

# The Economy in 2014

Council of Economic Advisers



December 23, 2014

# Overview

## The Economy's Progress in 2014

- **Jobs:** By November, 2014 was already the best year of job growth since 1999.
- **Wages:** Much of the pickup in job creation in 2014 occurred in higher-paying industries, and overall wage growth continued to exceed inflation.
- **Deficit:** The deficit as a share of the economy has fallen by about two-thirds, and the FY2014 deficit was below its average over the past forty years. This is part of a broader economic rebalancing that sets the stage for more sustainable growth in the years ahead.
- **Health Care:** Employer health insurance premiums grew at a rate tied for the lowest on record, consistent with the lowest health care price inflation in nearly half a century.
- **Energy:** The United States is leading the world in both oil and natural gas production, contributing to a roughly 40 percent drop in oil prices over the second half of the year. At the same time, solar energy is up tenfold since 2008, while wind energy has increased threefold.

## The Challenges that Remain

- **Jobs and Wages:** The labor market is not yet fully recovered—further reductions in long-term unemployment and faster wage growth are needed.
- **Household Finances:** Household finances vary widely across the population, and more must be done to ensure the benefits of a strengthening economy are widely felt.
- **Global Economy:** Growth is slowing in many of our key trading partners, requiring a renewed global emphasis on pro-growth policies.

# Overview

## Key Policy Steps Contributing to the Progress We Have Seen

- **The Recovery Act and Subsequent Fiscal Measures:** The United States has come further in its recovery than most other advanced economies around the world, in part because of the President's aggressive policy response that included the Recovery Act, the payroll tax cut, and about a dozen additional fiscal measures.
- **Response to the Financial Crisis:** Even when it was not popular, the President took the necessary steps to recapitalize the financial sector, rescue the auto industry, and reform financial regulation.
- **Affordable Care Act:** Changes in the health care system, in part due to the Affordable Care Act, are creating major savings for households, businesses, and the Federal government.
- **All-of-the-Above Energy Strategy:** In addition to the energy boom, the United States also made great strides in energy efficiency, contributing to a 10 percent reduction in carbon emissions from 2007 to 2013—the largest absolute emissions reduction of any country in the world.
- **Catalyzing Technological Innovation:** The President signed into law the most sweeping patent reform in decades, made significant investments in research and development, and will nearly double the amount of wireless spectrum available for mobile broadband.
- **Reducing the Deficit:** The Budget Control Act, the Affordable Care Act, and returning to Clinton-era tax rates for upper-income households will contribute to nearly \$4 trillion in deficit reduction over the next decade.

## Key Policies to Support Further Progress

- **Investing in Infrastructure**
- **Reforming the Business Tax Code**
- **Common Sense Reforms to the Immigration System**
- **Expanding Overseas Markets for America's Goods and Services**
- **Investing in Education from Pre-School through College and Training**
- **Raising the Minimum Wage**

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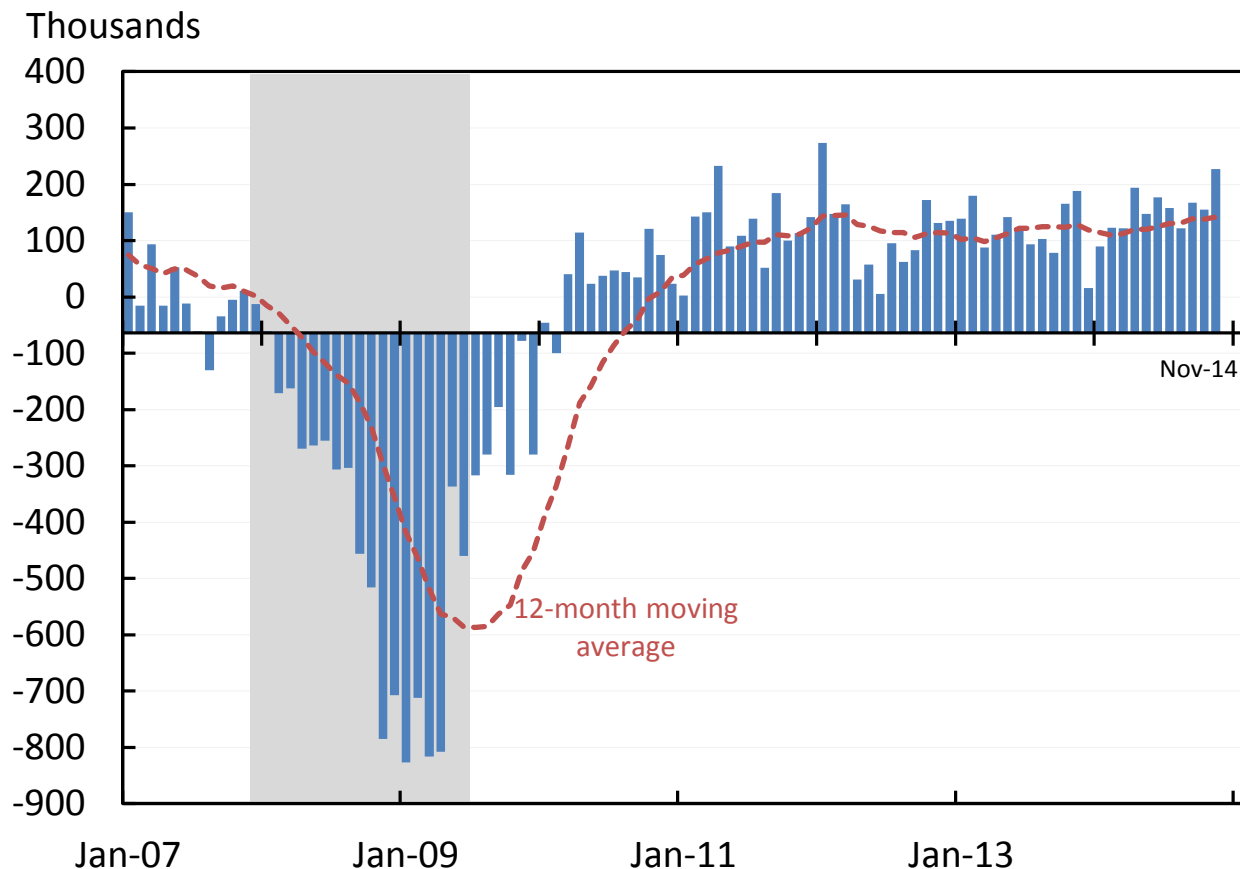
IV. International

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# Businesses Have Added 10.9 Million Jobs Over 57 Consecutive Months, the Longest Streak of Private-Sector Job Growth on Record

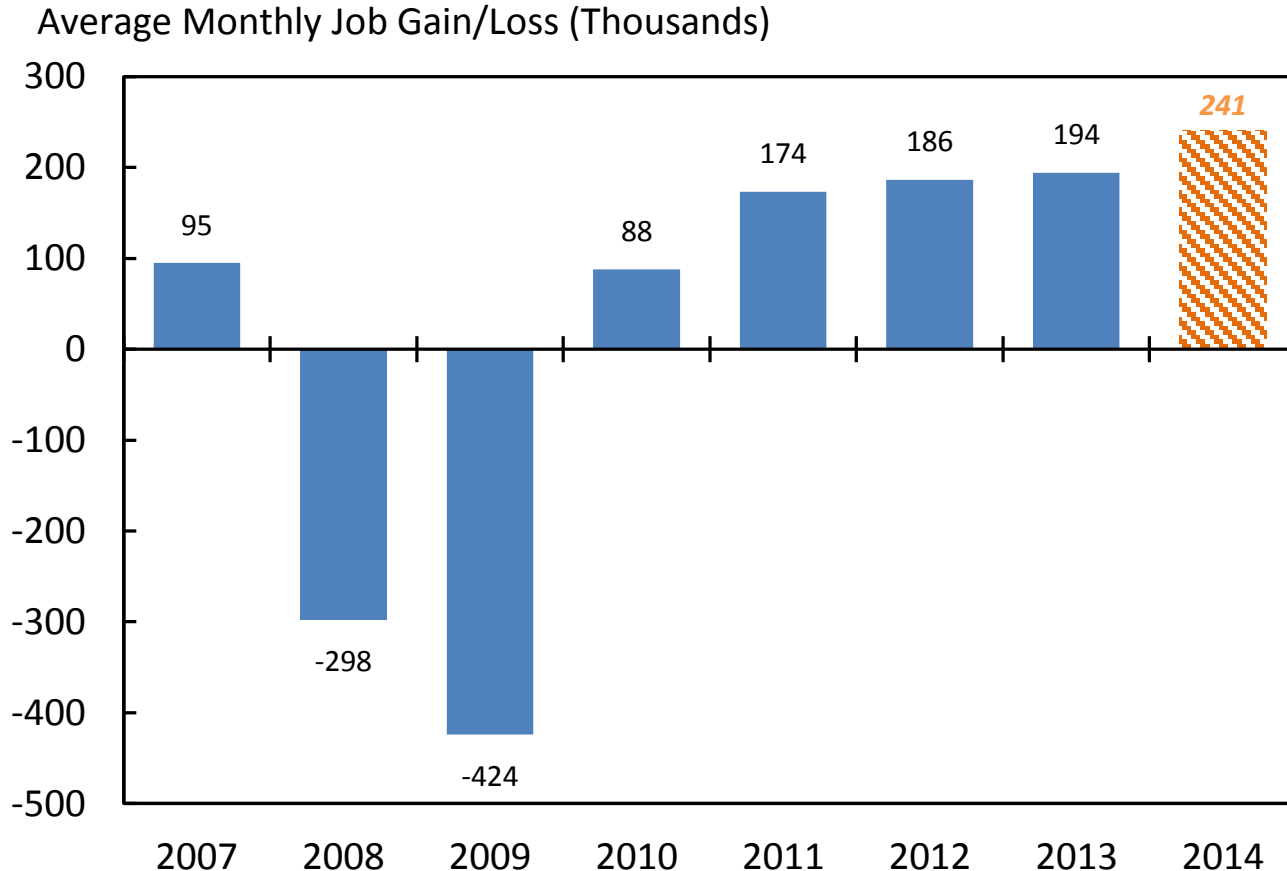
## Monthly Change in Private Payroll Employment



***Private employment has risen by at least 200,000 for ten consecutive months, the first time that has happened since the 1990s. In addition, total employment has risen for 50 straight months, also the longest streak on record.***

# The Pace of Job Growth Has Picked Up to 241,000 Per Month in 2014, Up From 194,000 Per Month in 2013, and the Most in Any Year Since the 1990s

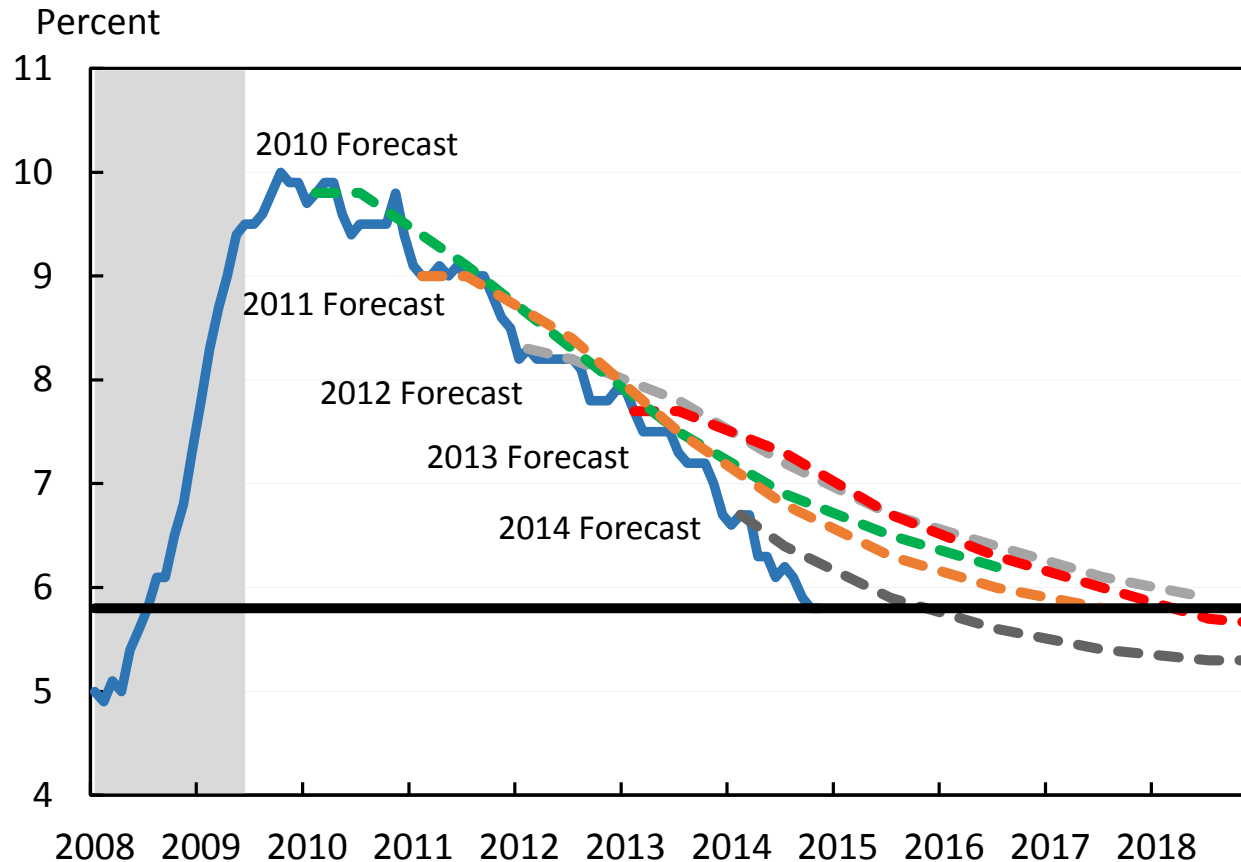
## Average Monthly Job Growth by Year



***Total employment has risen by 2.65 million in the first eleven months of 2014, already totaling more jobs than in any full calendar year since the late 1990s. The economy is adding jobs at a rate of about 2 percent per year, also on pace for the largest percentage increase in any calendar year since the late 1990s***

# The Unemployment Rate Has Fallen Much More Rapidly than Expected

## Unemployment Rate and Consensus Forecasts



***Just last year, forecasters expected that the unemployment rate would remain above 6 percent into 2017—it was 5.8 percent in November 2014.***

# The Alternative Measures of Labor Underutilization are Falling About as Fast or Faster than the Overall Unemployment Rate

## 12-Month Changes in Key Employment Indicators



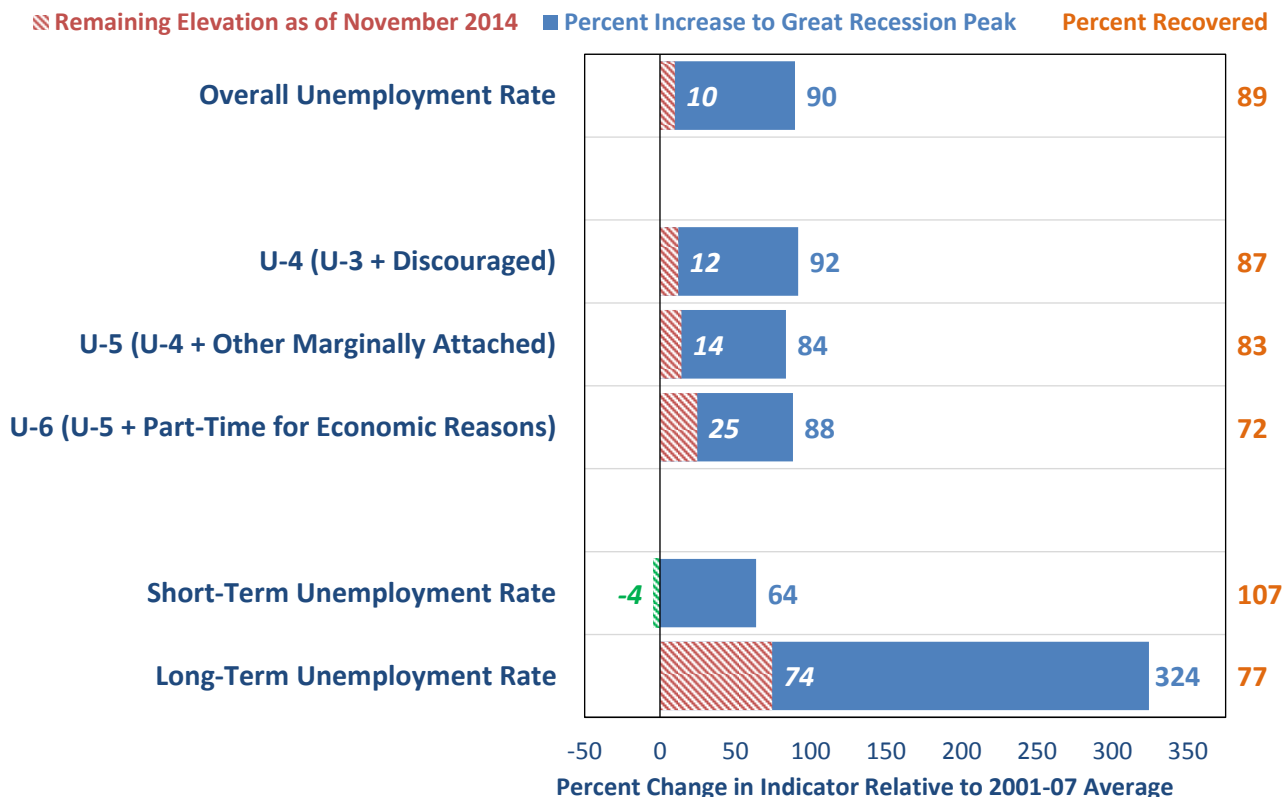
***The long-term unemployment rate remains elevated at 1.8 percent (compared to about 1 percent prior to the recession), but it has fallen disproportionately quickly over the past year.***



# The Overall Unemployment Rate is 89 Percent of the Way Back to its Pre-Recession Average, but More Work Remains on Long-Term Unemployment

## Tracking the Recovery Across Labor Market Indicators

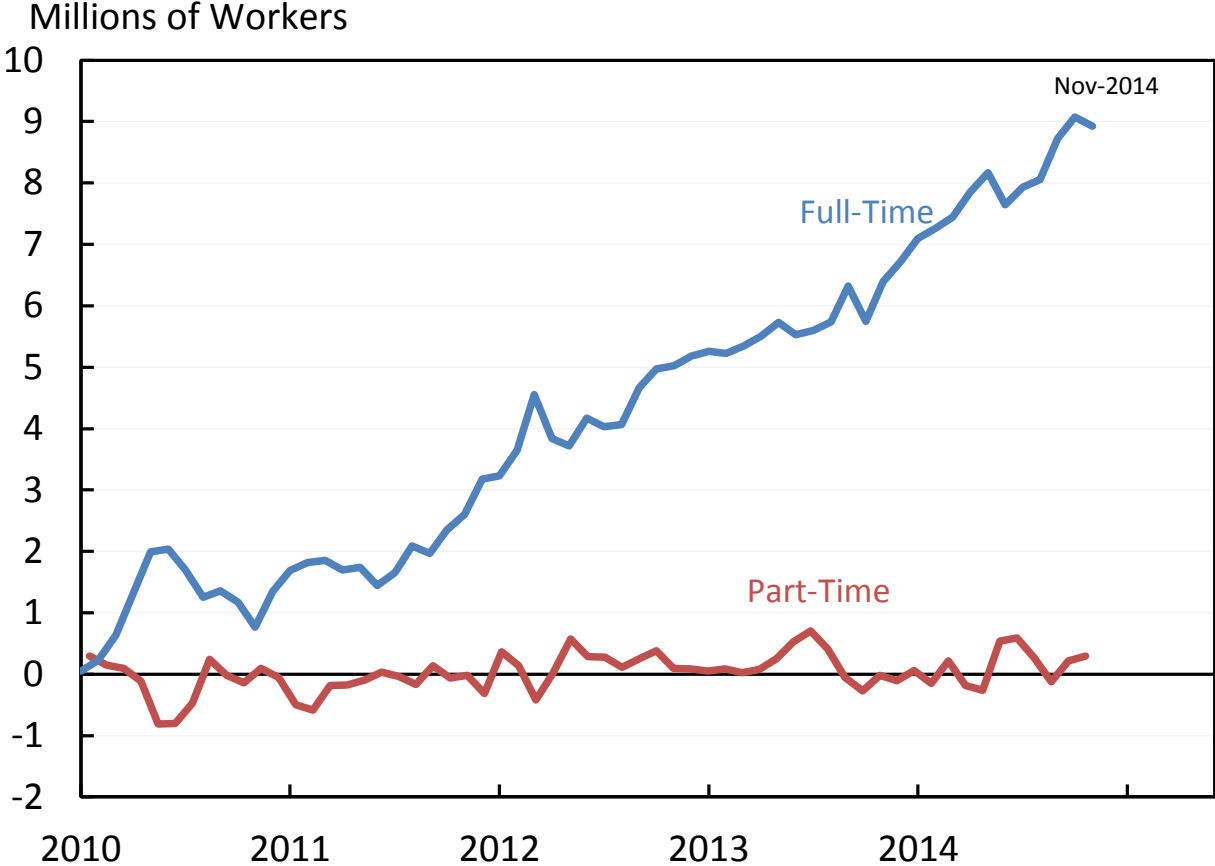
All Data as of November 2014



***The long-term unemployment rate and U-6 rate that includes involuntary part-time work are 77 and 72 percent of the way back to their pre-recession averages, respectively, reflecting continued challenges in these areas.***

# Essentially All of the Increase in Employment Since 2010 Has Been in Full-Time Positions

## Change in Employment Since the Beginning of 2010



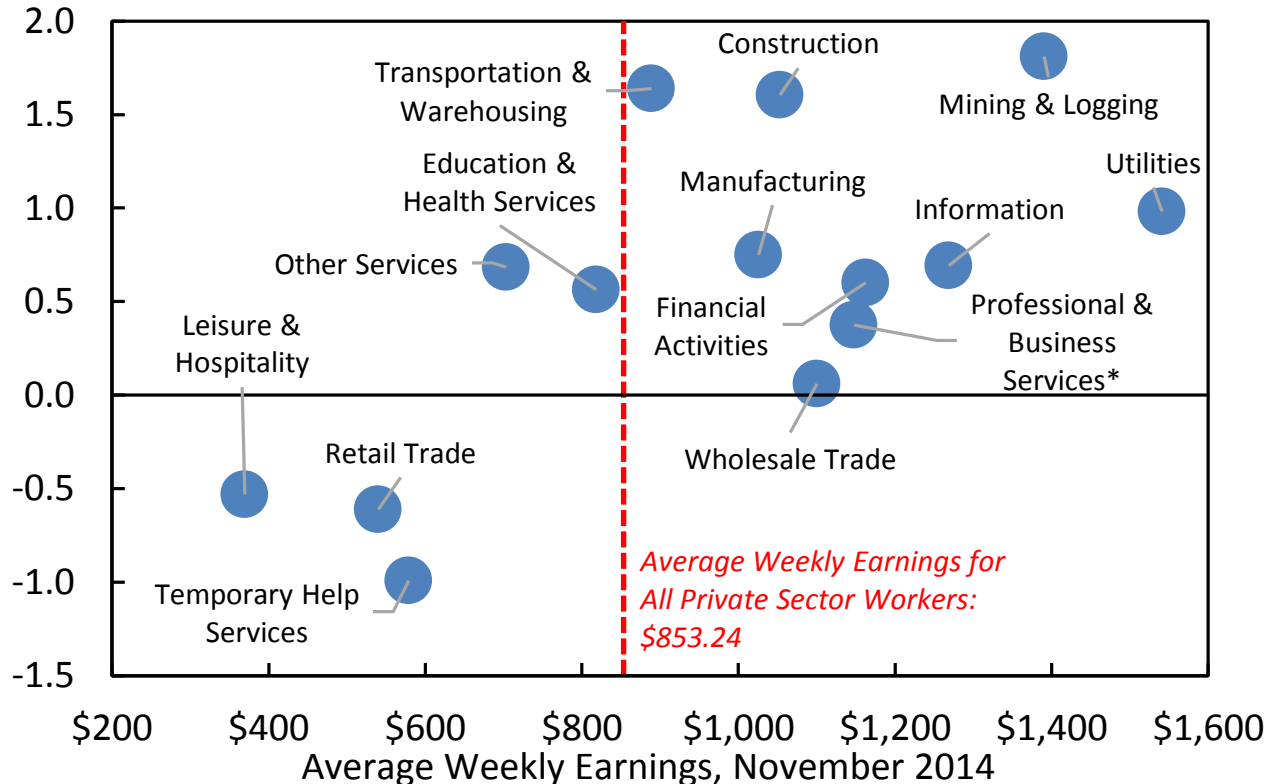
***Overall part-time work has been roughly flat in the recovery, as the number of involuntary part-time workers declines and the number of voluntary part-time workers continues to recover from its drop in the recession.***

Note: Based on Employment Situation table A-9.  
Source: Bureau of Labor Statistics.

# The Pickup in Job Growth During 2014 Has Occurred in Higher-Paying Industries

## Change in Job Growth vs. Average Earnings by Industry

Pick Up (+)/Slow Down (-) in Percentage Change in Employment, 2014 vs. 2013 (percentage pts.)



**For instance, the pace of manufacturing job growth has more than doubled to 15,000 per month this year, from 7,000 per month last year, and average weekly earnings for manufacturing workers are about \$170 higher than for all private-sector workers.**

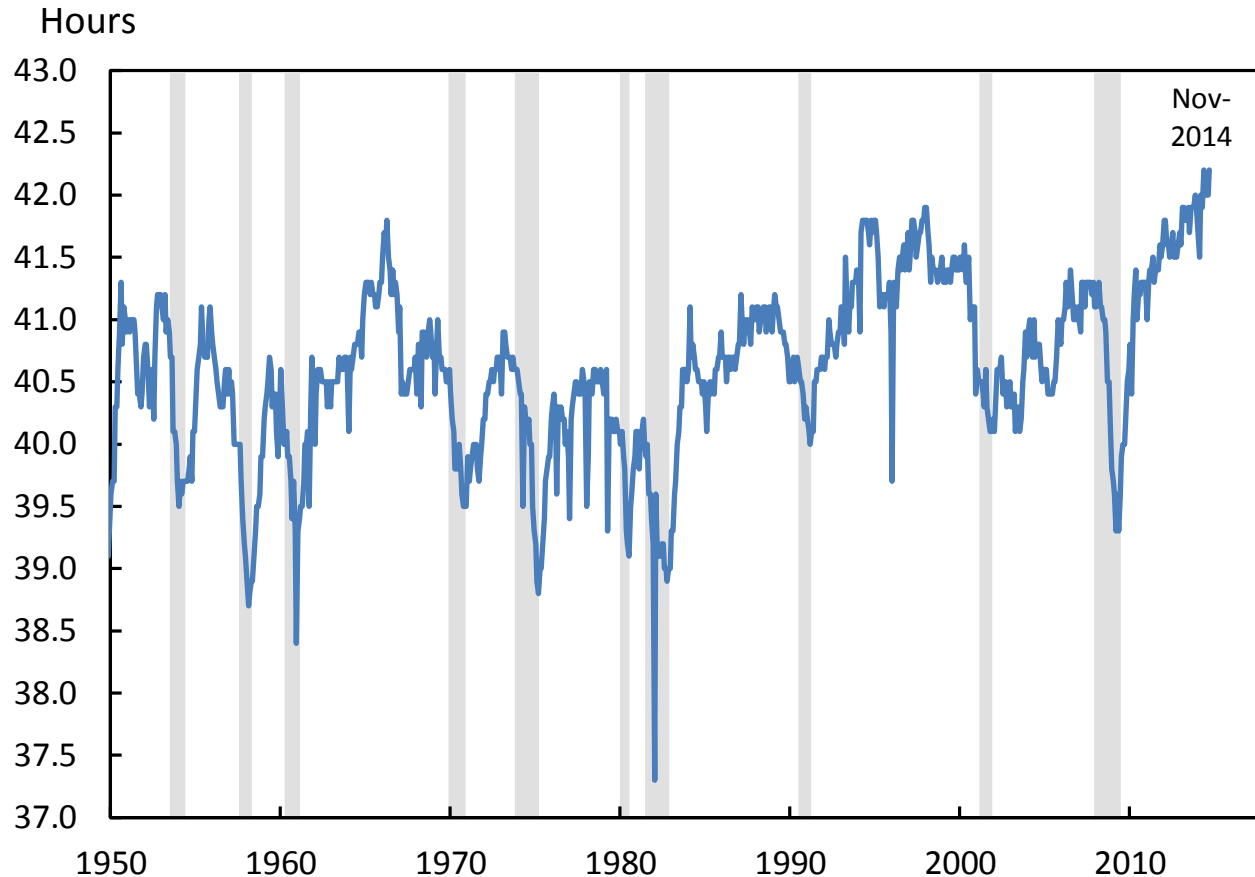
\*Excludes temporary help services (shown separately)

Note: Data for 2014 as of November, except earnings for temporary help services lags one month.

Source: Bureau of Labor Statistics; CEA calculations.

# In Addition to the 764,000 Manufacturing Jobs Added Since Early 2010, the Average Workweek in Manufacturing is the Highest Since WWII

## Average Workweek in Manufacturing

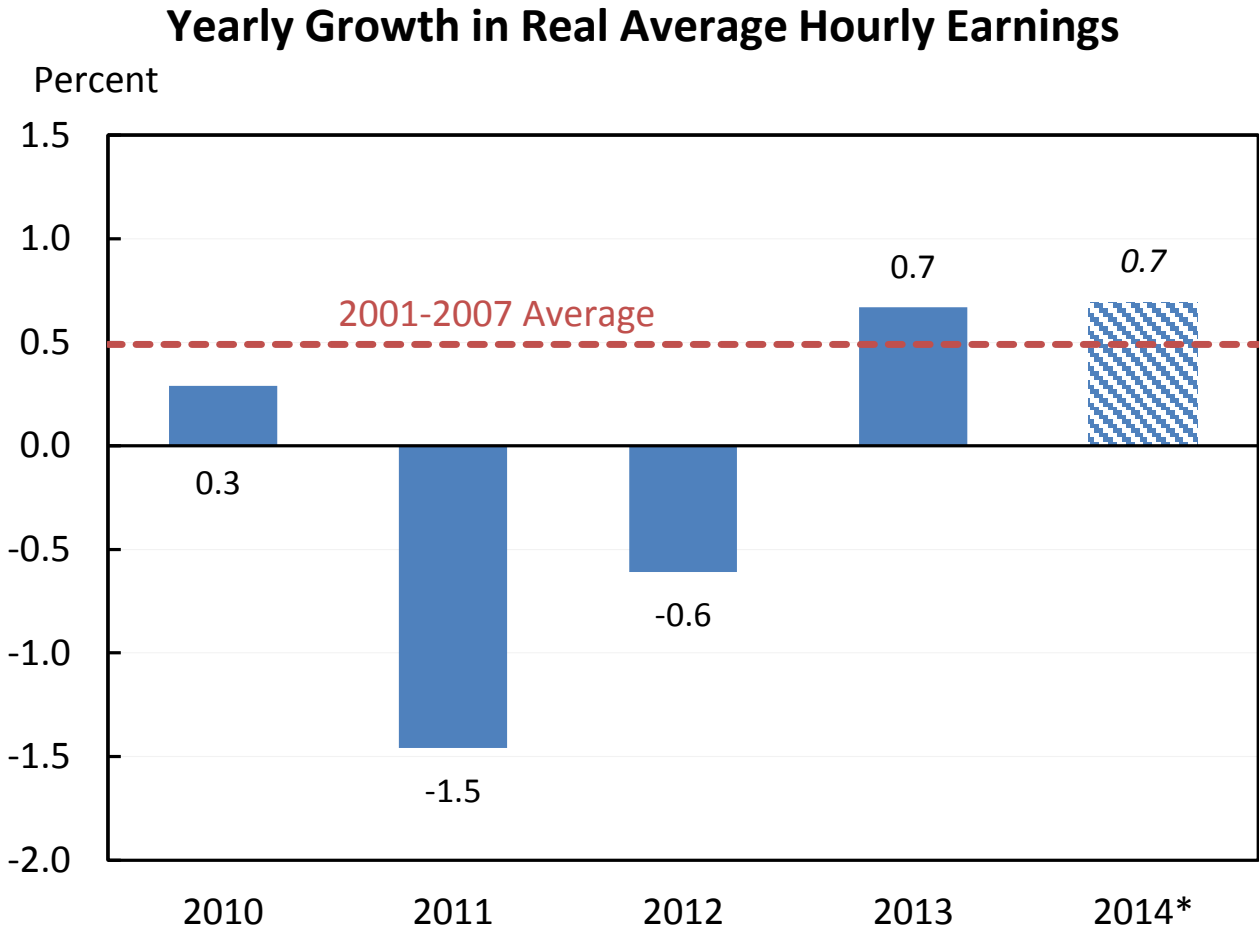


***The average workweek in manufacturing has hit 42.2 hours several times this year, the highest level since 1945.***

Note: For production and non-supervisory workers.

Source: Bureau of Labor Statistics.

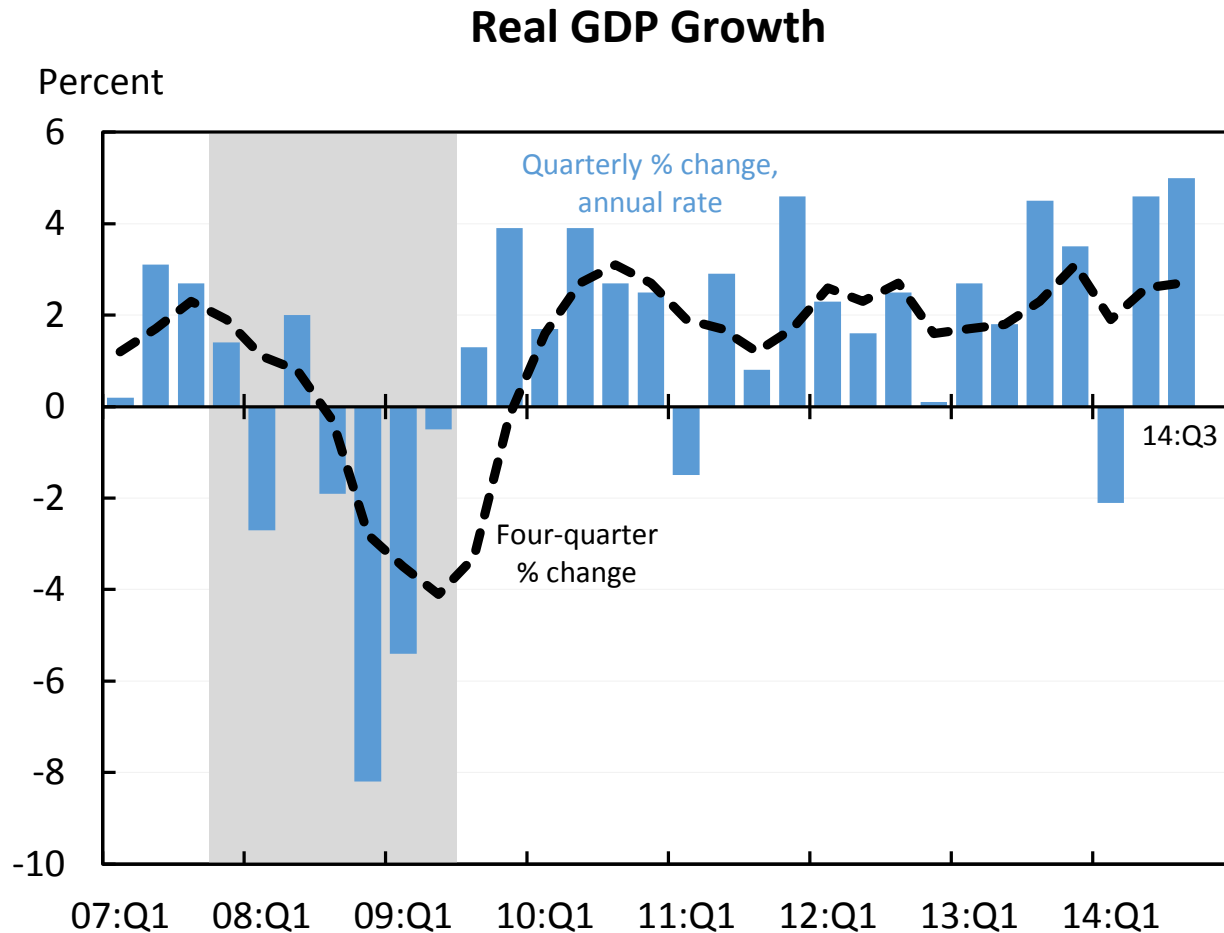
# Average Earnings Have Been Rising Slightly Quicker than Inflation Since 2013, But Faster Growth is Needed



***On average in the first eleven months of this year, nominal hourly earnings were up 2.3 percent compared to last year, while the consumer price index was up 1.7 percent.***

\*Data for 2014 through November.  
Note: Annual average basis. For production and non-supervisory workers. Data may not sum due to rounding.  
Source: Bureau of Labor Statistics; CEA calculations.

# The 5.0 Percent Annualized Growth Rate in the Third Quarter of 2014 is the Highest in Any Quarter Since 2003



***As of the third quarter of 2014, real GDP was 8.1 percent higher than the pre-recession peak in 2007.***

# Real GDP Has Been Growing More Quickly Since the Beginning of Last Year

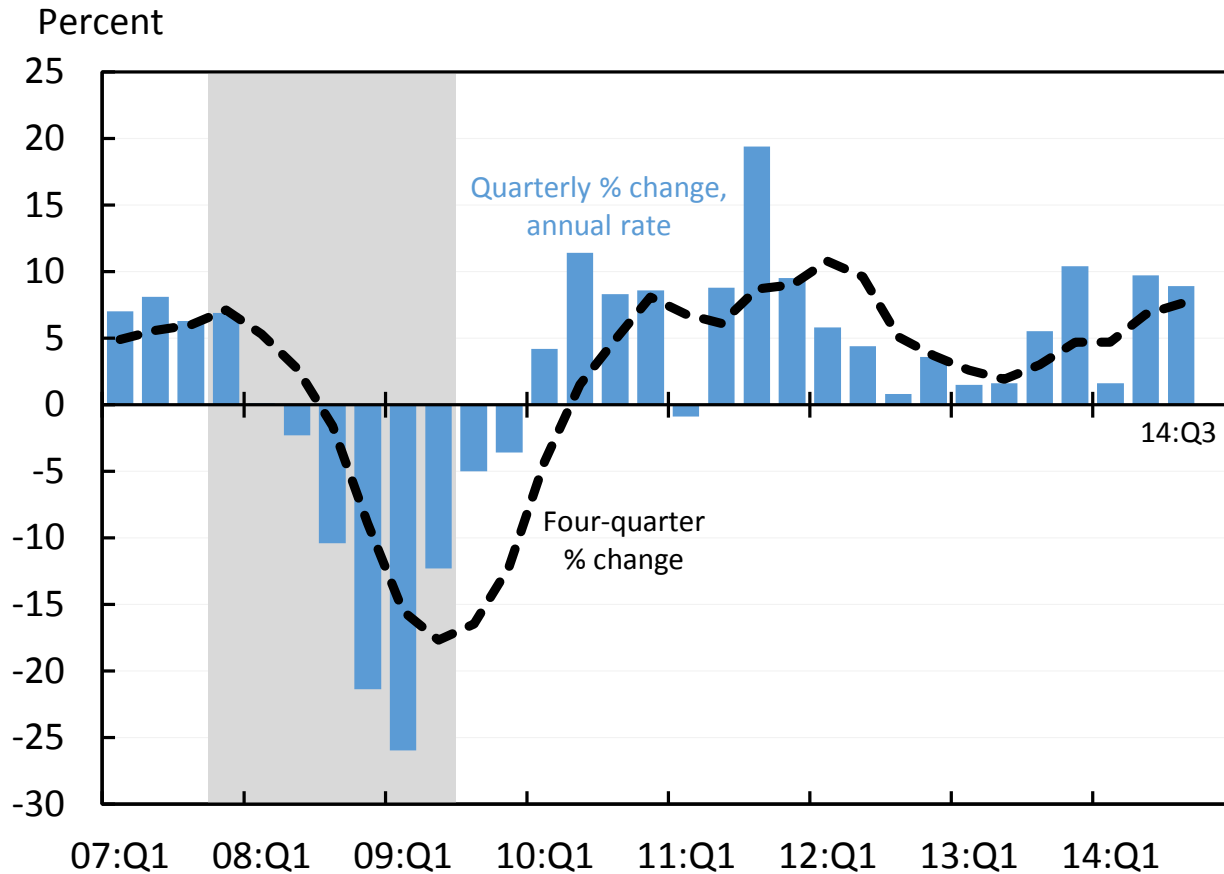
## Components of Real GDP (percent change at an annual rate)

	Start of Recovery (09:Q2-12:Q4)	2013 and 2014 (12:Q4-14:Q3)
<b>Gross Domestic Product</b>	<b>2.1</b>	<b>2.8</b>
Consumer Spending	2.0	2.6
Business Fixed Investment	5.2	5.5
Residential Investment	5.9	4.8
Exports	7.4	3.6
Imports	6.8	3.2
Federal Gov't	- 0.6	- 2.5
State & Local Gov't	- 2.2	1.1

*This mostly reflects a pickup in consumer spending, a continued solid pace of growth in business investment, and reduced fiscal drag at the State and local levels. Federal fiscal drag rose as a result of the sequester in 2013 but has eased in 2014.*

# Business Investment Has Picked Up in Recent Quarters

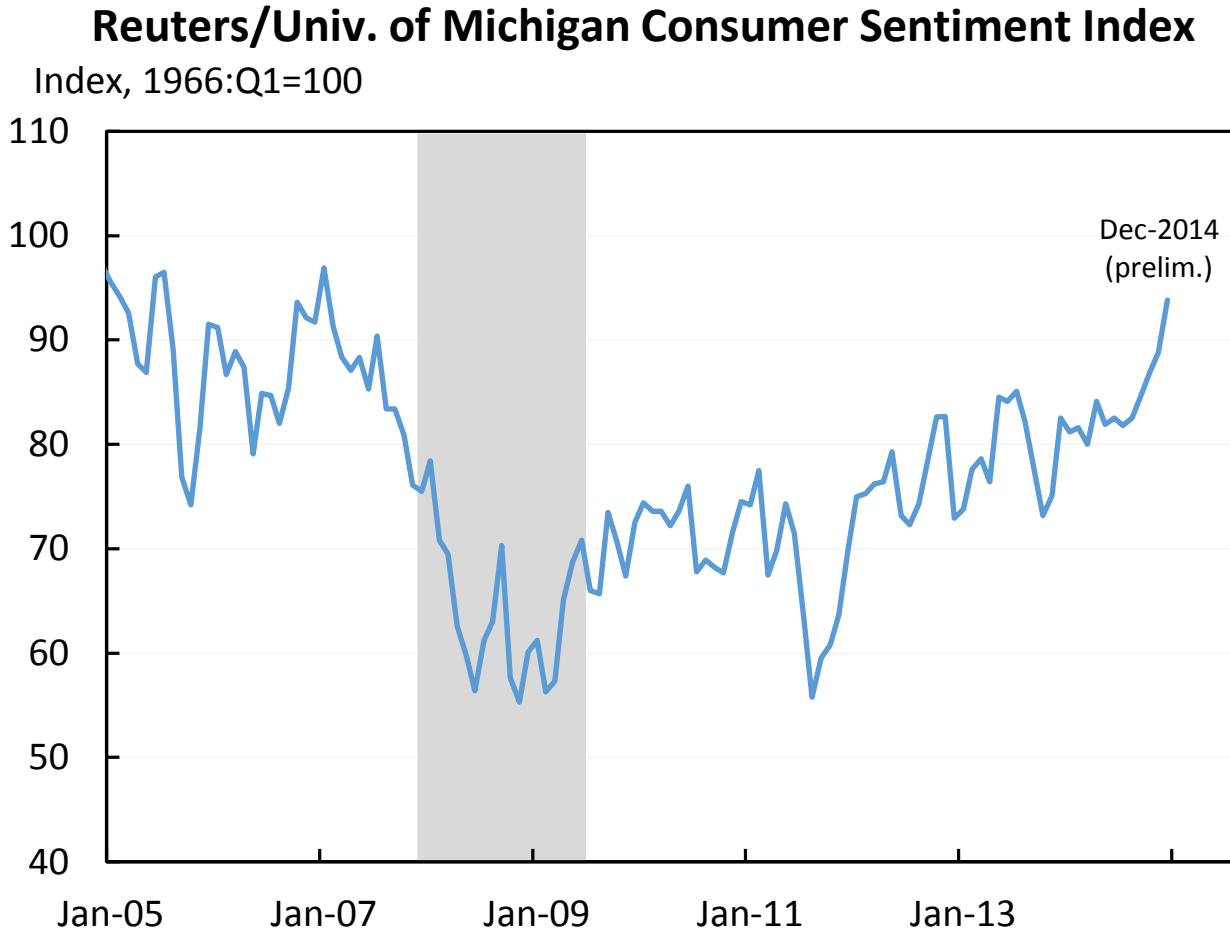
## Real Business Fixed Investment Growth



***In the recovery, business investment has grown at an average annualized rate of more than 5 percent.***



# Consumer Sentiment Recently Reached the Highest Level Since January 2007



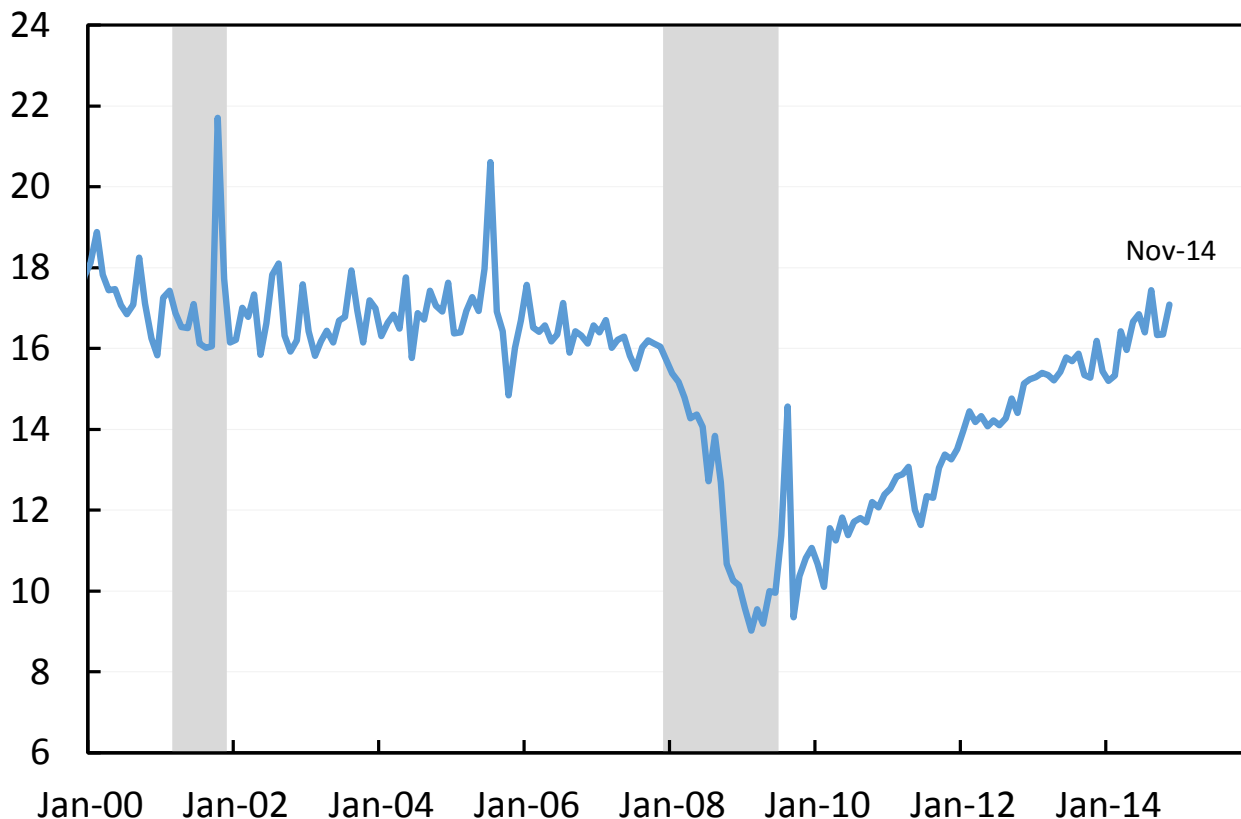
*This year's gains in consumer sentiment likely reflect improving income and employment expectations, the decline in gasoline prices, and the fiscal certainty secured for much of the year by the late-2013 Ryan-Murray budget agreement.*

Source: Reuters/University of Michigan.

# Auto Sales are On Track for the Strongest Year Since 2006

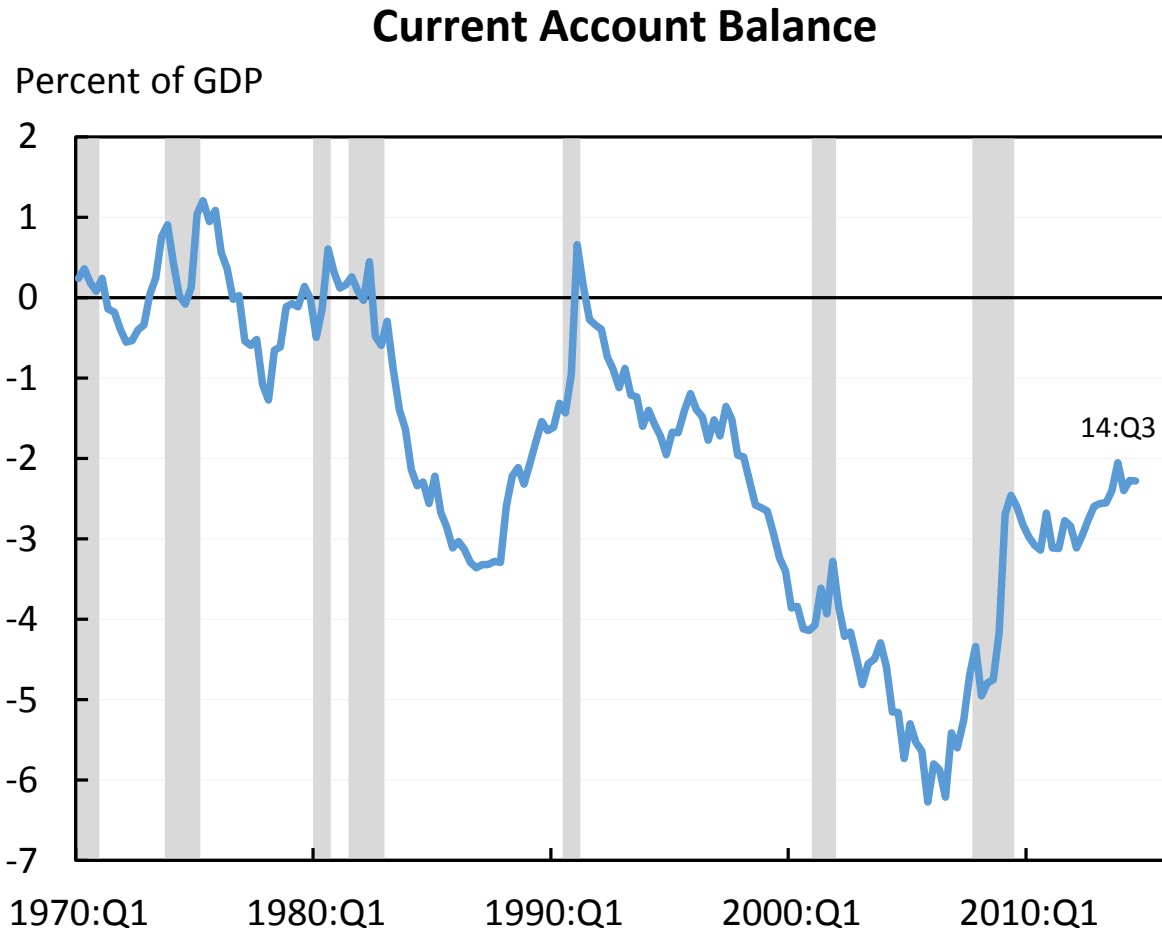
## Light Motor Vehicle Sales

Millions of units, seasonally adjusted annual rate



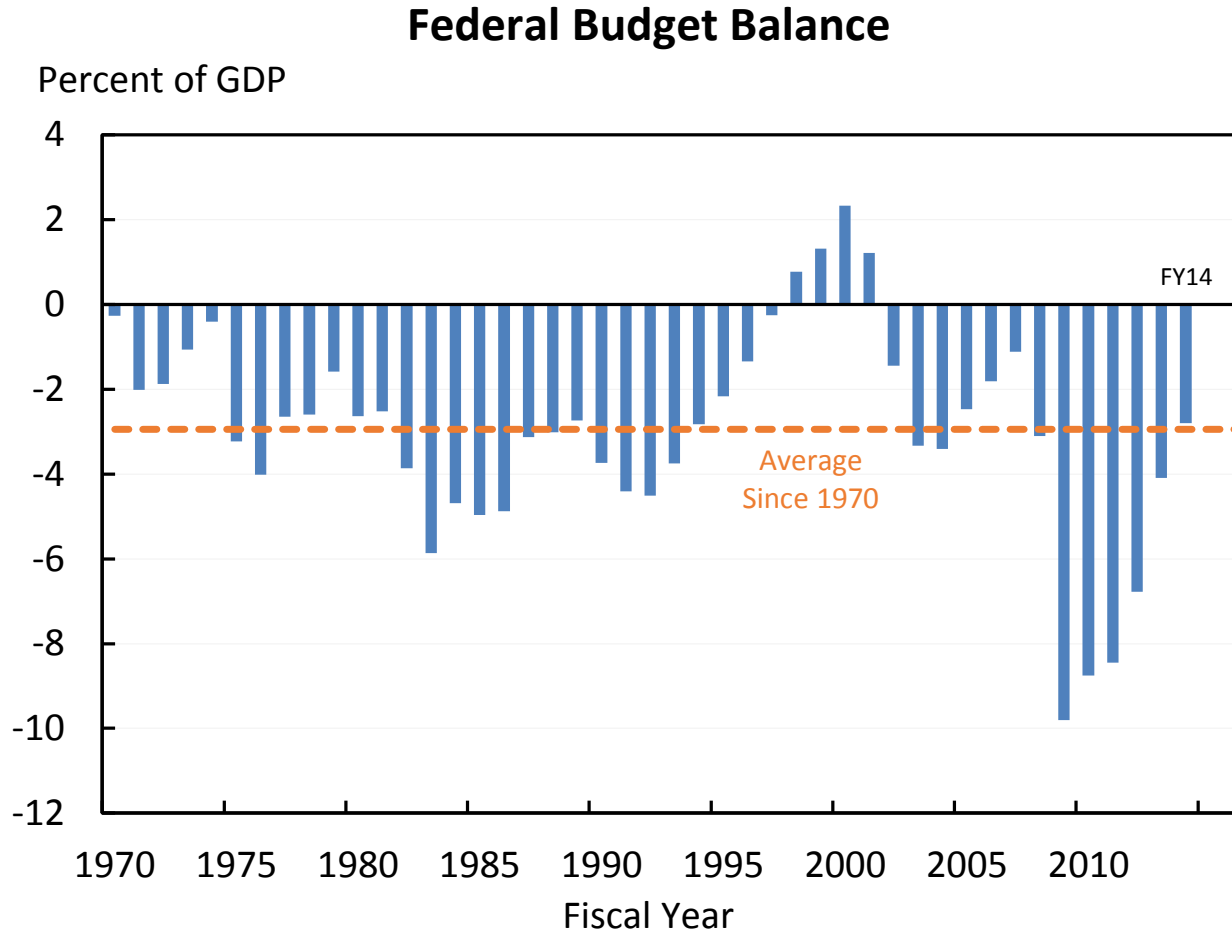
***Domestic light vehicle sales are on track to exceed 16 million units in 2014, the highest since 2006. Additionally, domestic light vehicle production is on track to surpass 11 million units in 2014 for the first time since 2005.***

# Progress Toward Rebalancing in International Transactions: Current Account Deficit is Narrowest Since the 1990s



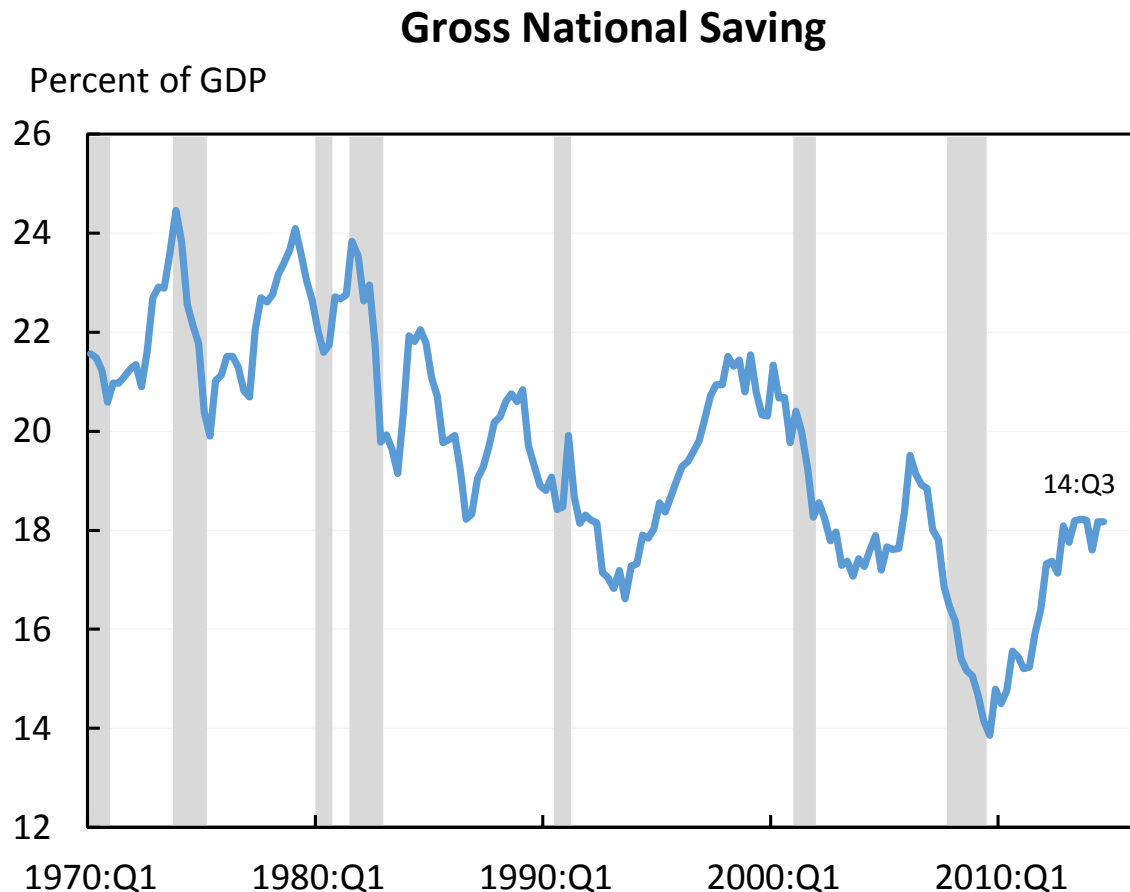
*The current account balance is a measure of our net transactions with the rest of the world in goods, services, and income. Declining oil imports (see slide 30) is one important factor helping to reduce the current account deficit in recent years.*

# Progress Toward Rebalancing in the Federal Government: The Deficit Has Been Cut by Two-Thirds Since FY2009, Now Below its Average Since 1970



***The last time deficits fell at a faster rate as a share of the economy over a comparable period of time was during the post-war demobilization from 1945 to 1950.***

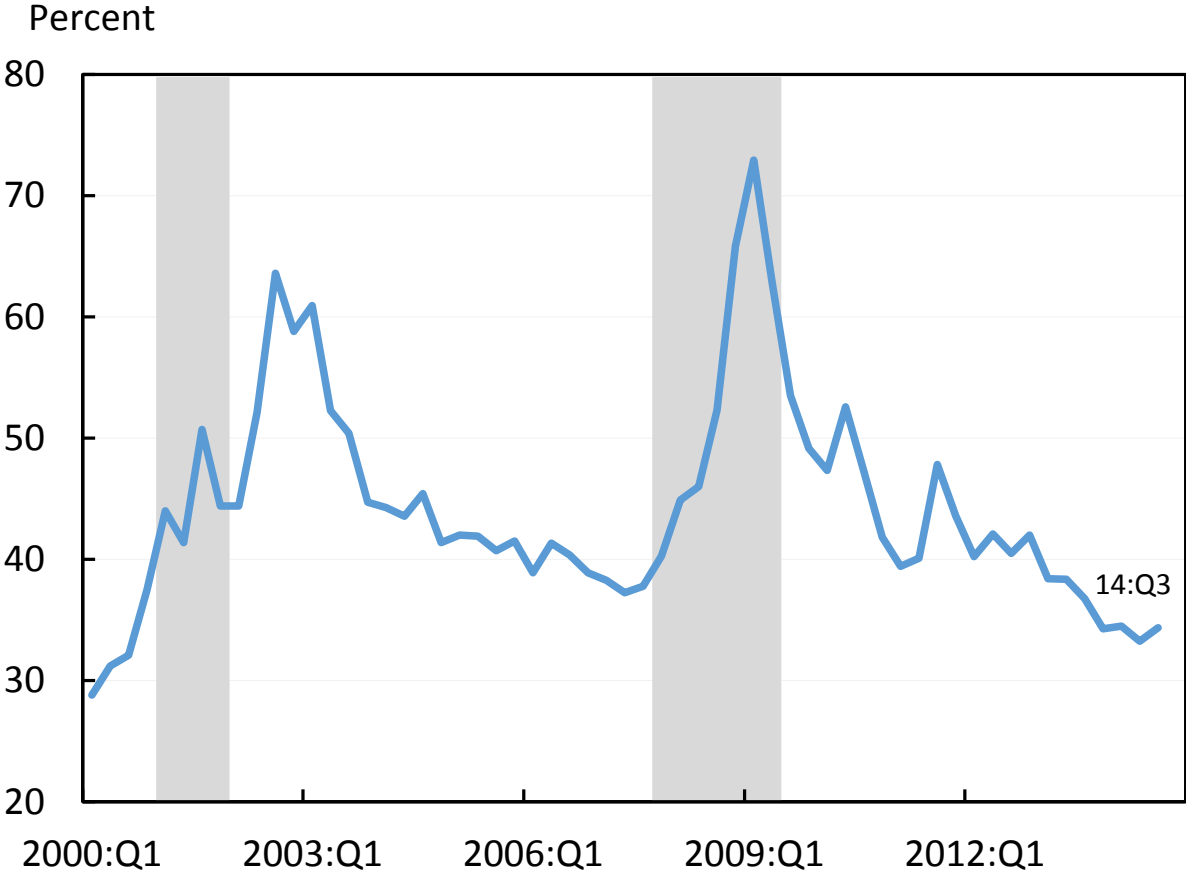
# Progress Toward Rebalancing: A Falling Federal Deficit Has Boosted Gross National Saving



***In 2014:Q3, gross national saving remained near its highest level as a share of GDP since the end of 2006. Gross national saving as a fraction of GDP has increased 4.3 percentage points since its 2009 trough.***

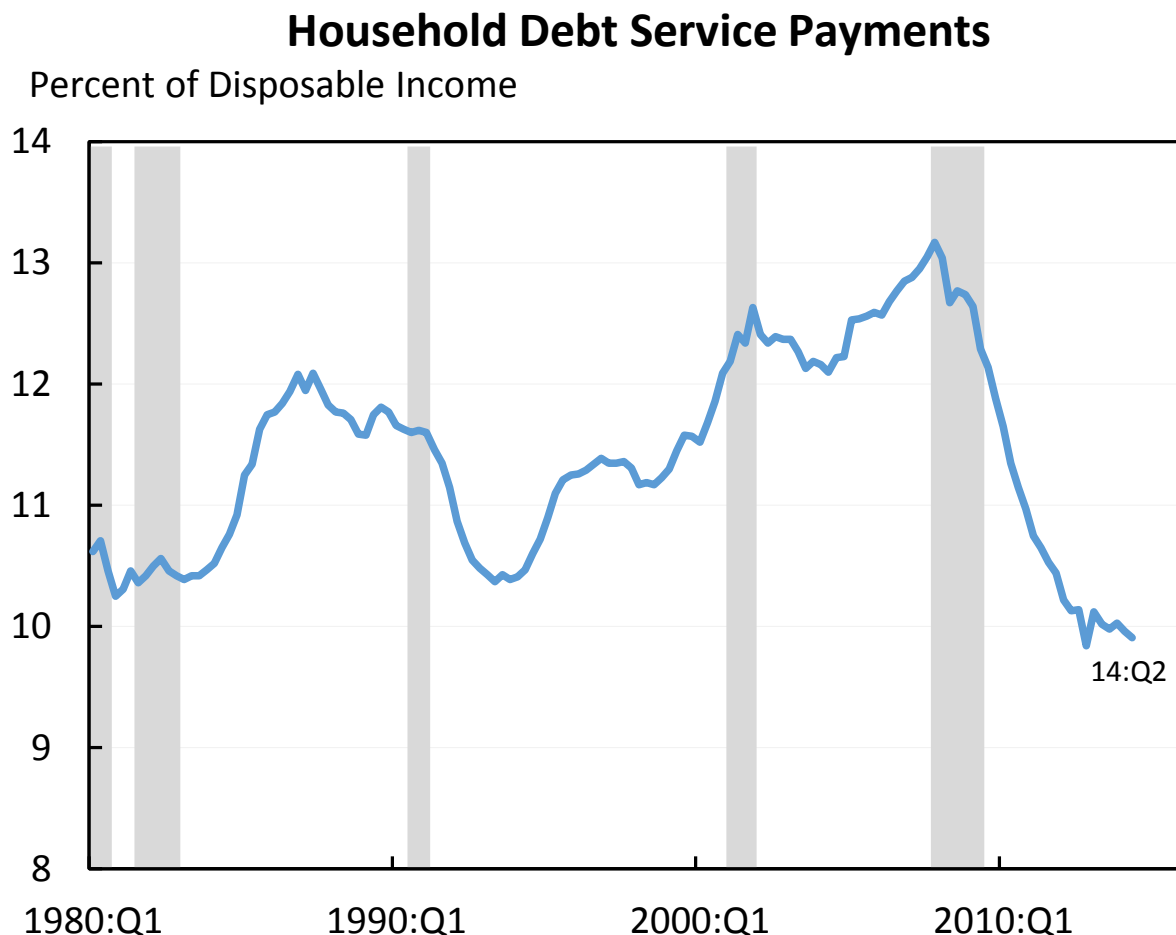
# Progress Toward Rebalancing in the Private Sector: Corporate Balance Sheets Are Healthier Than Any Time in the Last Decade

## Nonfinancial Corporate Debt-to-Equity Ratio



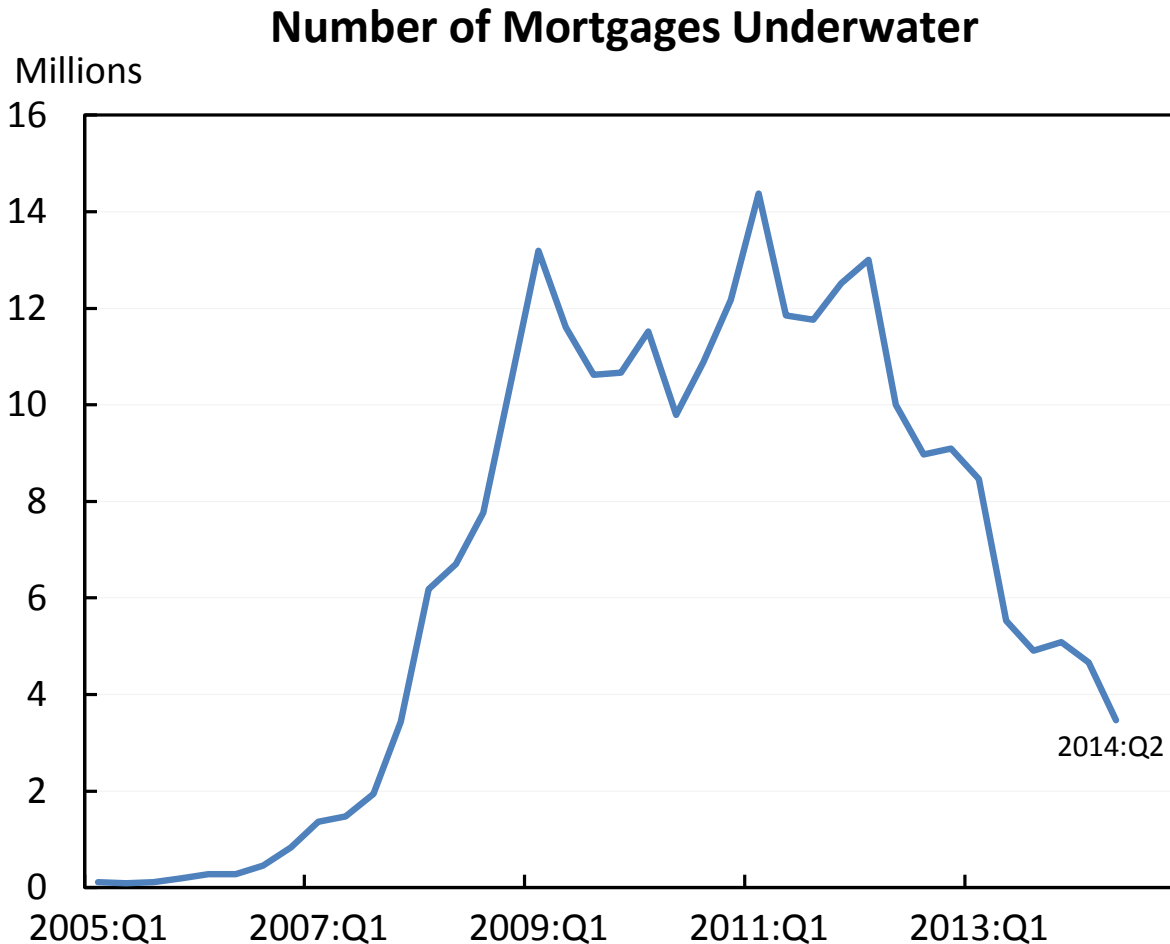
***In the second quarter of 2014, the non-financial corporate debt-to-equity ratio was 33 percent, the lowest since 2000.***

# Progress Toward Rebalancing Among Households: Required Debt Service Payments are Near Record Low



***Lower debt levels and low interest rates have led to historically low debt service burdens in the aggregate, but the health of personal finances varies substantially across households.***

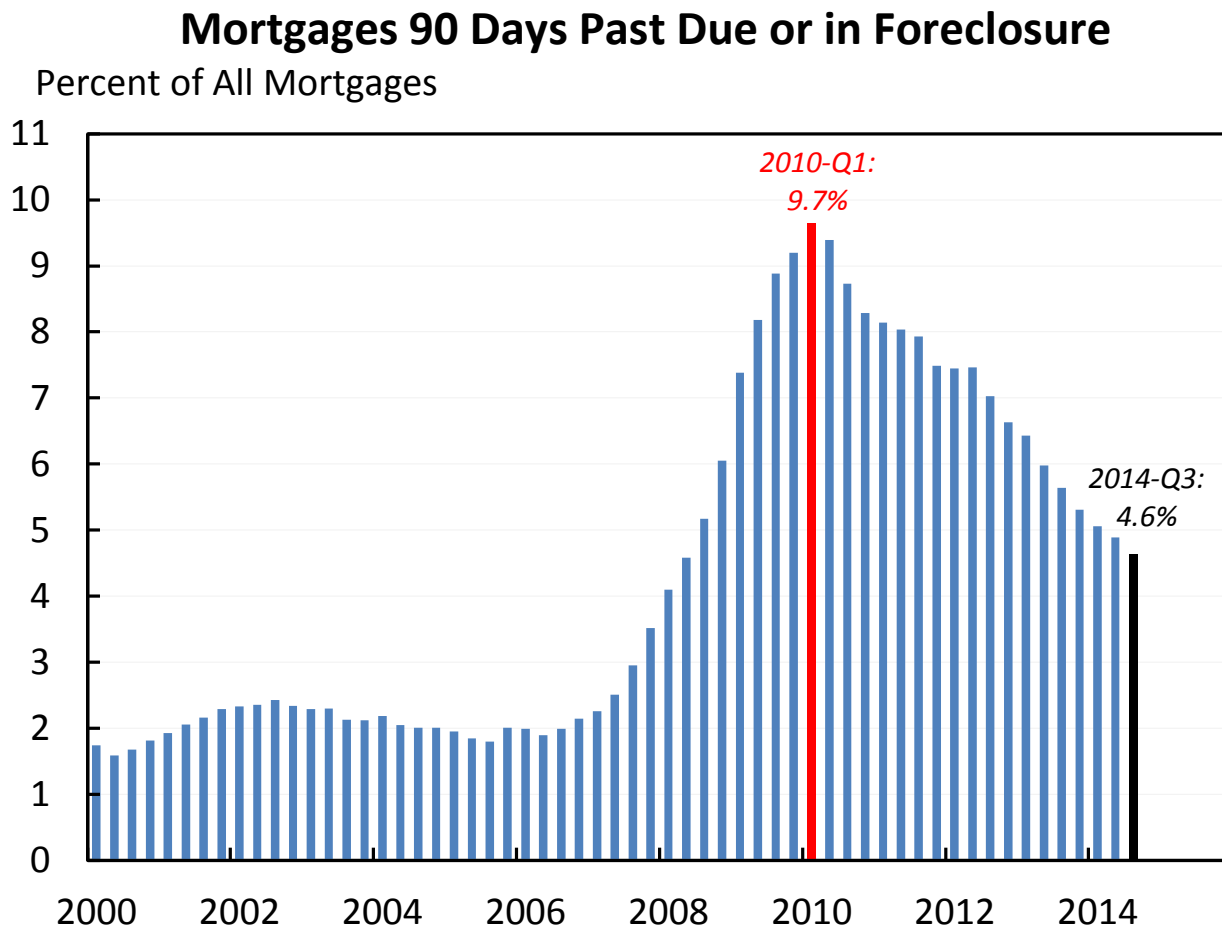
# The Rise in Home Prices Has Continued to Reduce the Number of Underwater Mortgages



***The number of underwater mortgages has been cut from a peak of over 14 million to less than 4 million as of 2014:Q2.***



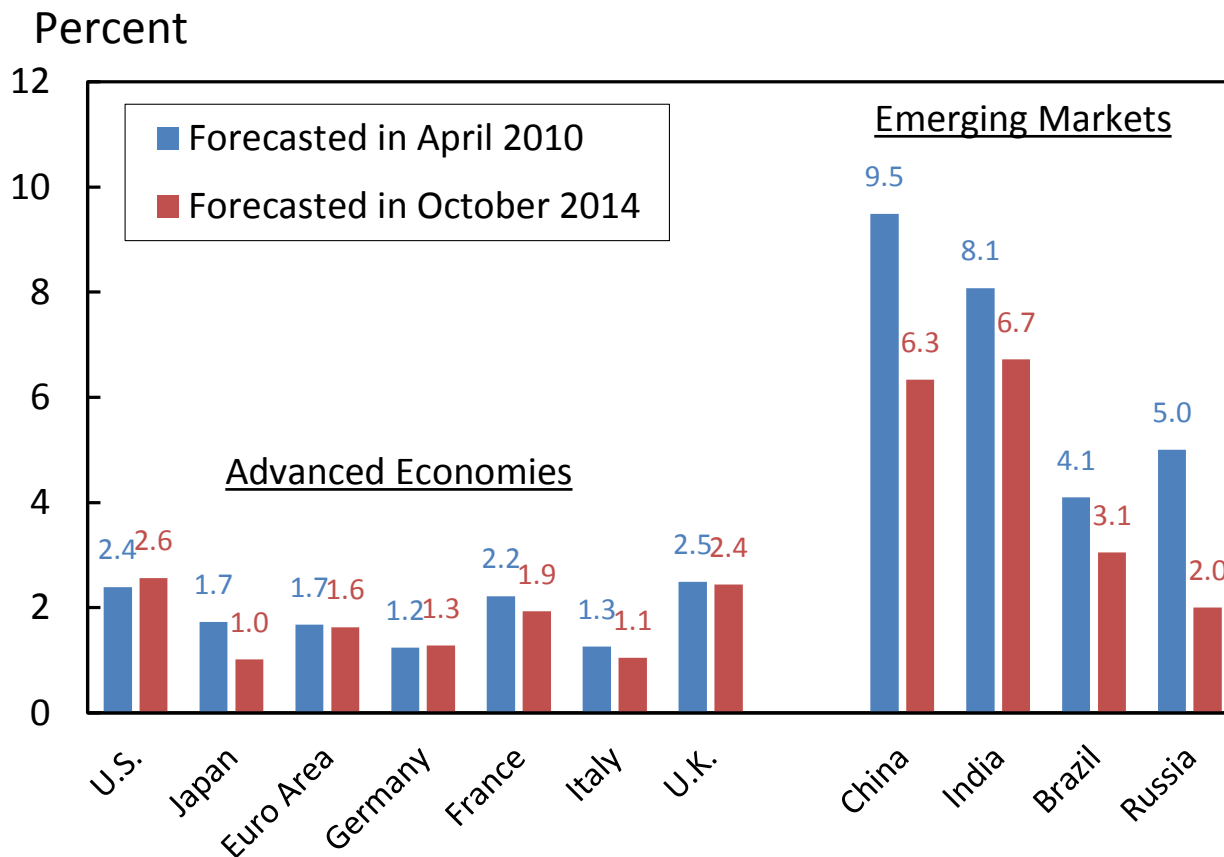
# The Share of Loans in Serious Delinquency or Foreclosure Has Been Cut in Half



***The share of mortgages 90 days past due or in foreclosure has fallen to 4.6 percent in the third quarter of 2014, down from a peak of more than 9 percent.***

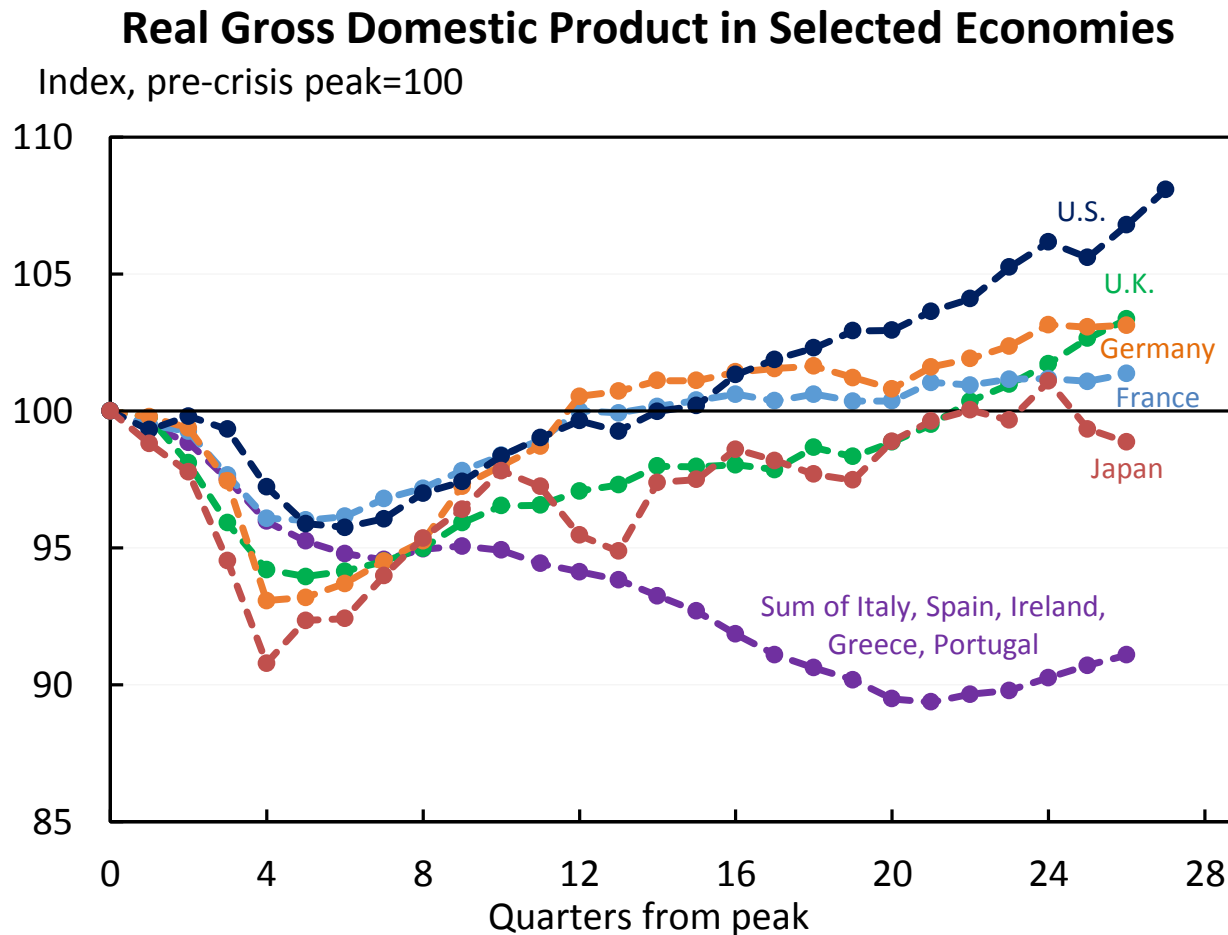
# The Medium-Term Growth Outlook Has Been Downgraded in Many Key Economies Around the World – Especially in the BRIC Economies

## Five-Year-Ahead Growth Forecasts in Selected Economies



***In the most recent World Economic Outlook, the IMF noted that the BRIC economies have been responsible for half of the IMF's global growth forecast errors from 2011-14, despite representing just over a quarter of global GDP.***

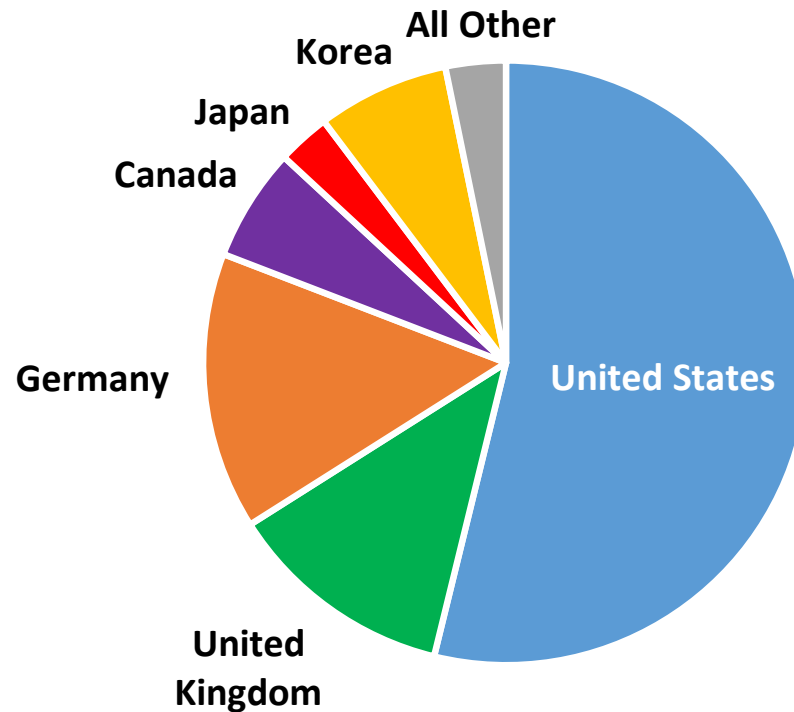
# Growth in Europe and Japan Has Been Sluggish, and Many Countries Are Only Just Beginning to Dig Out of Large Holes



***Real GDP in the euro area is still more than 2 percent below its pre-crisis peak, including nearly 10 percent below its pre-crisis peak in Italy. Japan's recent slowdown has also now knocked its real GDP slightly below the pre-recession peak.***

# Since 2010, the Increase in Employment in the United States Exceeds All Other Advanced Economies Combined

## Share of Net Employment Gain in Advanced Economies, 2010-2014



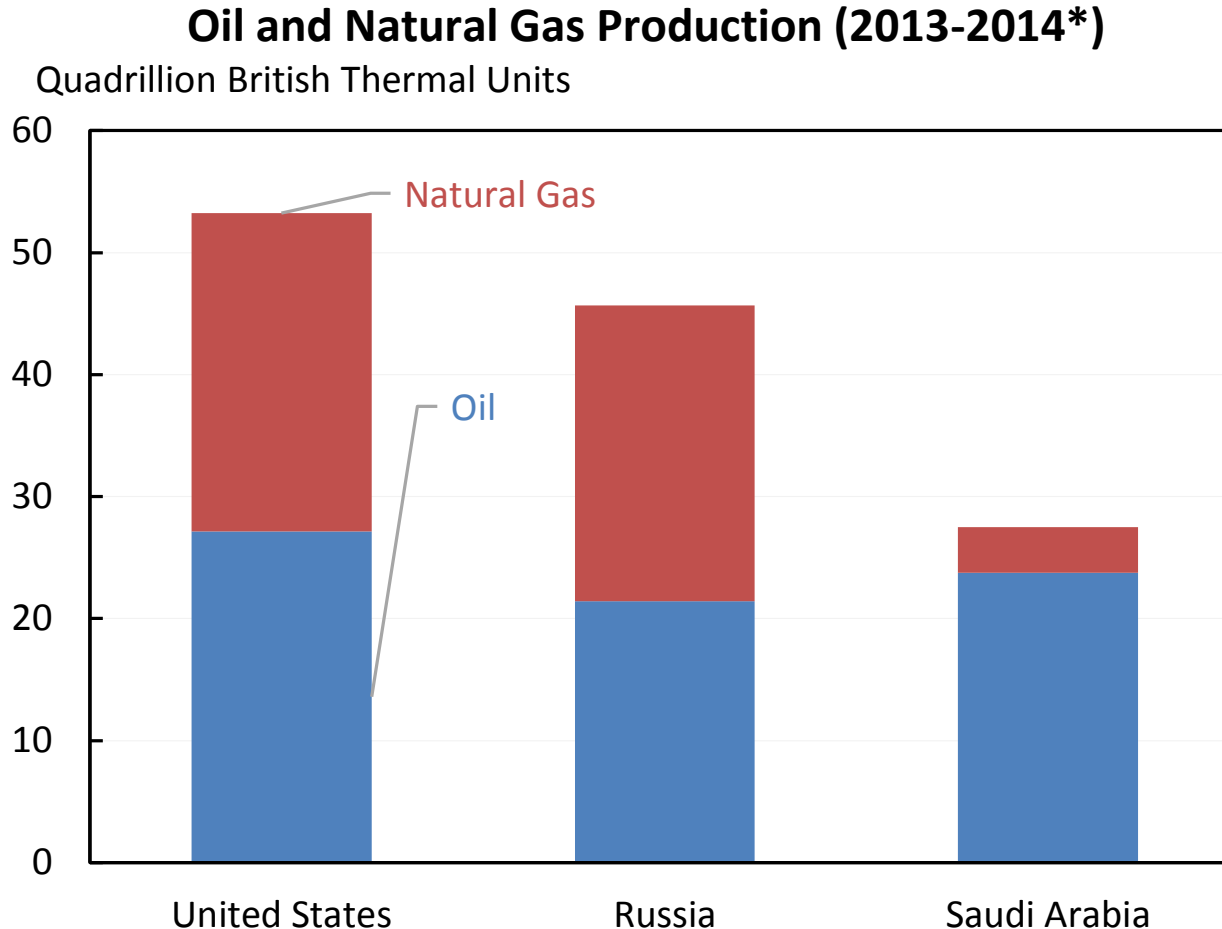
***This is a disproportionate share of the employment gains, given that the United States represents about 30 percent of the population in advanced economies.***

# U.S. Exports Continue to Grow, but Slowing Growth in Foreign Economies is a Challenge



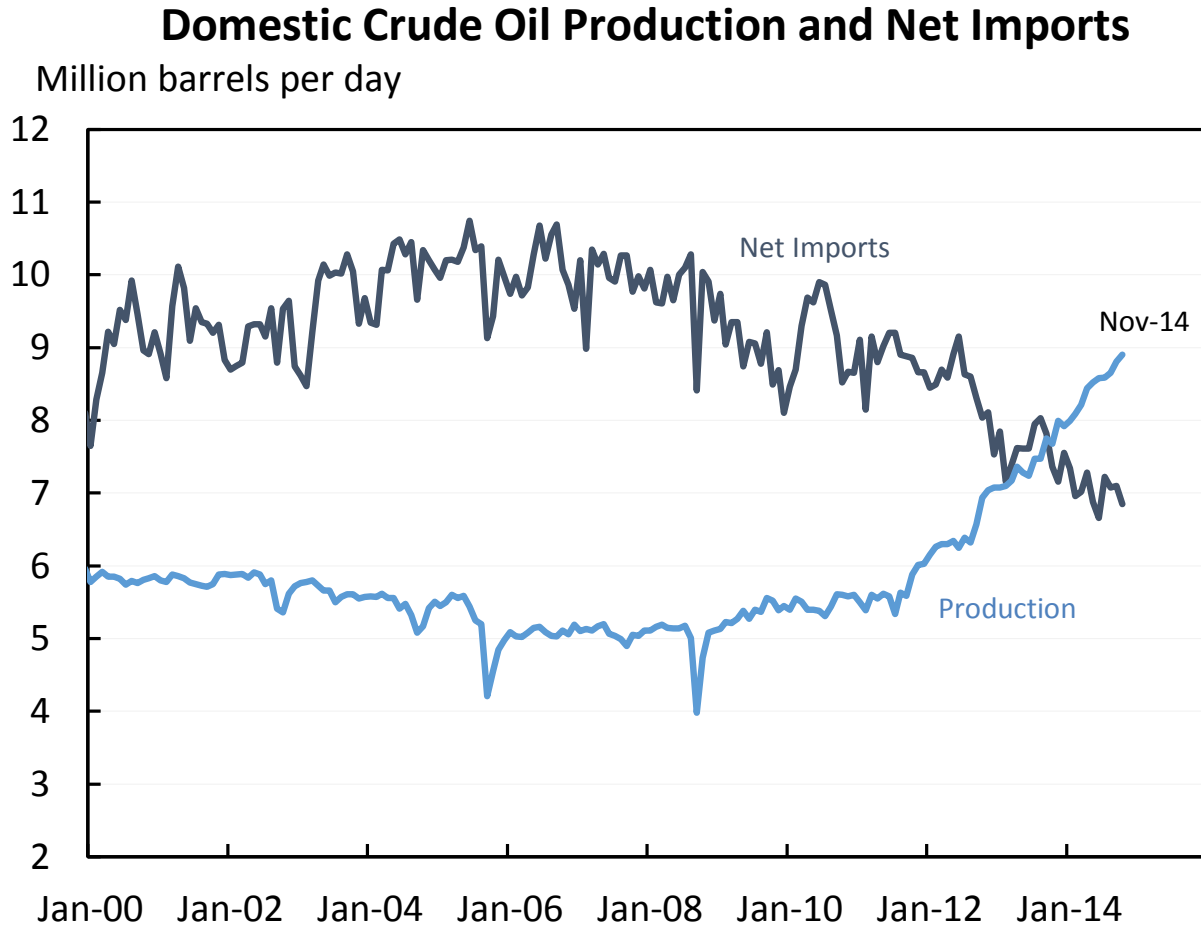
***While U.S. exports continue to rise and boost growth, real GDP growth among our trading partners has slowed to around 2 percent per year (on a trade-weighted basis).***

# The United States is Leading the World in Combined Oil and Natural Gas Production



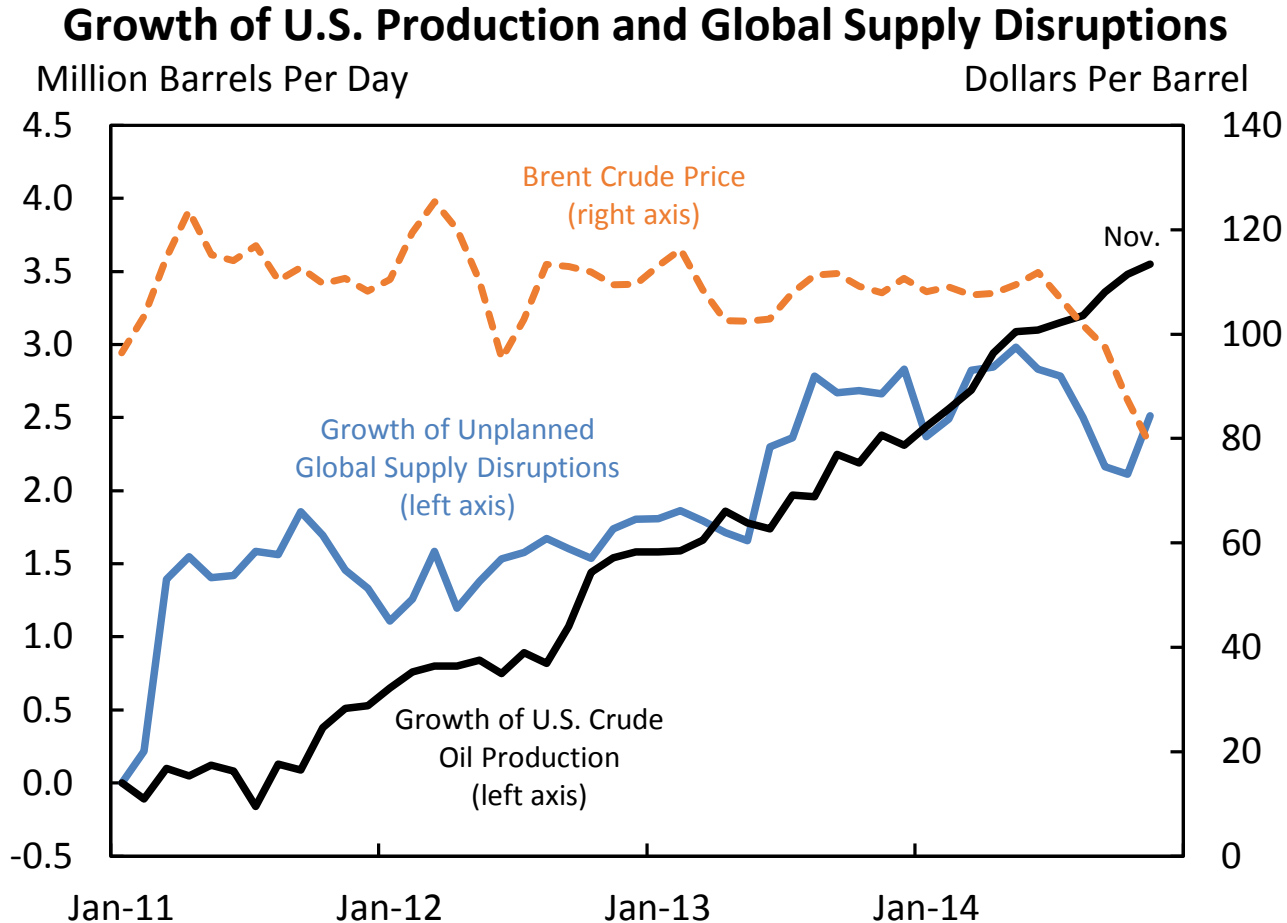
***Direct employment in oil and gas production has increased by more than 100,000 since 2010, without accounting for positive spillovers on other industries.***

# Domestic Crude Oil Production Has Continued to Rise While Net Imports Have Continued to Fall



***The rise in domestic oil production is part of an all-of-the-above energy strategy, as wind power generation has tripled since 2008 while utility-scale generation from solar is up more than tenfold.***

# Gains in U.S. Oil Production Now More than Offset Global Production Outages, Putting Downward Pressure on Prices

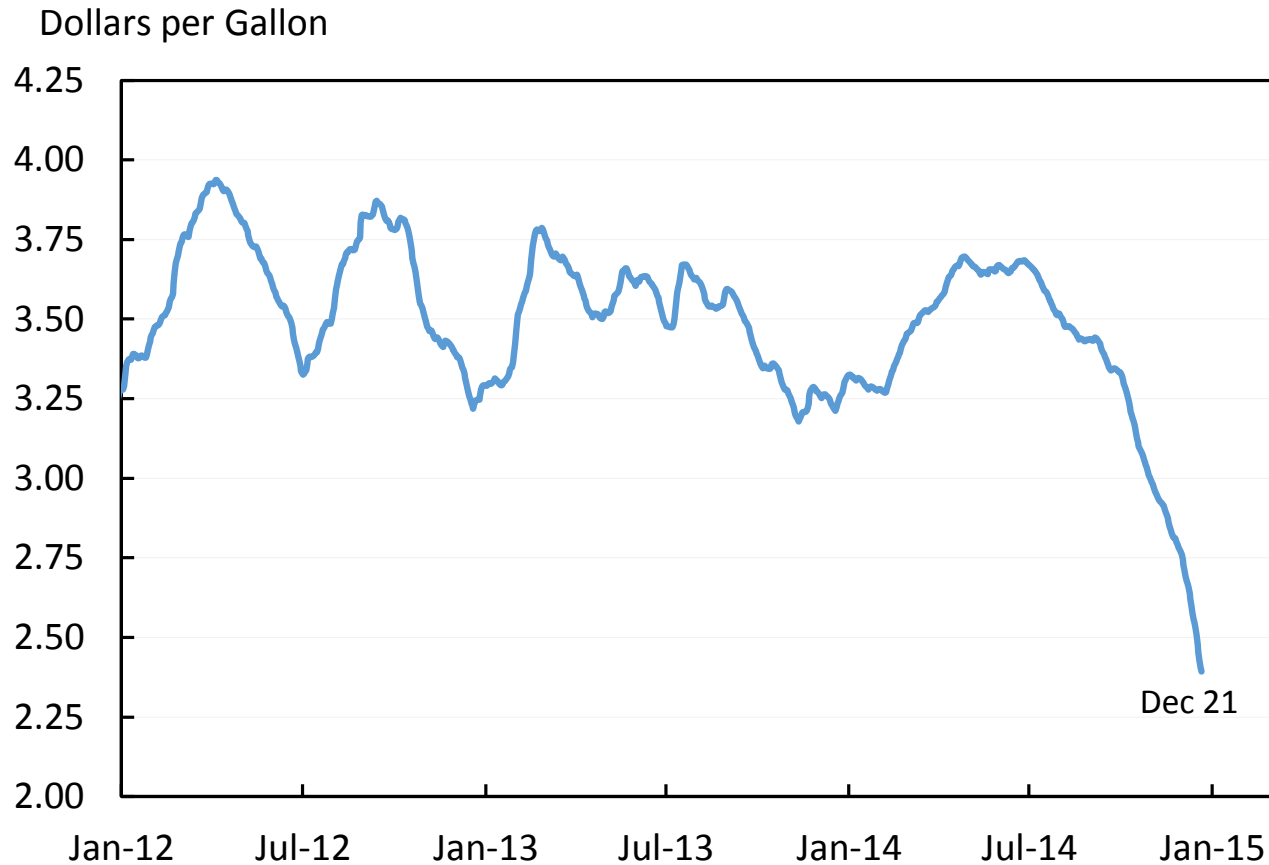


***The price of Brent crude has fallen into the \$60 per barrel range in mid-December, down from a recent high of \$115 per barrel in June.***



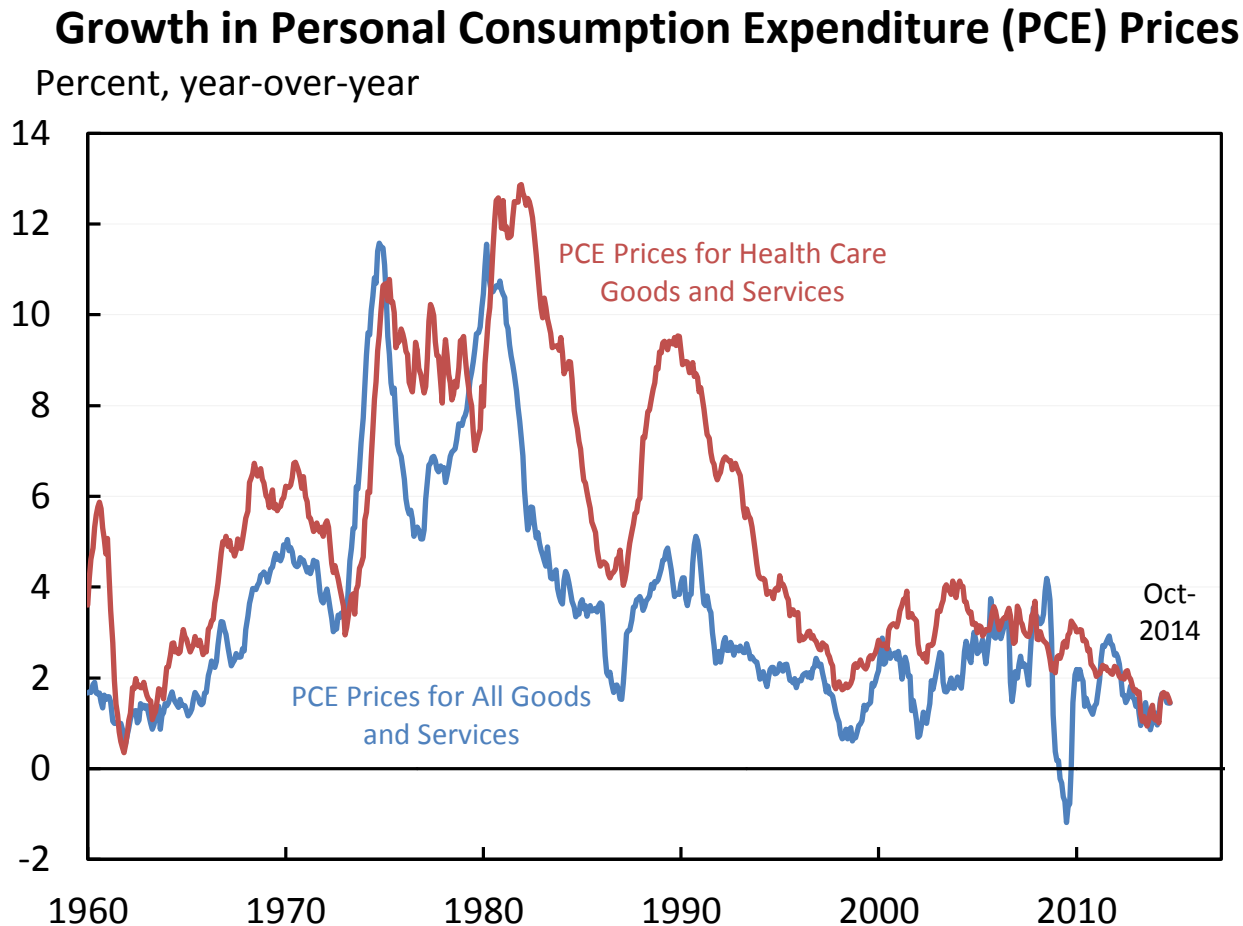
# The Price of Gasoline is the Lowest Since 2009

## Retail Gasoline Price



***A range of analysts have said that falling gasoline prices will boost the U.S. economy in 2014:Q4 and into 2015.***

# Historically Slow Health Care Price Inflation is Continuing

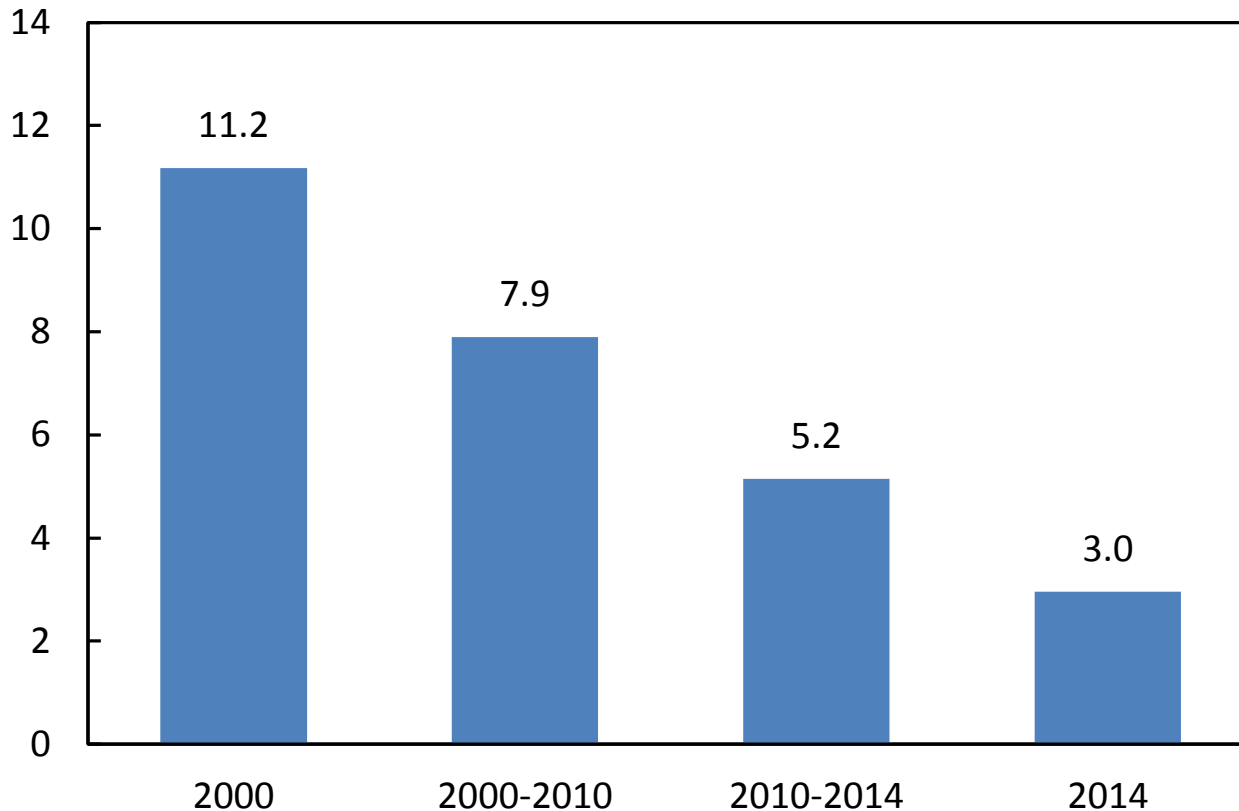


***Since the Affordable Care Act became law, health care prices have risen at the slowest rates in nearly 50 years. A significant fraction of the recent slowdown in health care price inflation can be linked to Medicare reforms in the Affordable Care Act.***

# Health Insurance Premium Growth Has Slowed, Saving Money for Consumers and Businesses

## Growth in Premiums for Employer-Based Family Coverage

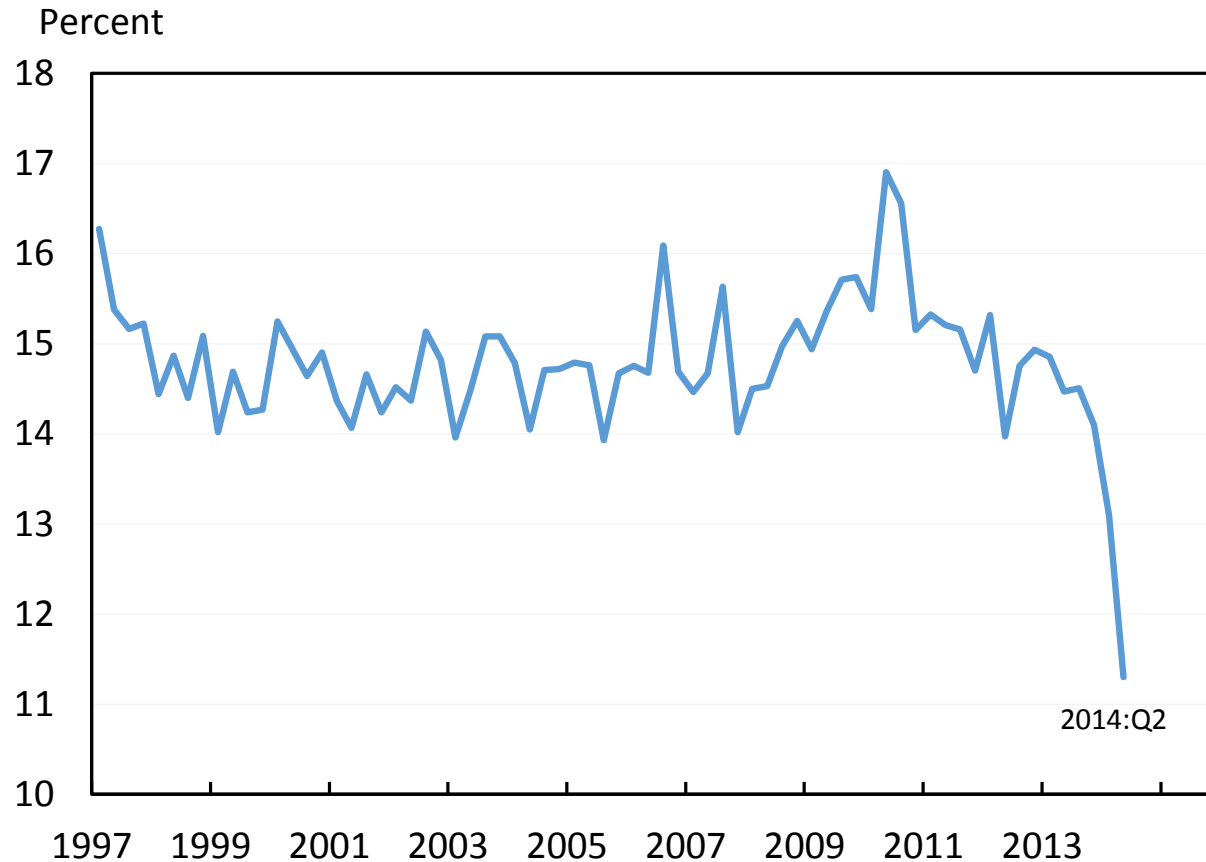
Average annual percent increase (nominal)



***In 2014, employer premiums grew at a rate tied for the slowest since the KFF/HRET survey began in 1999. If premiums growth had matched its 2000-2010 average since 2010, the average premium would be \$1,800 higher today.***

# The Affordable Care Act Has Dramatically Expanded Coverage During 2014

## Share of Americans Without Health Insurance



***Data from three different surveys show that approximately 10 million people have gained coverage during 2014. Economic evidence shows that having health insurance improves access to care, financial security, and health and well-being.***