries

		Duration in Months		**Peak-to-Trough % Change**					
Peak	Trough	Recession Peak to Trough	Expansion Preceeding Trough to Peak	Real GDP	Industrial Production	Nonfarm Employment	Month that jobs recover to previous peak	Job recovery Months from recession end	Job recovery Average Annual Real GDP Growth
Dec-07	**Jun-09**	**18**	**73**	**-5.10%**	**-17.00%**	**-6.40%**	**?**	**?**	**2.4%**
Mar-01	Nov-01	8	120	-0.40%	-6.30%	-2.00%	Jan-05	38	2.9%
Jul-90	Mar-91	8	92	-1.30%	-4.30%	-1.50%	Feb-93	23	4.3%
Jul-81	Nov-82	16	12	-2.90%	-9.50%	-3.10%	Nov-83	12	7.8%
Jan-80	Jul-80	6	58	-2.20%	-6.20%	-1.30%	Dec-80	5	8.1%
Nov-73	Mar-75	16	36	-3.10%	-14.80%	-2.70%	Dec-75	9	5.1%
Dec-69	Nov-70	11	106	-1.00%	-5.80%	-1.40%	May-71	6	6.9%

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve

Slower economic and job growth

Decades ago, the economy grew quickly coming out of a downturn. After the July 1981 to November 1982 recession, the economy grew at an annual rate of 7.8 percent, allowing the U.S. to recover all of the jobs lost in that recession within 12 months.

Economic growth coming out of more recent recessions has been much slower. Following the July 1990 to March 1991 downturn, the economy grew at an annual rate of 4.3 percent, less than half as fast as in the 1970s and 1980s. After the March 2001 to November 2001 recession, it grew at a rate of 2.9 percent. Following the most recent recession, starting in the summer of 2009 through 2011, economic growth has averaged a disappointing and anemic 2.4 percent.

As a result of much slower economic growth, job growth has also been disappointing. Employment in the United States has grown at an annual rate of just under 1 percent from July 2009 through December 2011. As of January 2012, the U.S. had 6 million fewer jobs than in December 2007 at the beginning of the Great Recession. Slow economic growth means slow job growth in the recovery period.

MONTICELLO STRATEGIES

PO Box 57
Deerfield, NH 03037
603-620-7500
raypinard@monticellostrategies.com

The Congressional Budget Office's most recent forecast calls for 2.0 percent GDP growth in 2012, followed by 1.1 percent growth in 2013. The CBO expects growth from 2014 to 2017 to average about 4.1 percent, and growth to slow again to about 2.5 percent after 2018.

How does this relate to job growth? When the economy grows by 7 to 8 percent per year, it takes six months to a year to recover a 2 percent job loss. When the economy grows by only 3 to 4 percent per year, it takes two to three years to recover from a 2 percent job loss. Considering the 6 percent job loss during the recent recession, could it take nine years to recover, especially if GDP does not grow more than 2 percent in the first few years of the recovery? If it does, jobs won't return to their 2007 level until 2018!

If economic growth returns to the 6 to 8 percent range, we might expect job recovery to be quicker. Yet, even with double the CBO expected economic growth, it would be several years before the U.S. regains all of the jobs lost in the Great Recession.

Other economic factors in the mix
Adding to this sobering situation are the current economic headwinds, which will extend into 2012 and beyond:

As the European sovereign debt crisis escalates, a severe European recession is very likely. Austerity measures in Italy, Greece, Spain and Portugal will plunge all of Europe into a major recession. Spain and Portugal could follow Greece into an outright depression.

Troubles in Europe could help create a minor U.S. economic recession. Retail spending was somewhat disappointing during the 2011 holiday season. Congress will not consider fiscal stimulus measures in 2012. Because housing construction and investment (not prices) are already limping along in the U.S., the situation will probably not worsen. A recession in the U.S. will be far less severe than one in Europe.

Profit margins in large U.S. corporations will be under strain, as businesses will be unable to reduce costs the same way they did in 2008 and 2009, by shedding massive numbers of employees.

Japan's fiscal crisis and debt of more than 200 percent of GDP will finally force policy makers there to act. Japan's economy shrank for the third time in four quarters between October and December 2011, after floods in Thailand damaged production and a strong yen and subdued overseas demand hurt exports. The crisis in Japan will worsen as the year wears on. In an unexpected policy response, the Bank of Japan announced a $130 billion quantitative easing program, with a 1 percent inflation target.

U.S. public union pension plans will increasingly come under attack, as states finally realize the need to rein in pension plans, much to the dismay of public unions. Social and economic tensions in the U.S. will rise as a result.

The number of people age 65 or older will increase by about one-third between 2012 and 2022 (from 14 to 17 percent of the population). This will greatly impact Social Security and health care spending. According to the Congressional Budget Office forecast, "because of the aging of the population and rising costs for health care, the set of budget policies that were in effect in the past cannot be maintained in the future."

MONTICELLO
STRATEGIES

PO Box 57
Deerfield, NH 03037
603-620-7500
raypinard@monticellostrategies.com

How to accelerate job growth
Federal and state governments do not create jobs. The government simply takes money from the private sector through taxes and fees and subsidizes other public and private sectors of the economy. The government then chooses winners and losers, those they take money from and those they give money to. The jobs "created" by the American Recovery and Reinvestment Act of 2009 are jobs that have been borrowed against tax increases in the future. Jobs, and real wealth, are created in the private sector.

If Congress decides to address these issues, there are three top priorities that would have a significant effect on returning confidence to the private sector, so businesses can plan and start hiring in real numbers:

- **Significantly reduce regulation.** Before Congress approves new regulations, it should determine the cost impact of all new regulations on the public and private sectors and establish a five-year sunset rule on each regulation. Today, regulation is estimated by Small Business Administration economists to have an all-in compliance cost of $1.75 trillion annually. The U.S. GDP is about $15 trillion. Also, much regulation does not pass the muster of Congress, but is generated by administrative career bureaucrats. We pay these public sector employees to devise ideas that hurt businesses. This makes little sense.
- **Reform the tax system.** We need to eliminate incentives that choose winners and losers. The phrase "tax loophole" is not a correct portrayal. The majority of companies that take advantage of "loopholes" are merely taking advantage of the tax system as it currently exists. We need to eliminate tax preferences. Why subsidize green energy and not the corner grocer? Why subsidize agriculture and not the local restaurateur? Why propose reducing taxes for corporations and propose increasing taxes on higher income families in which both parents work?
- **Freeze federal spending at 2008 levels.** None of us can borrow 40 percent of our spending each year and last for very long. Congress should work to achieve a balanced budget over four years.

The big question is, does Congress have the guts to tackle these issues and provide the private sector the certainty it needs to hire people and invest in capital goods? If the answer is "no," then economic and job growth in the U.S. will not improve any time soon.

Raymond E. Pinard is principal and Chief Freedom Architect™ of Monticello Strategies™, a principles-based business solutions firm that excels in assisting business leaders with business strategy, executive focus and management consulting through The Entrepreneurial Freedom Program™.