How Are We Doing?

If you're feeling a little bit gloomy about the direction the world is taking, you might check out this video created by economist Hans Rosling, which shows 200 years of social and economic history in about four minutes. It is a fascinating visual look at how far we have come in terms of our longevity and incomes. Across dozens of countries over the past 200 years it impresses on us that we have not done badly in our worldwide desire to improve our health and the wealth of our citizens. (http://www.tvkim.com/watch/614/kims-picks-a-digital-view-of-the-world?utm_medium=nl&utm_source=totd&utm_content=2010-12-06-fifl&utm_campaign=u)

Basically, what you see is that, despite the ups and downs, our overall progress, seem from the big picture perspective, has been remarkable, and we still seem to be on that upward path.

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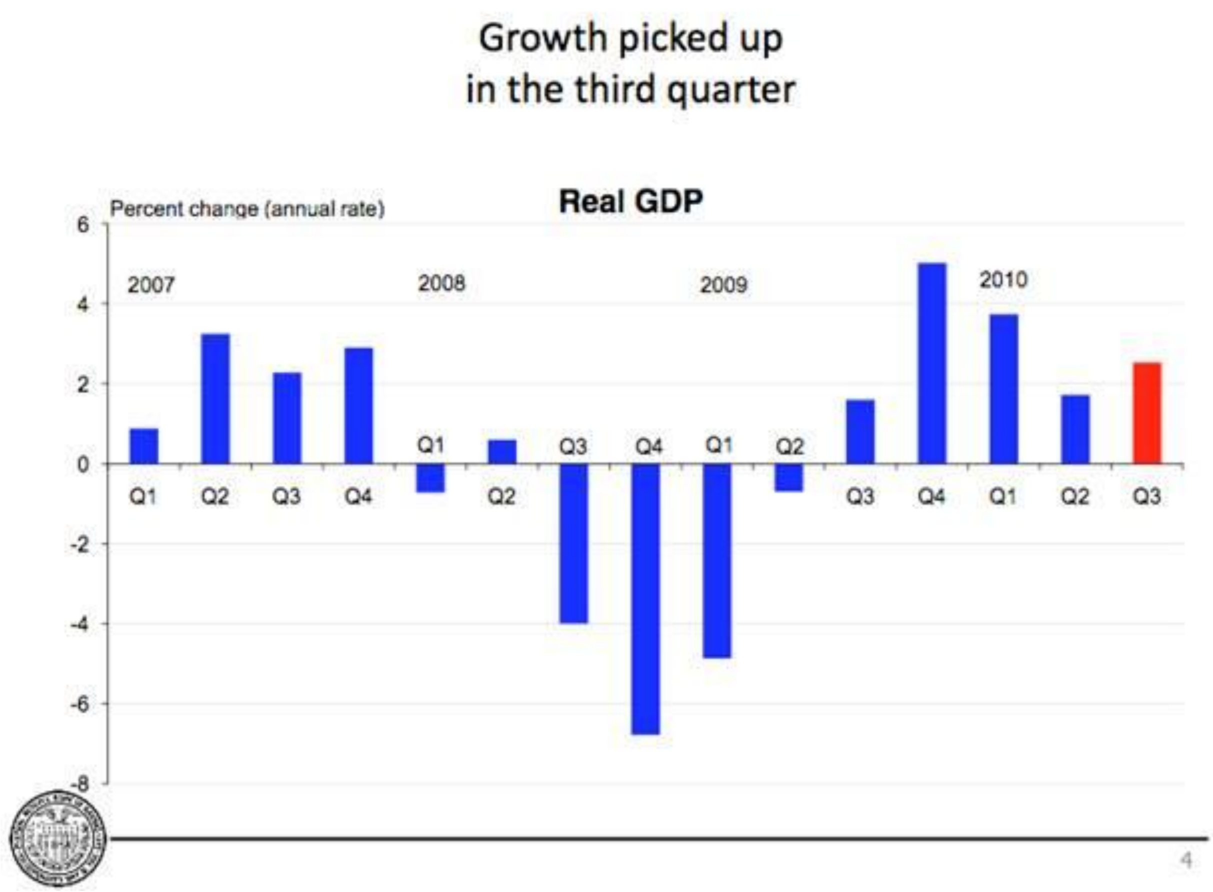
Taking a more recent view, how many of us have a chance to sit down with a Federal Reserve Board economist, and get his/her latest thinking? On December 2 of this year, Craig Hakkio, Special Advisor on Economic Policy for the Kansas City Federal Reserve Board, offered a presentation which gives us a graphic look at the recent downturn and some insights into where the economy is heading now.

With some help from me explaining what you are looking at, let's take a tour of some of Mr. Hakkio's slides, starting with real GDP growth.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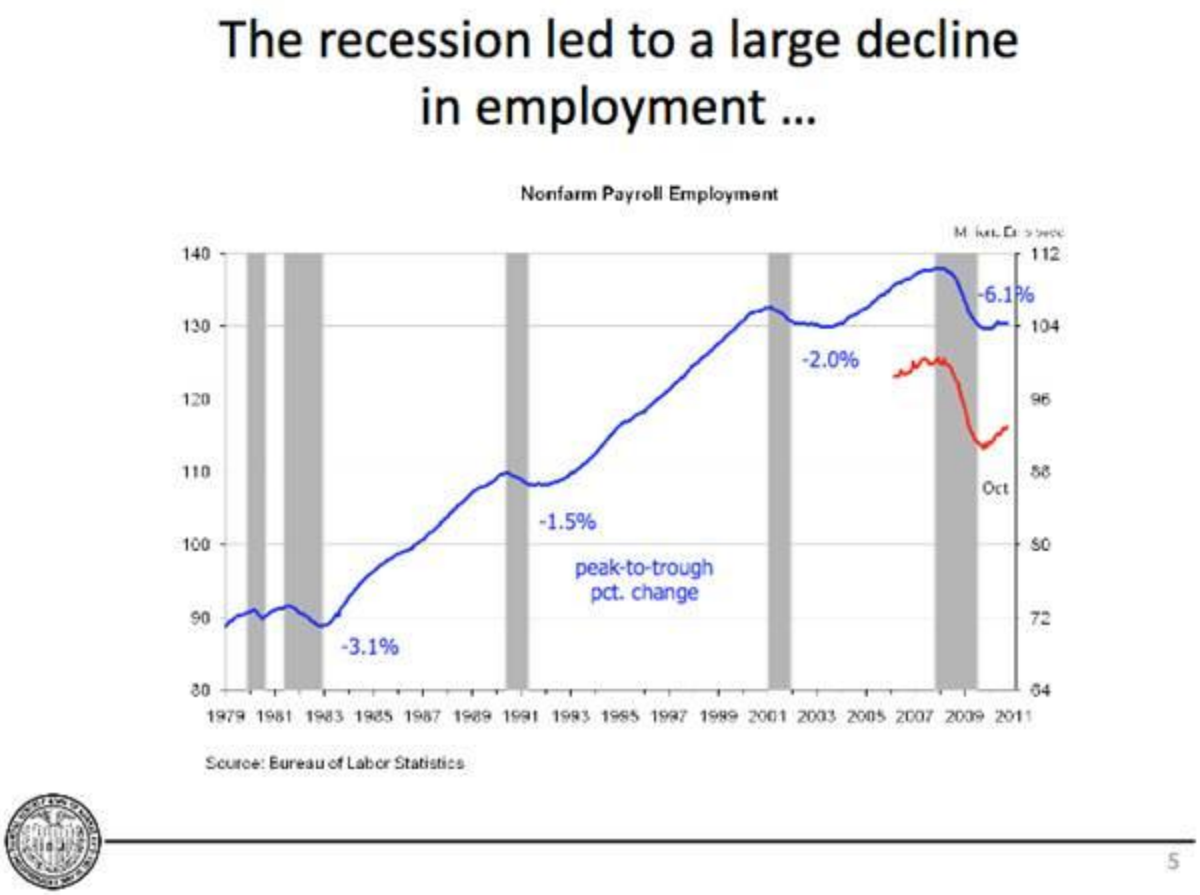
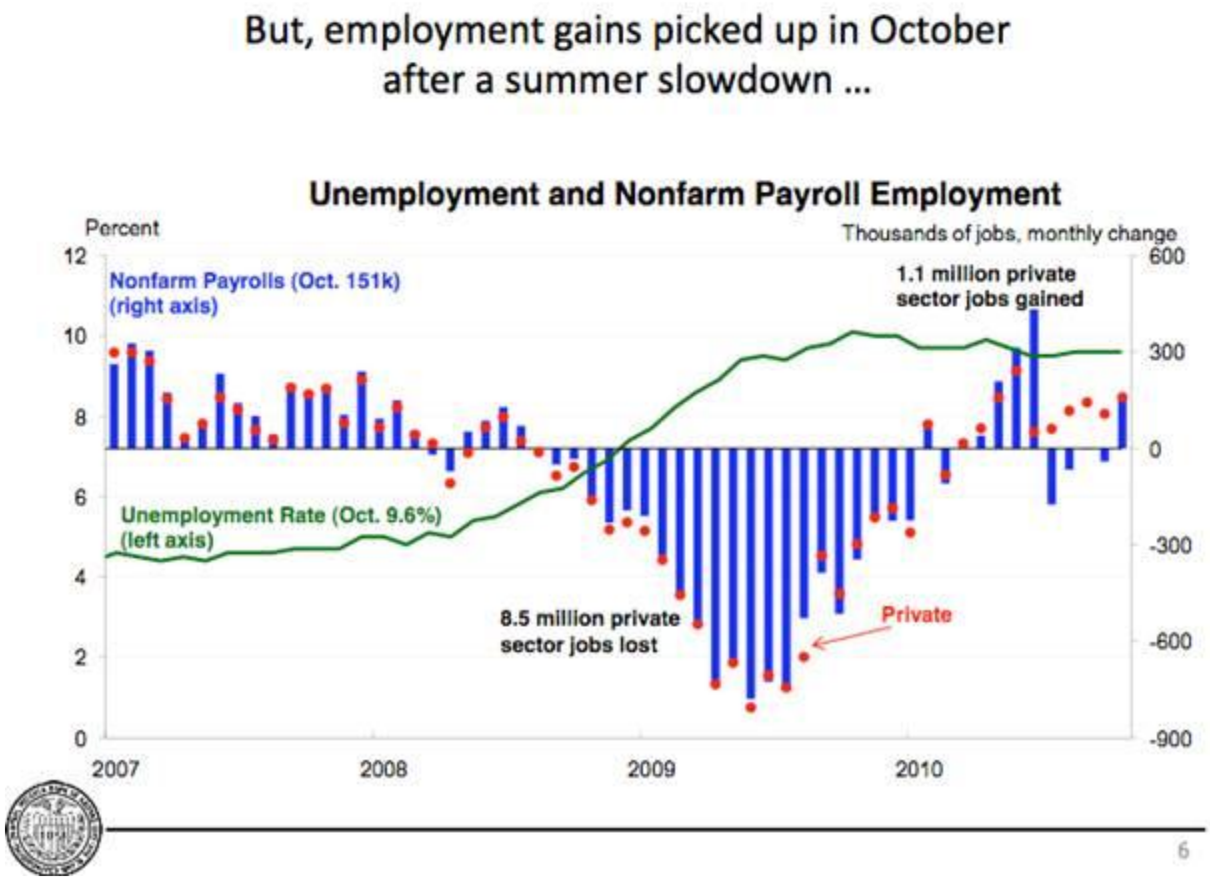
The red bar at the end is an extrapolation based on preliminary data. The first thing that draws your eye is the remarkable size of the downward-facing bars, the extent of the recession, starting in the third quarter of 2008, continuing in the fourth quarter and the first two quarters of 2009. But the economy began to grow in the second half of 2009, and while the growth rate declined this year, it seems to be stabilizing somewhere around a modest 2%.

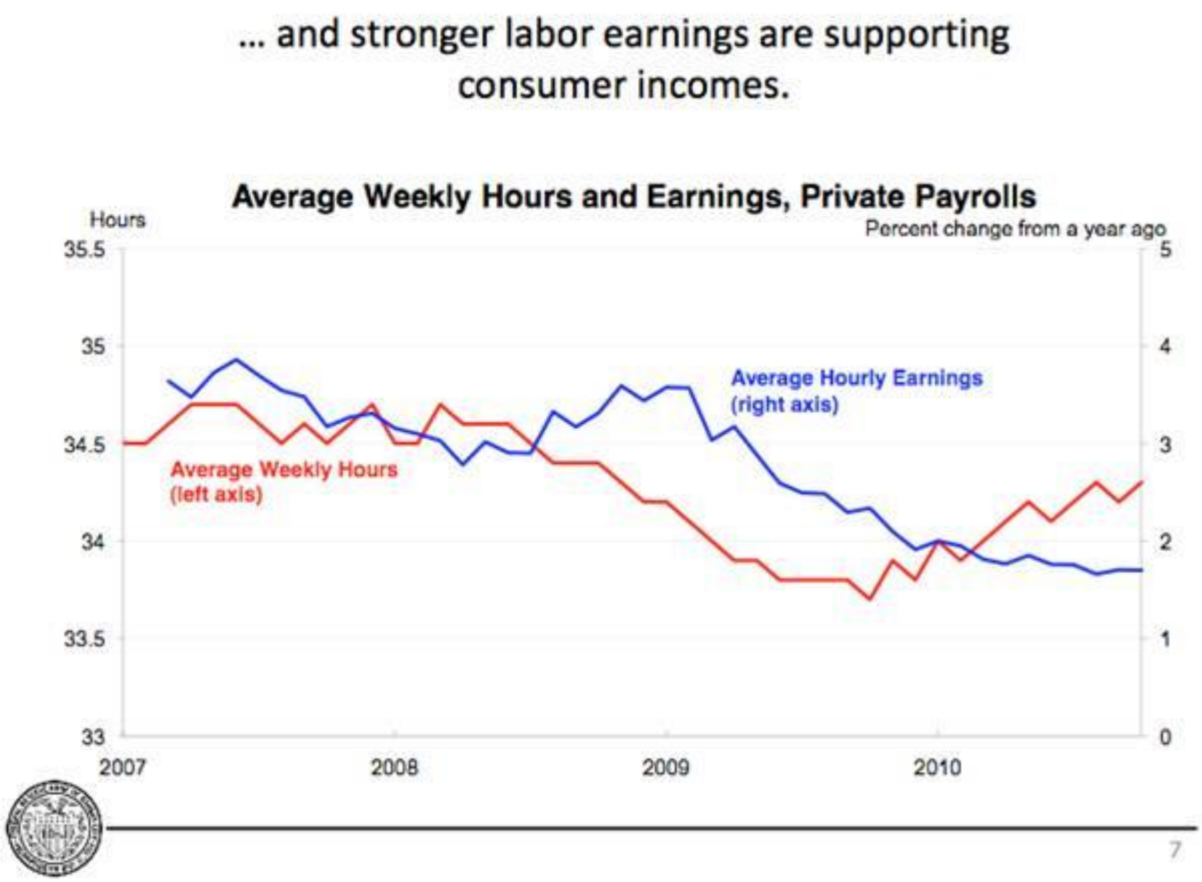


Here we see an impressive rise in total nonfarm payroll employment since 1979, and the recent recession looks like a blip on the screen until you notice that the decline was larger than anything we've experienced in the past 30 years. But once again, you can see that the total employment figures have stabilized since the recession.

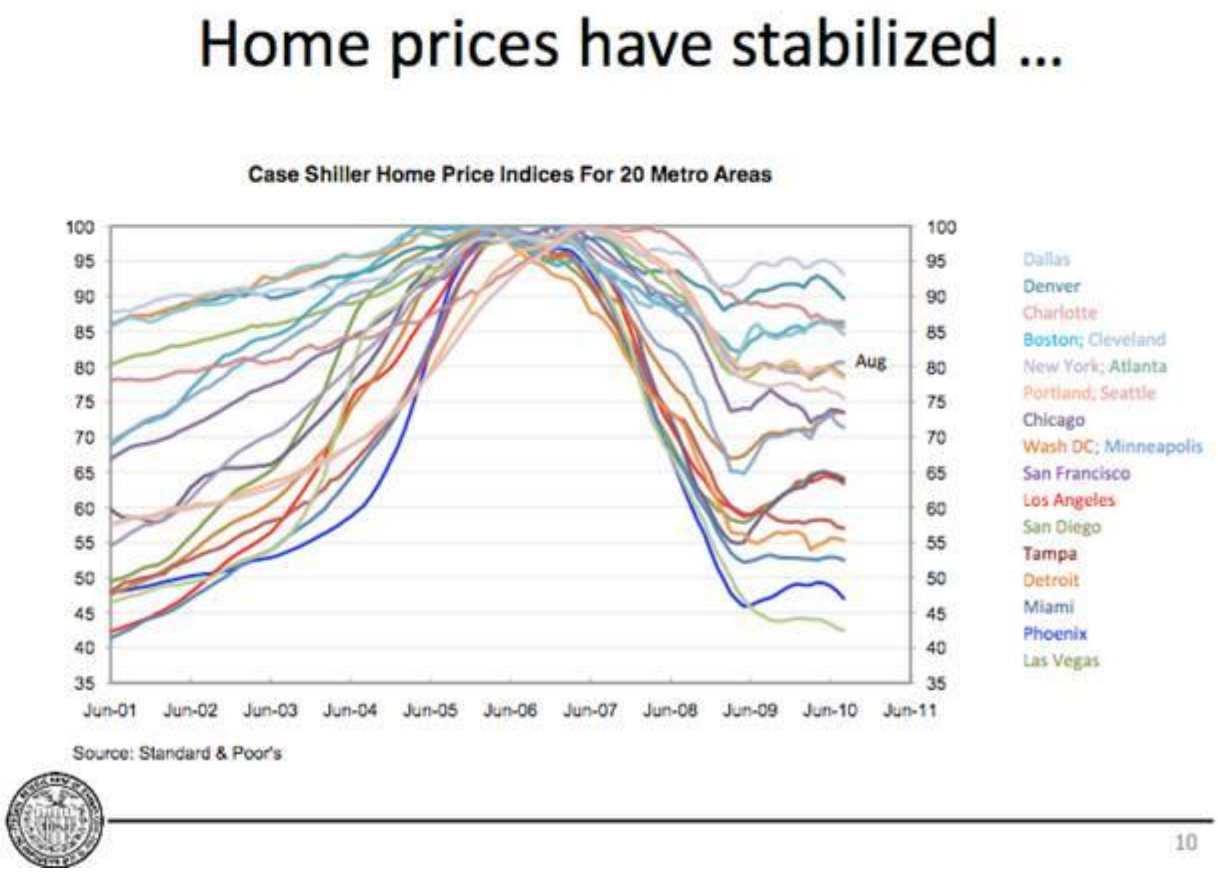


This is a complicated chart, but if you focus on the green line, it shows that the growth in the unemployment rate actually started in early 2008, months before the meltdown, and continued to grow through the recession before stabilizing in the past year or so. (You can get an approximation of the unemployment rate at any given time by tracing the green line to the percentage unemployment on the left-hand axis.)

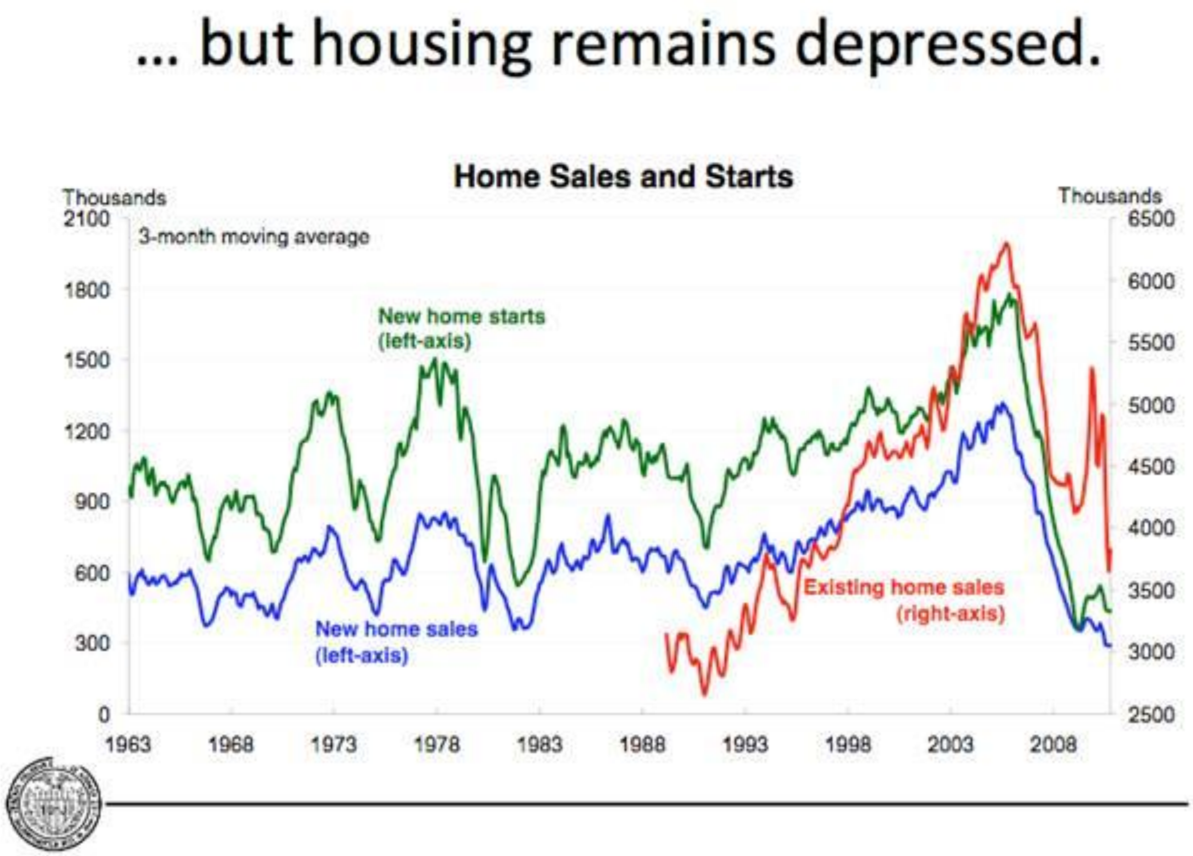
The blue bars represent total nonfarm payrolls, and you can see the recession vividly in the downward succession of monthly bars. The red dots represent the private sector payrolls, which fell in lockstep with the overall (government plus private sector) payrolls, but have bounced back faster than government employment. Seeing the red dots in consistently positive territory over the past few quarters might be considered an optimistic sign going forward.



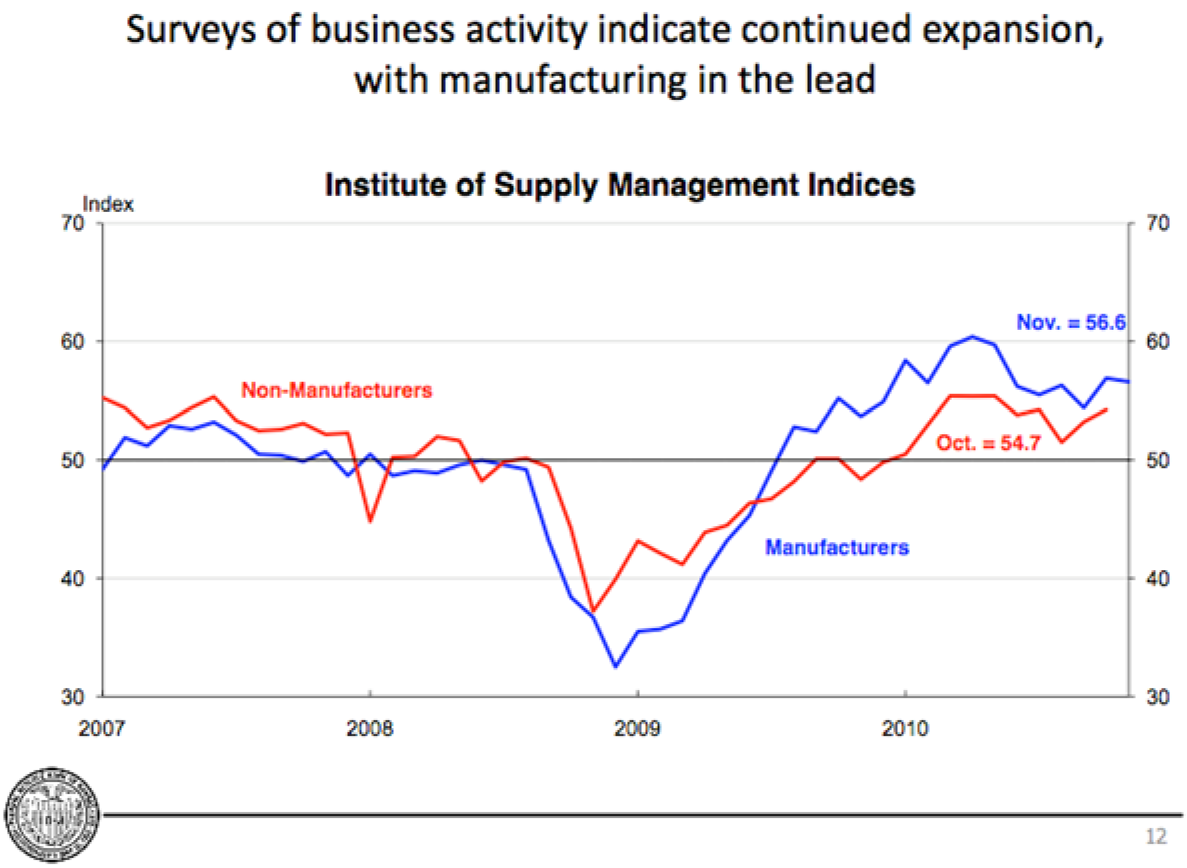
The red line shows average hours worked per week in the U.S., which fell and is now trending back upwards. Less encouraging: the blue line shows the percent decline in average hourly earnings from the previous year; so long as it is above zero, hourly earnings are still going down. Recent data seems to be more encouraging than the peaks during the recession, but it would be nice to see growth rather than smaller, stabilizing declines.



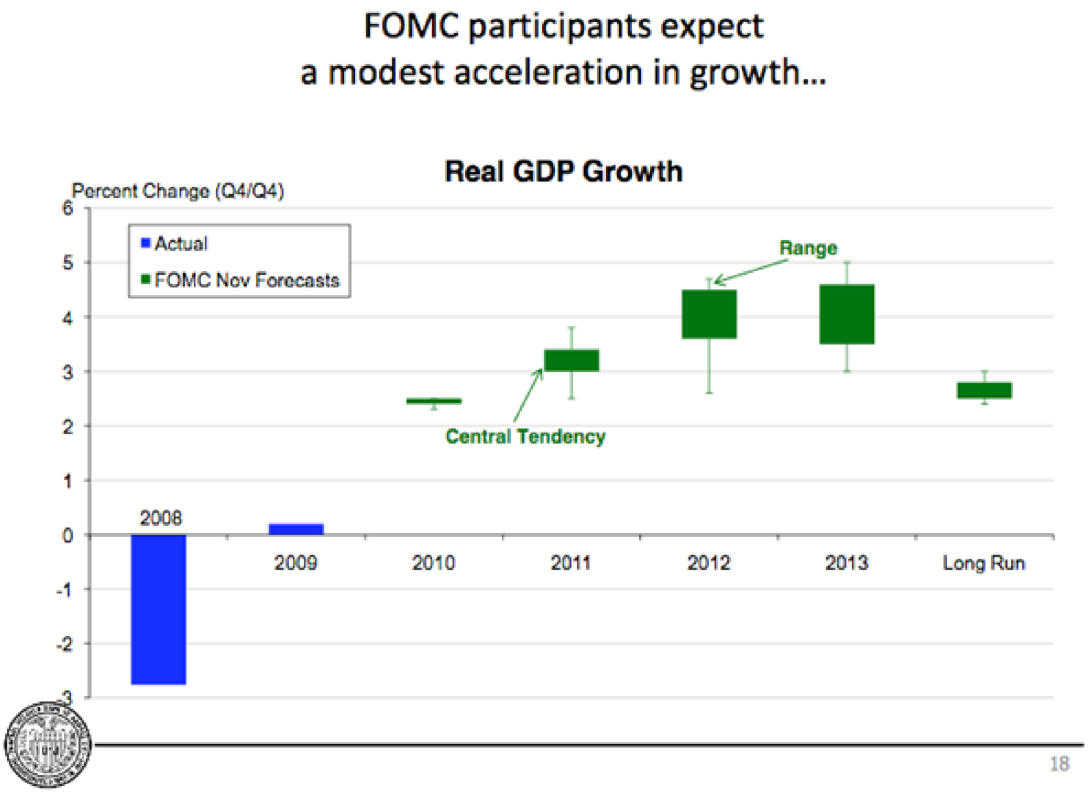
What about housing? Each line represents a different major metropolitan area, and the overall graph shows, first, the housing boom, as virtually every major market saw the average prices of a home rise to record peaks during the 2004-2007 time period. Then you see home prices falling back to their previous levels--and, since the middle of 2009, level off or even rise a bit. In terms of home values, it looks like most of us are back to about where we were in 2001.



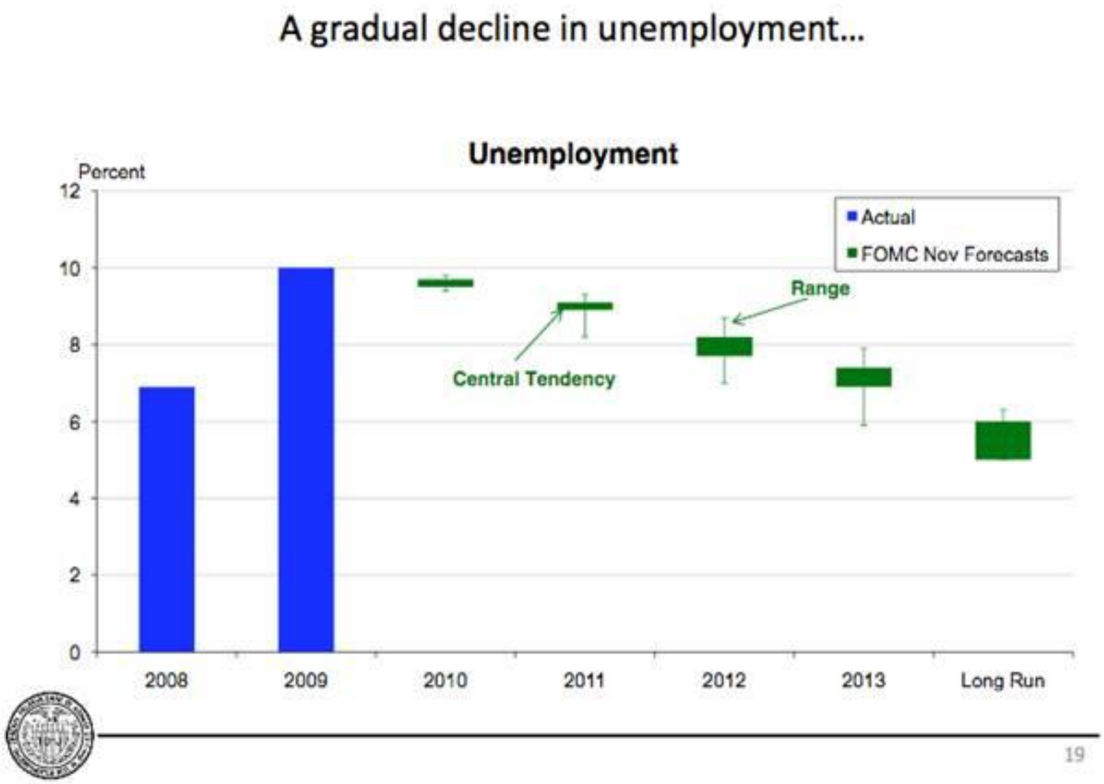
You might have been encouraged by the last graph, showing stabilizing home prices, but here we see a deep plunge in the construction of new homes (green line), sales of new homes (blue line) and sales of existing homes (red line). The housing boom peaks have been followed by steep downward slopes, and Mr. Hakkio doesn't see any clear signs of stabilization yet. One encouraging sign, though, is that as new home starts decline, and more younger Americans move into the housing market, the laws of supply and demand should eventually kick in and causes prices and sales to move up again.



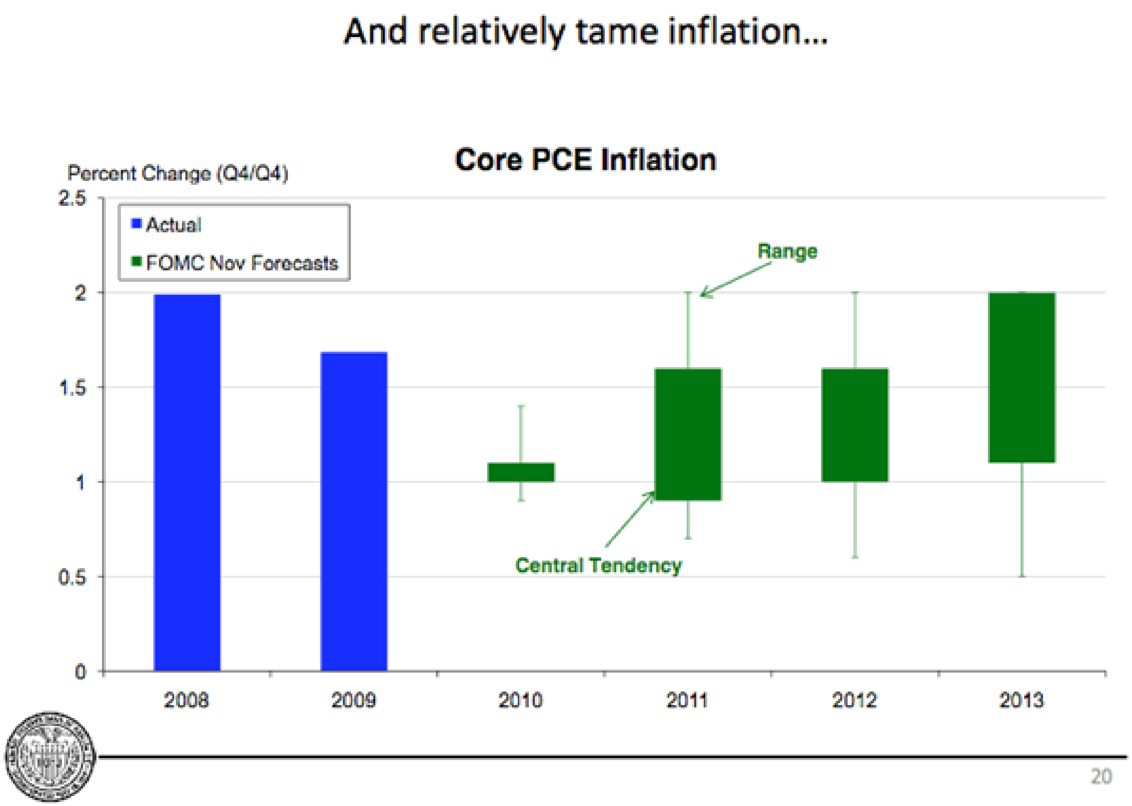
The Institute of Supply Management survey of manufacturing and non-manufacturing companies shows an increase in business activity from the awful trough of 2008-2009.



The FOMC is the Federal Open Market Committee that is in charge of making key decisions about interest rates and the growth of the U.S. money supply. Here it is forecasting the future growth rate of the economy; the 2008 and 2009 blue bars show the remarkable extent of the recession and the first inklings of a recovery. The estimate for 2010 is about in line with what the Fed economists expect the U.S. to achieve in the long run, on average, and the 2011, 2012 and 2013 bars indicate that they are expecting above-average economic growth in the near-term future.



Here, the blue bars show, once again, the depressing unemployment figures from the recession, and the green rectangles suggest that the Fed economists are looking for a gradual drop in unemployment. Interestingly, they expect unemployment to stabilize at about 6%, which seems too high for comfort. Doesn't it?



Finally, the Fed economists seem to expect inflation to trend downward, but the broadness of the green rectangles, and the lines that extend out from them, seems to mean that their models show a wide range of possibilities. The most interesting thing here is that none of the estimates, either line or box, goes above 2% a year.

Overall, this isn't a totally bullish view of the future. But, in this rare opportunity to look over the shoulder of Fed economists, we can see, graphically, what an awful recession the 2008-2009 meltdown was in a variety of ways, and some evidence that the economy may now, finally, be in the early stages of a recovery.