Where We Are, How We Got Here, and Where We May Be Headed

April 17, 2017

Outline

1) National Trends
2) State Trends
3) Current Issues
4) Take-Aways

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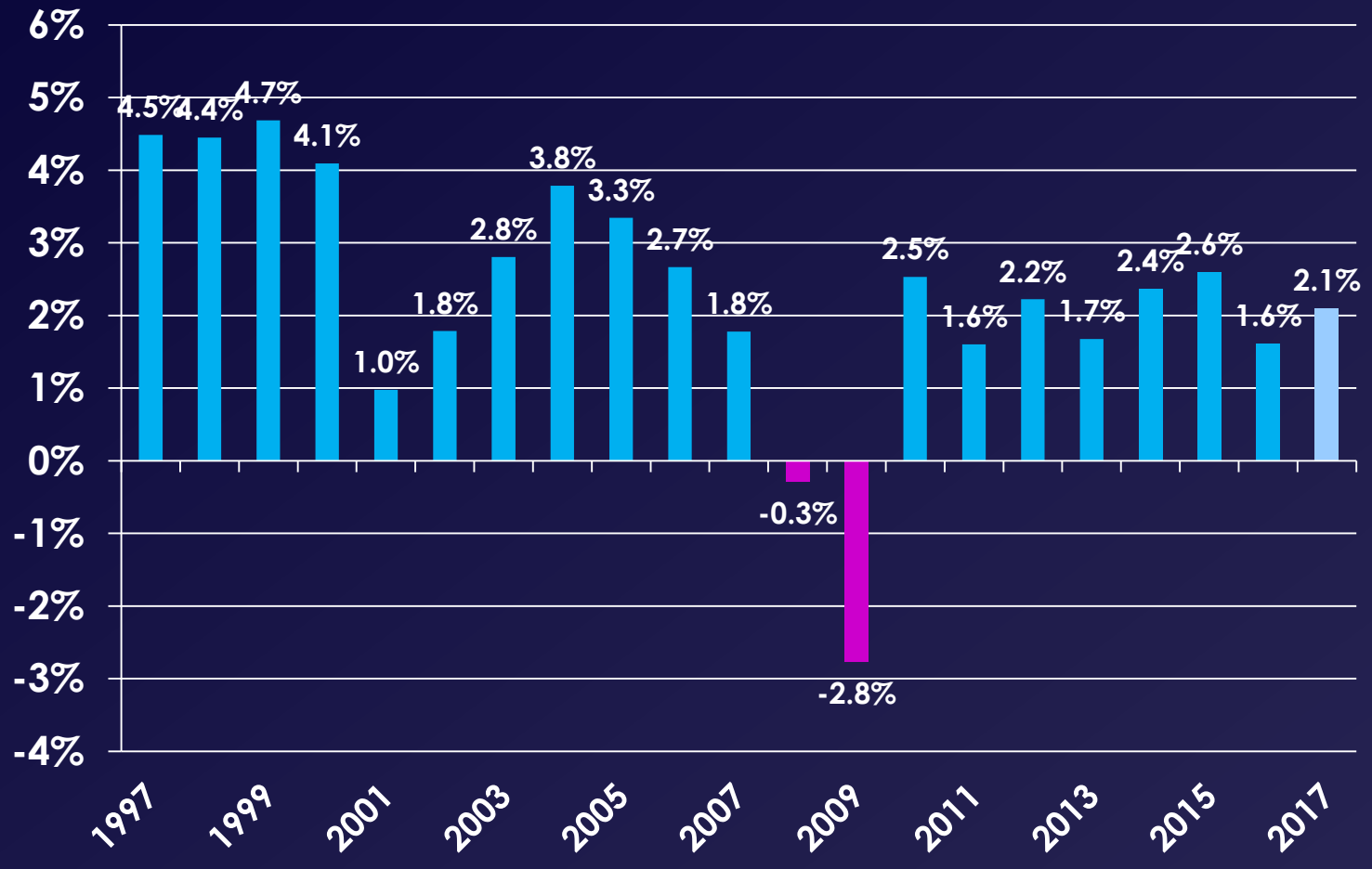
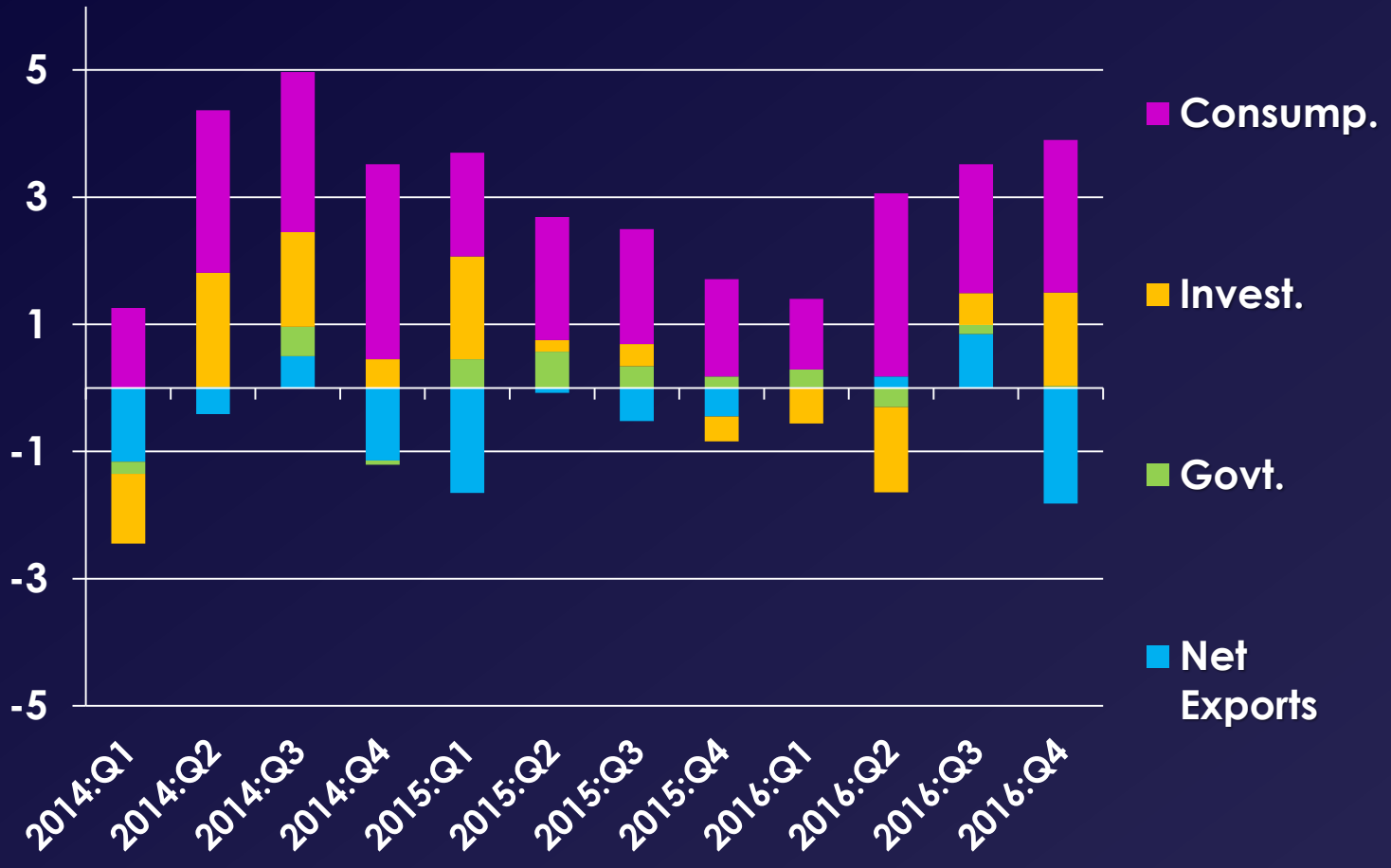
Annual Change in Real GDP: 1997 to 2017



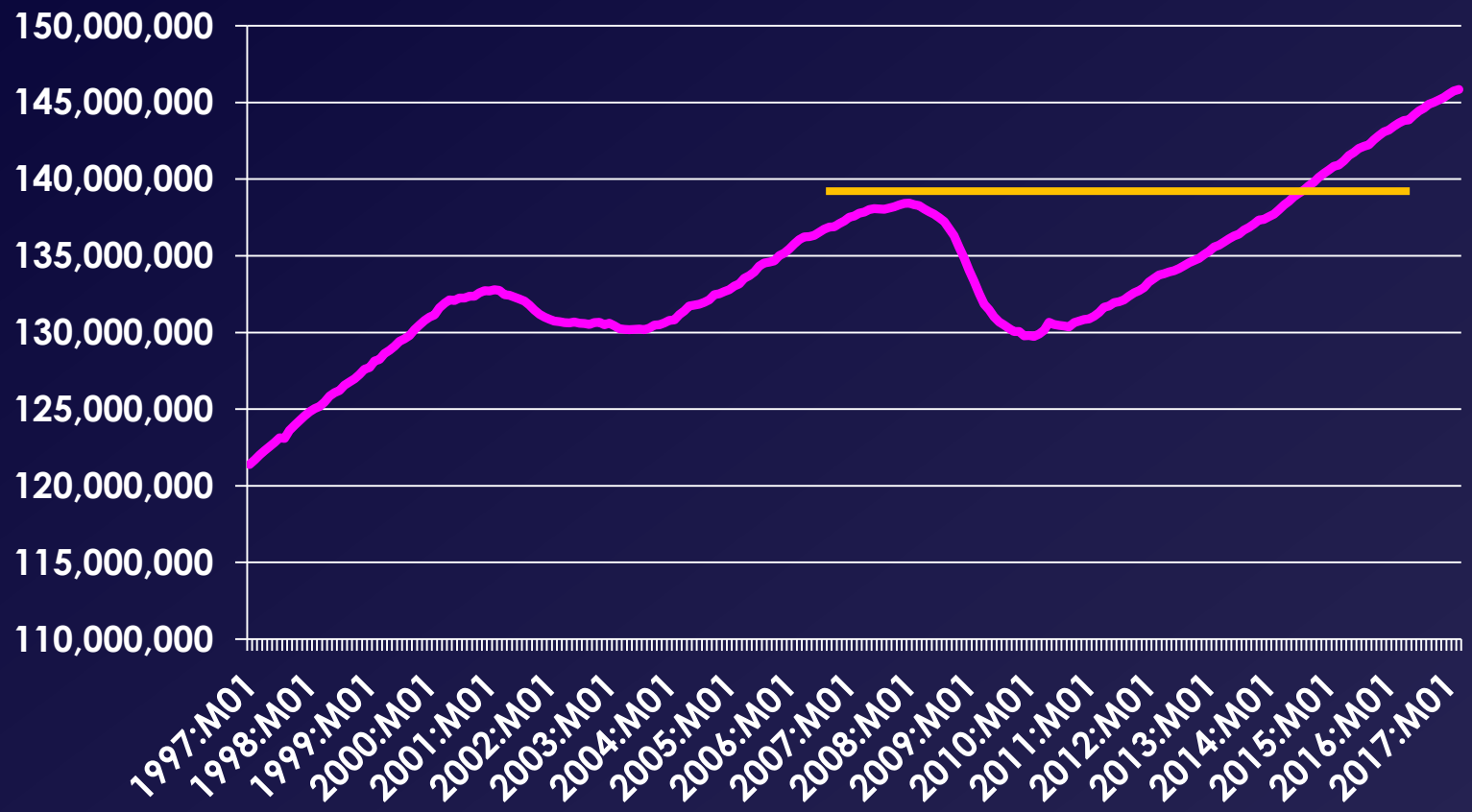
Data Source: U.S. Bureau of Economic Analysis and Wells Fargo

Contributions to Real GDP: 2014:Q1 to 2016:Q4



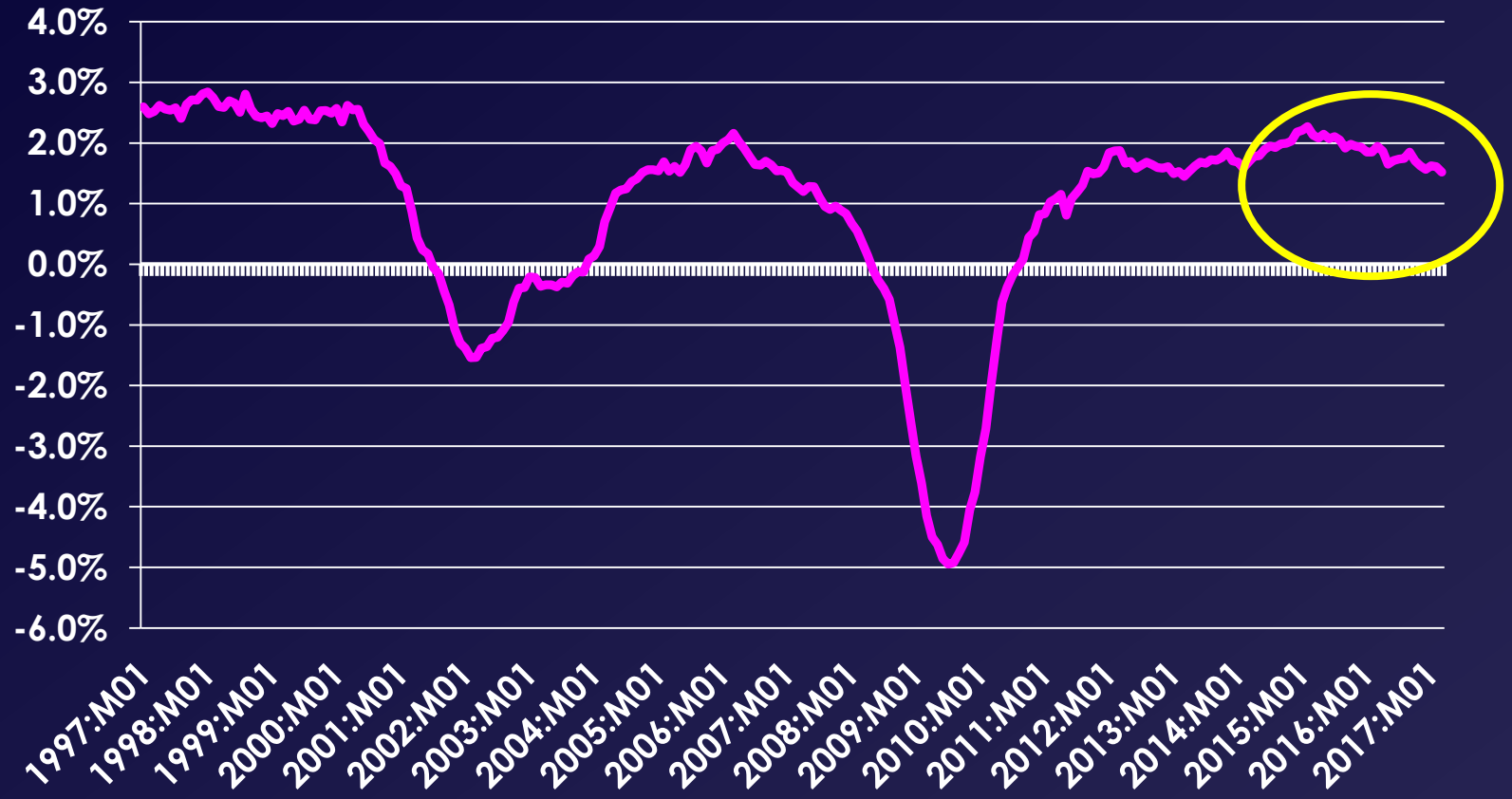
Data Source: U.S. Bureau of Economic Analysis

U.S. Non-Farm Employment (seasonally adjusted): 1997:M1 to 2017:M3



Data Source: U.S. Bureau of Labor Statistics – CES

Y-o-Y U.S. Non-Farm Employment (seasonally adjusted): 1997:M1 to 2017:M3



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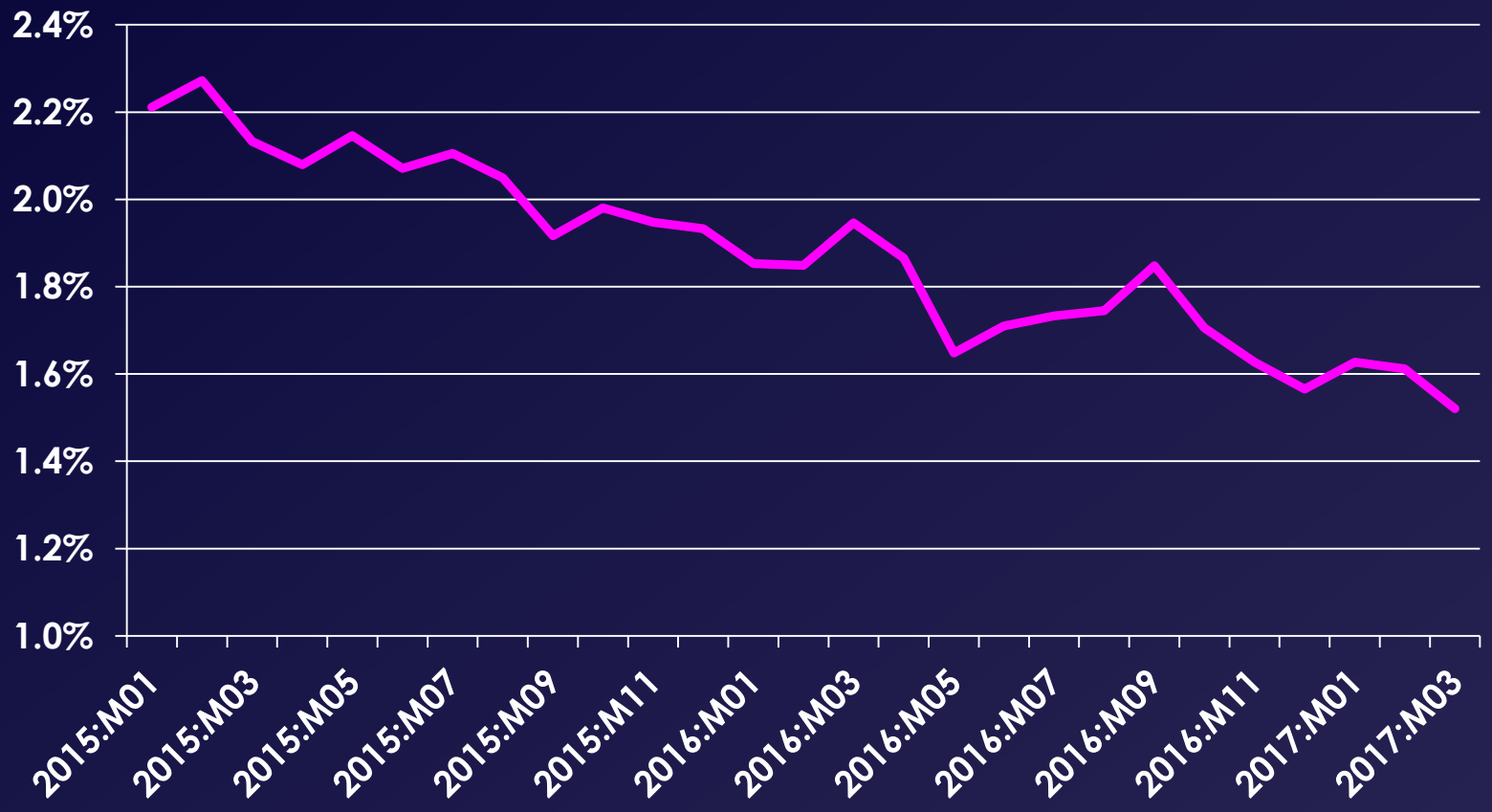

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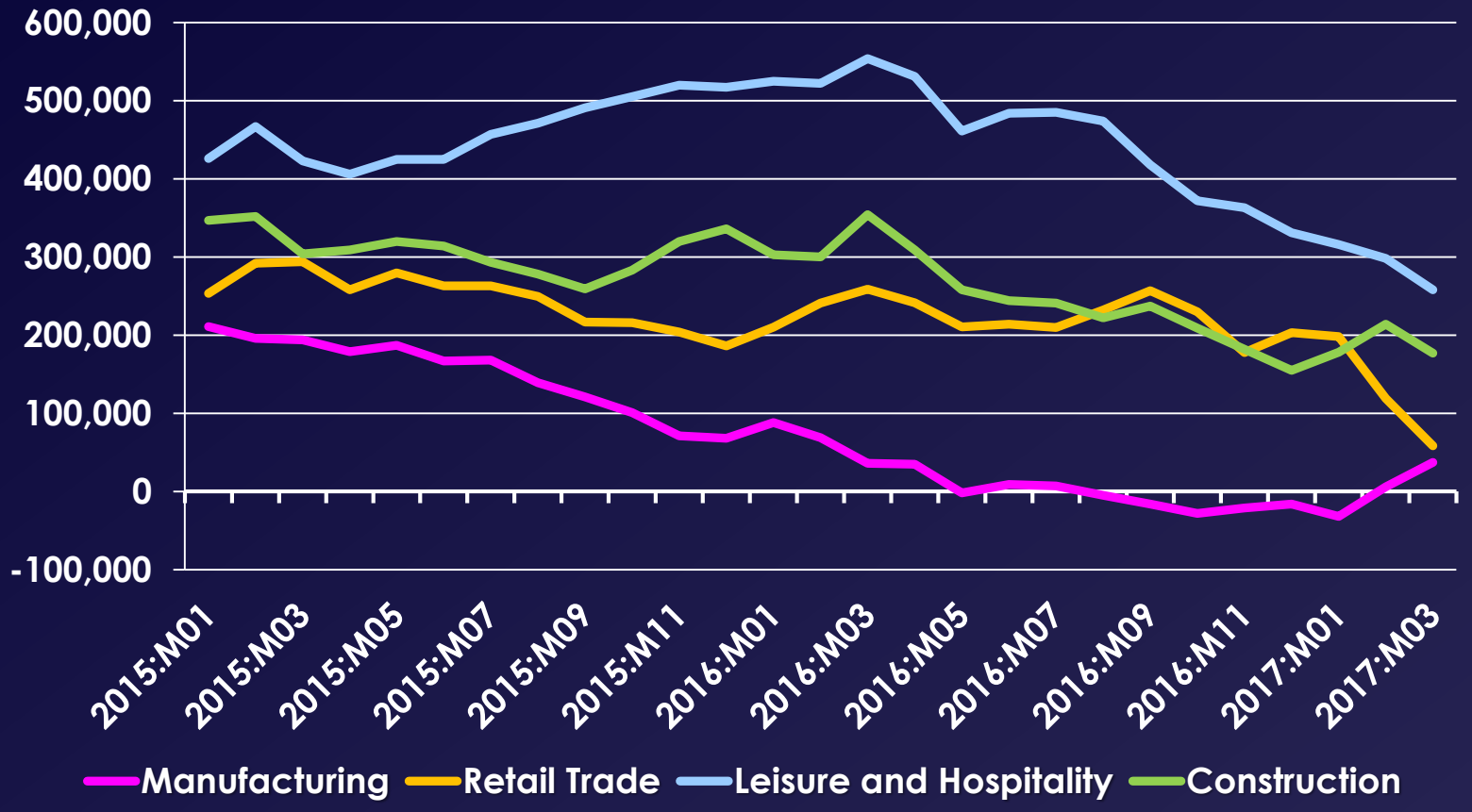
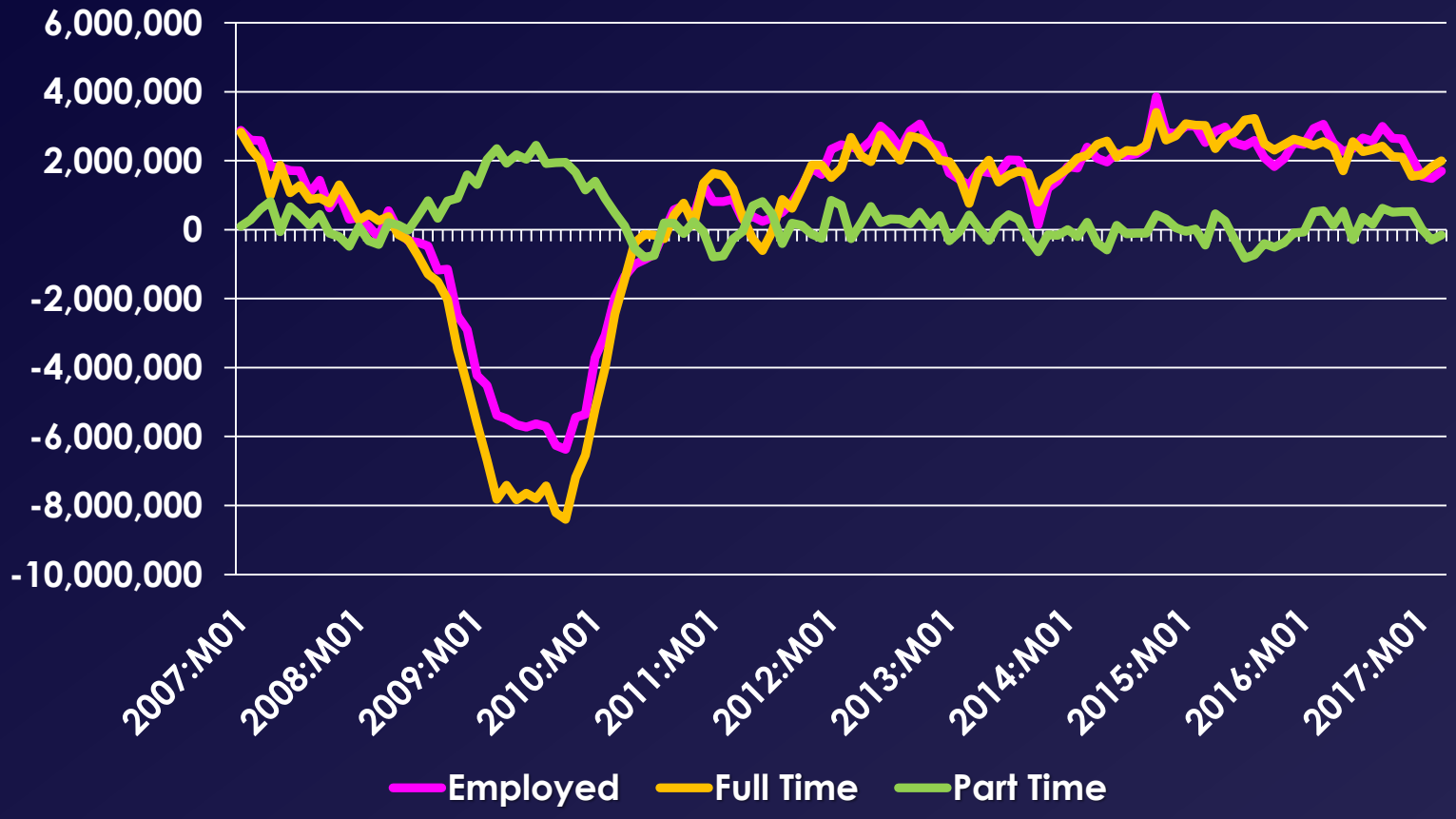
Y-o-Y U.S. Employment (seasonally adjusted): 2015:M1 to 2017:M3



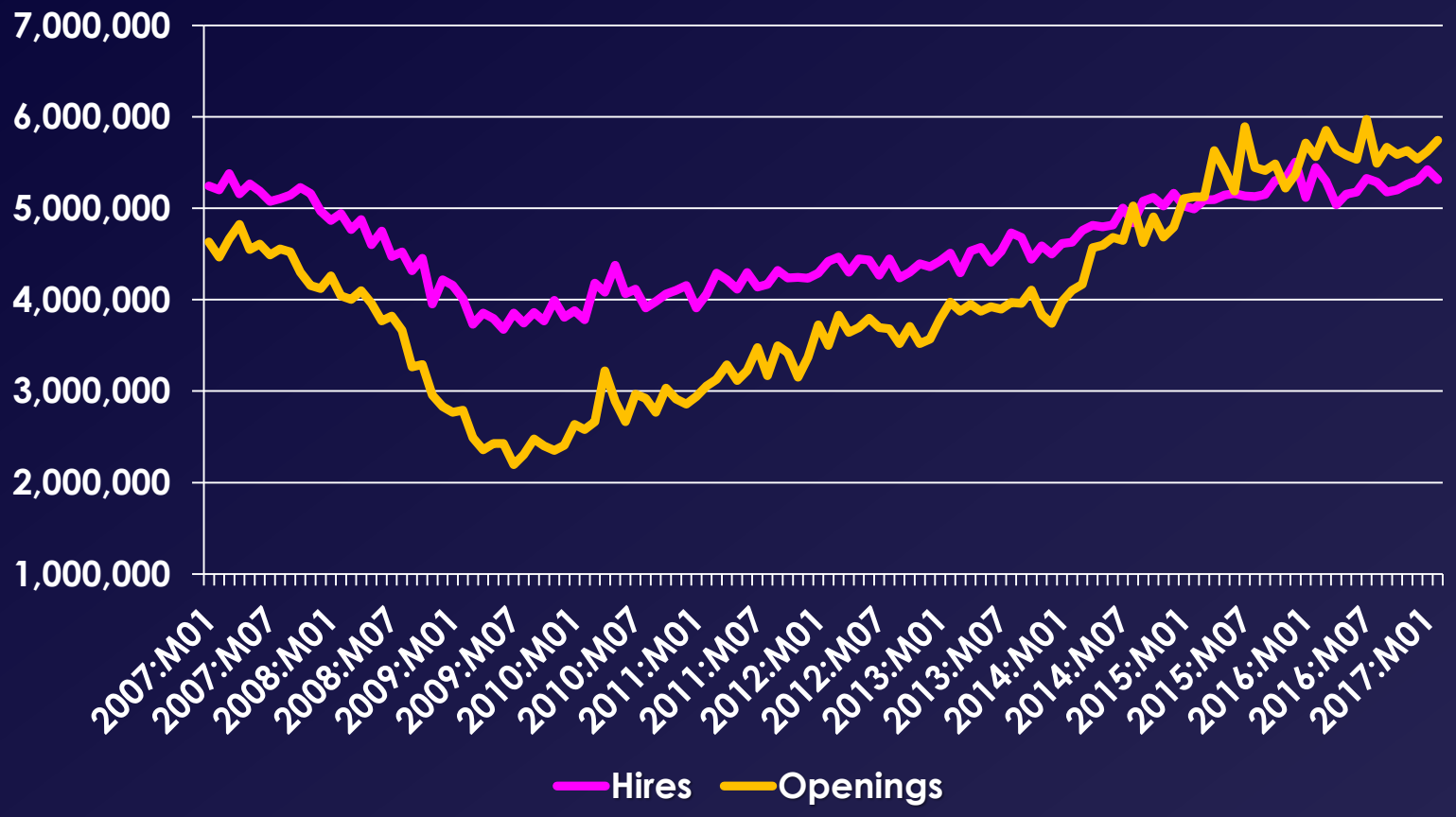
Data Source: U.S. Bureau of Labor Statistics – CES

Y-o-Y U.S. Full and Part-Time Employment (seasonally adjusted): 2007:M1 to 2017:M3



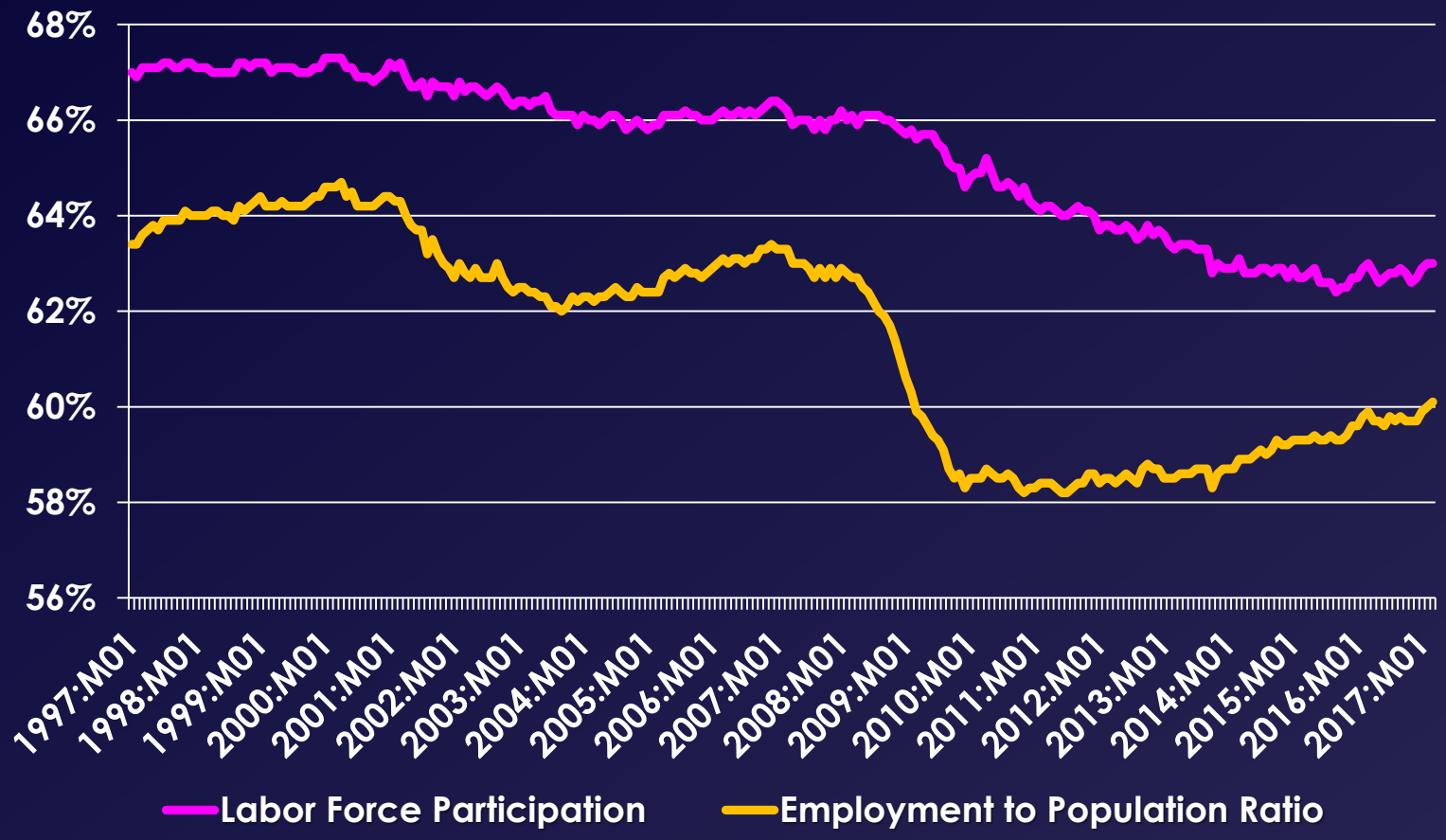
Data Source: U.S. Bureau of Labor Statistics – CPS

JOLTS Data: 2007:M1 to 2017:M2



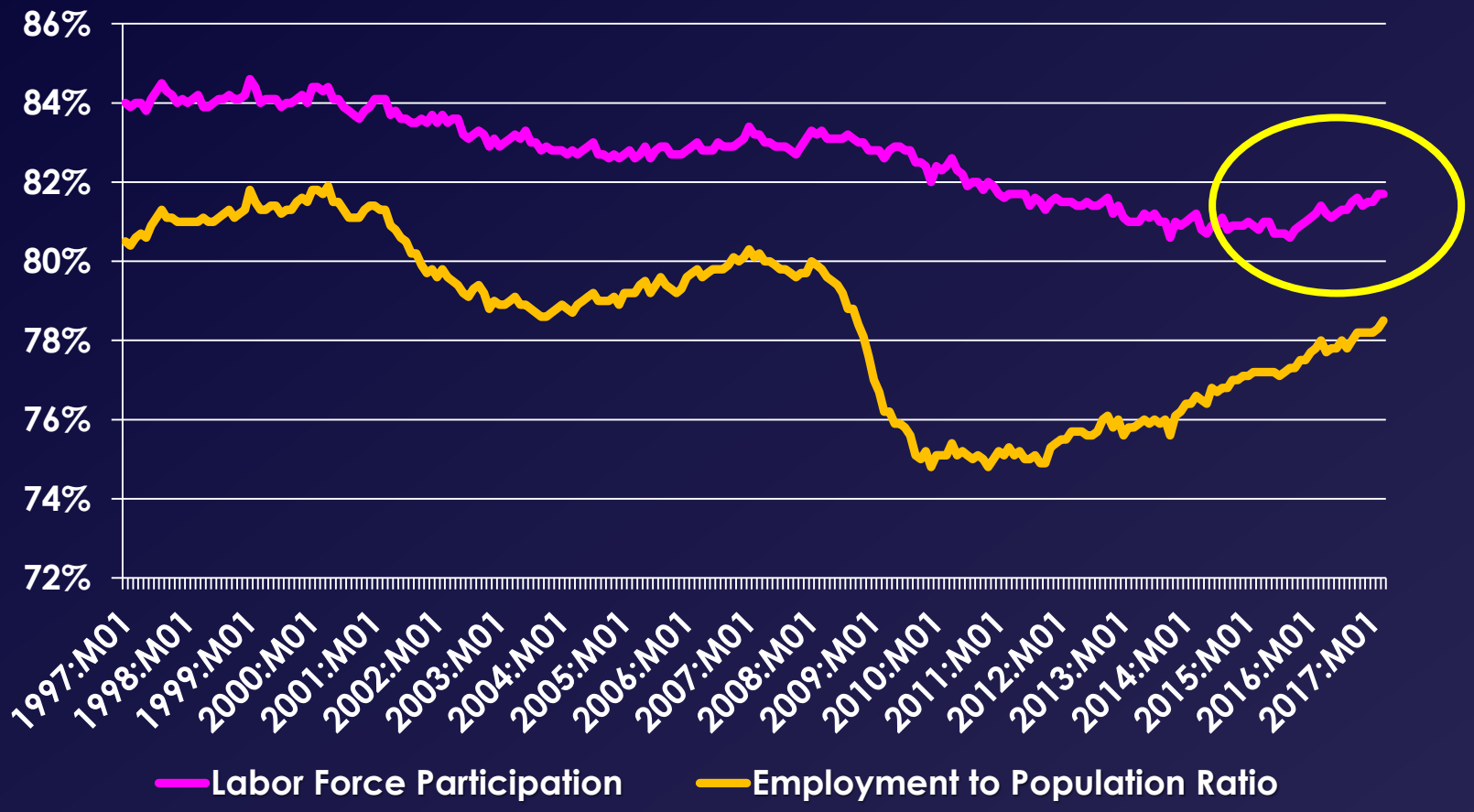
Data Source: U.S. Bureau of Labor Statistics – JOLTS

Labor Participation 16 and Up (seasonally adjusted): 1997:M1 to 2017:M3



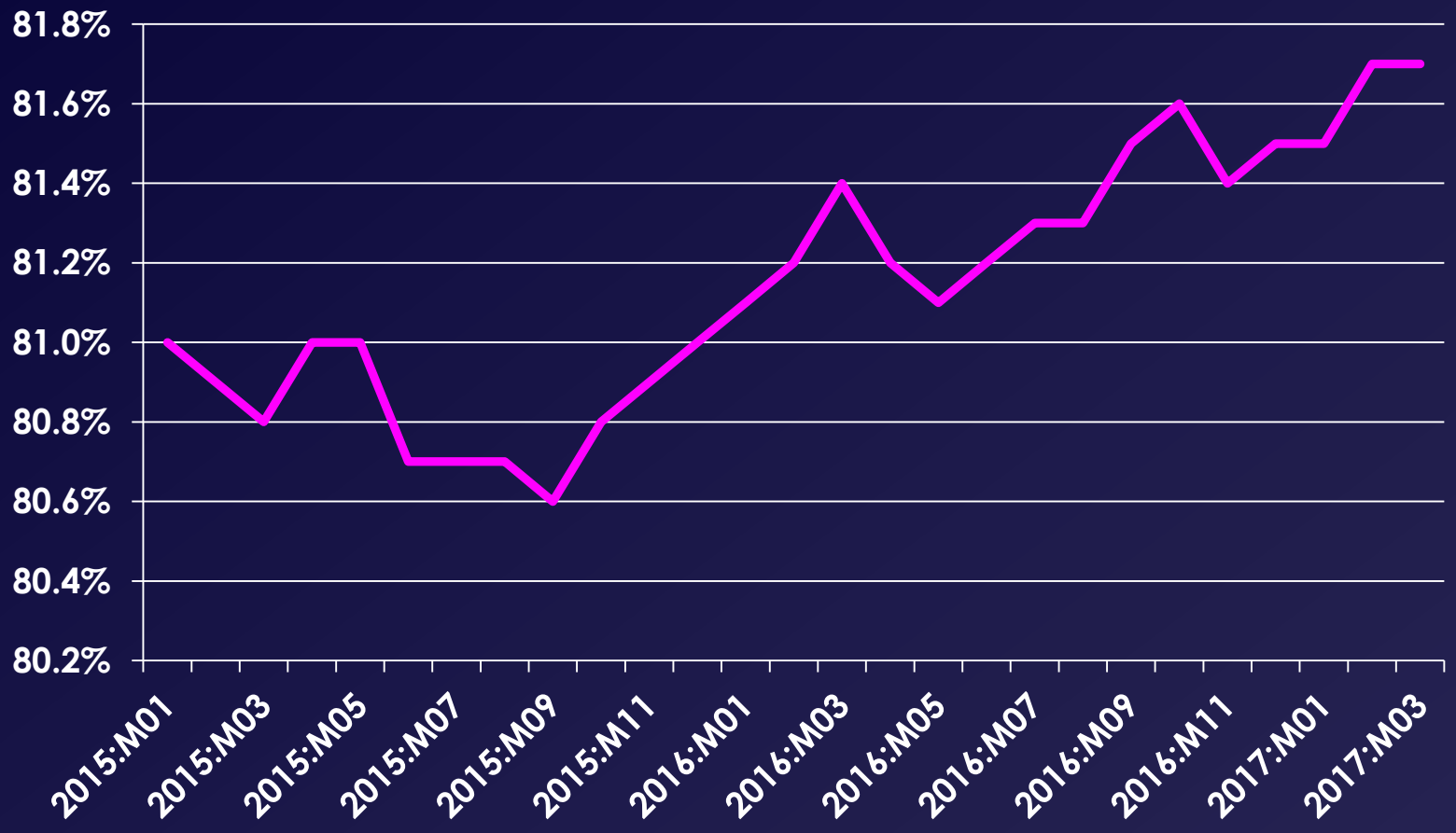
Data Source: U.S. Bureau of Labor Statistics – CPS

Labor Participation 25 to 54 (seasonally adjusted): 1997:M1 to 2017:M3



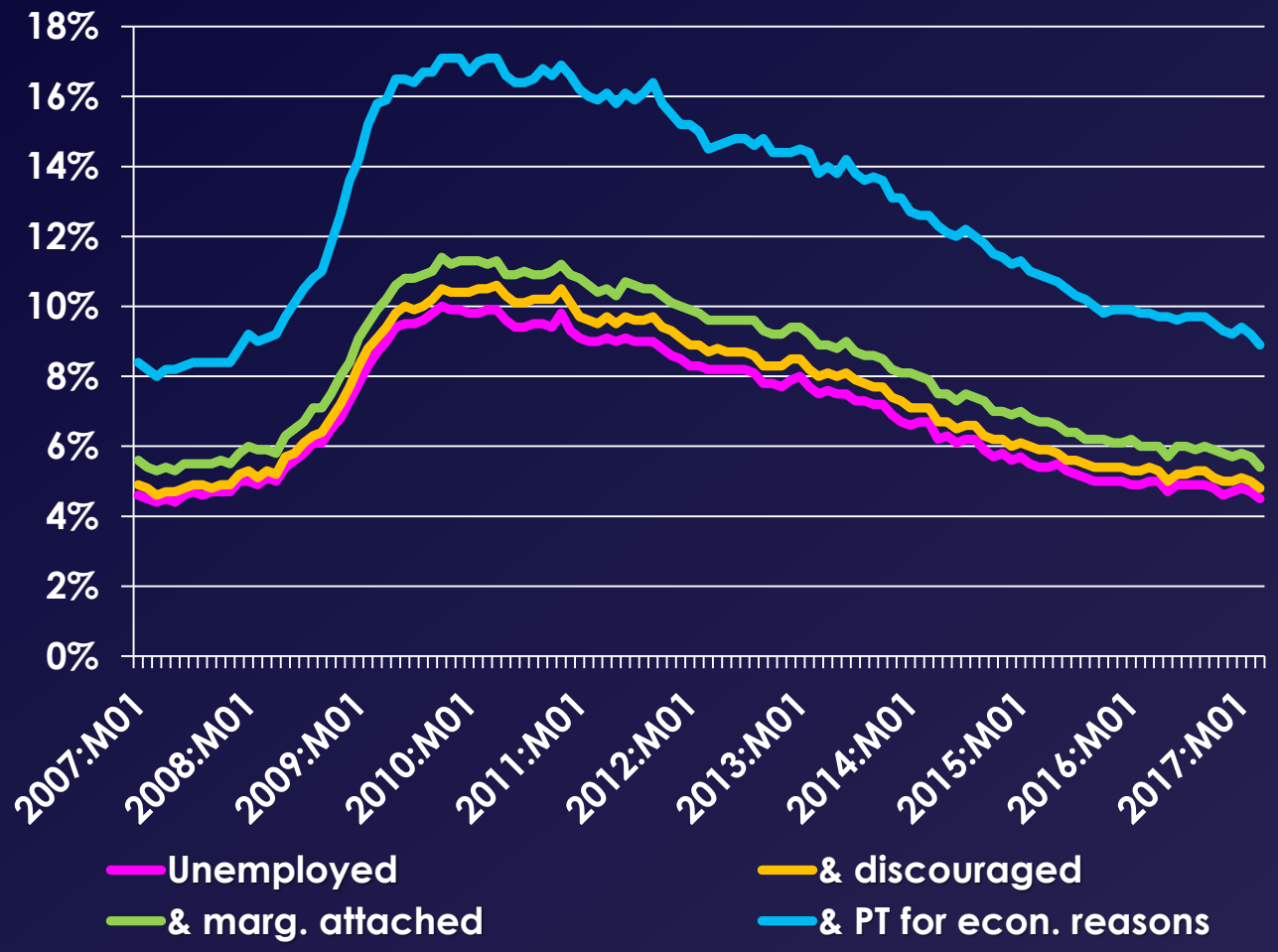
Data Source: U.S. Bureau of Labor Statistics – CPS

Labor Force Participation 25 to 54 (seasonally adjusted): 2015:M1 to 2017:M3



Data Source: U.S. Bureau of Labor Statistics – CPS

Unemployment Rate (seasonally adjusted): 2007:M1 to 2017:M3



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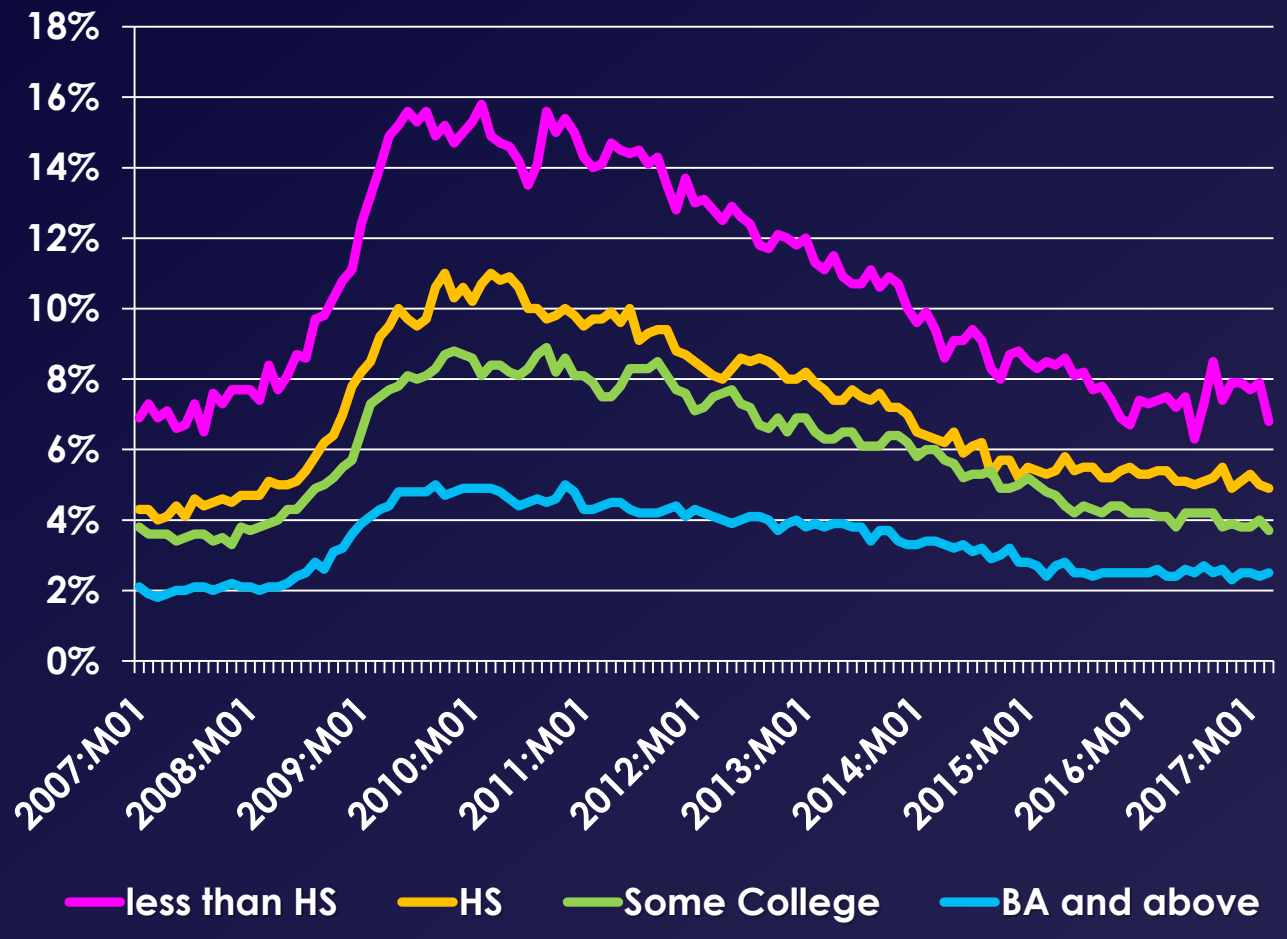
Unemployment Rate (seasonally adjusted): 2007:M1 to 2017:M3



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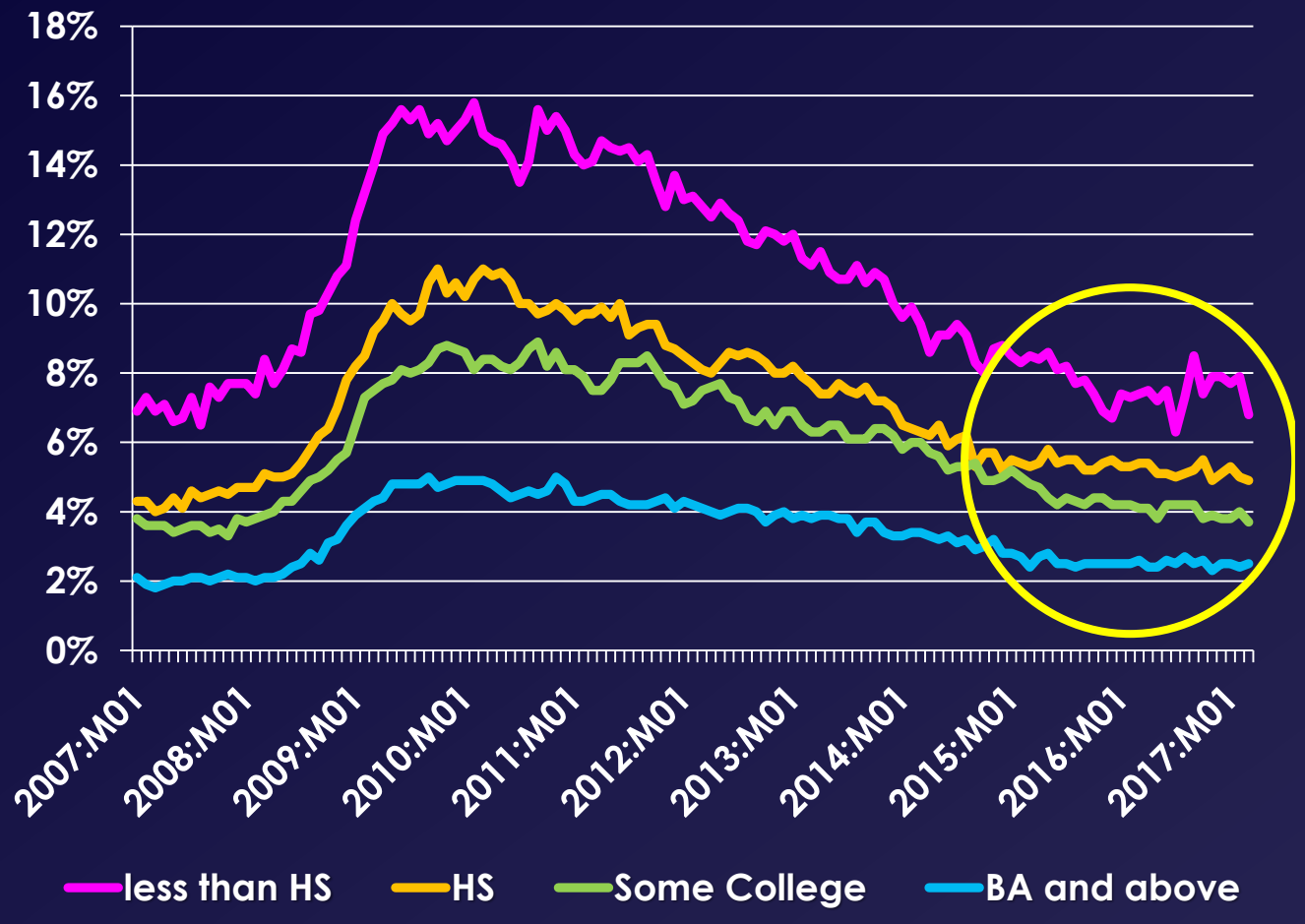

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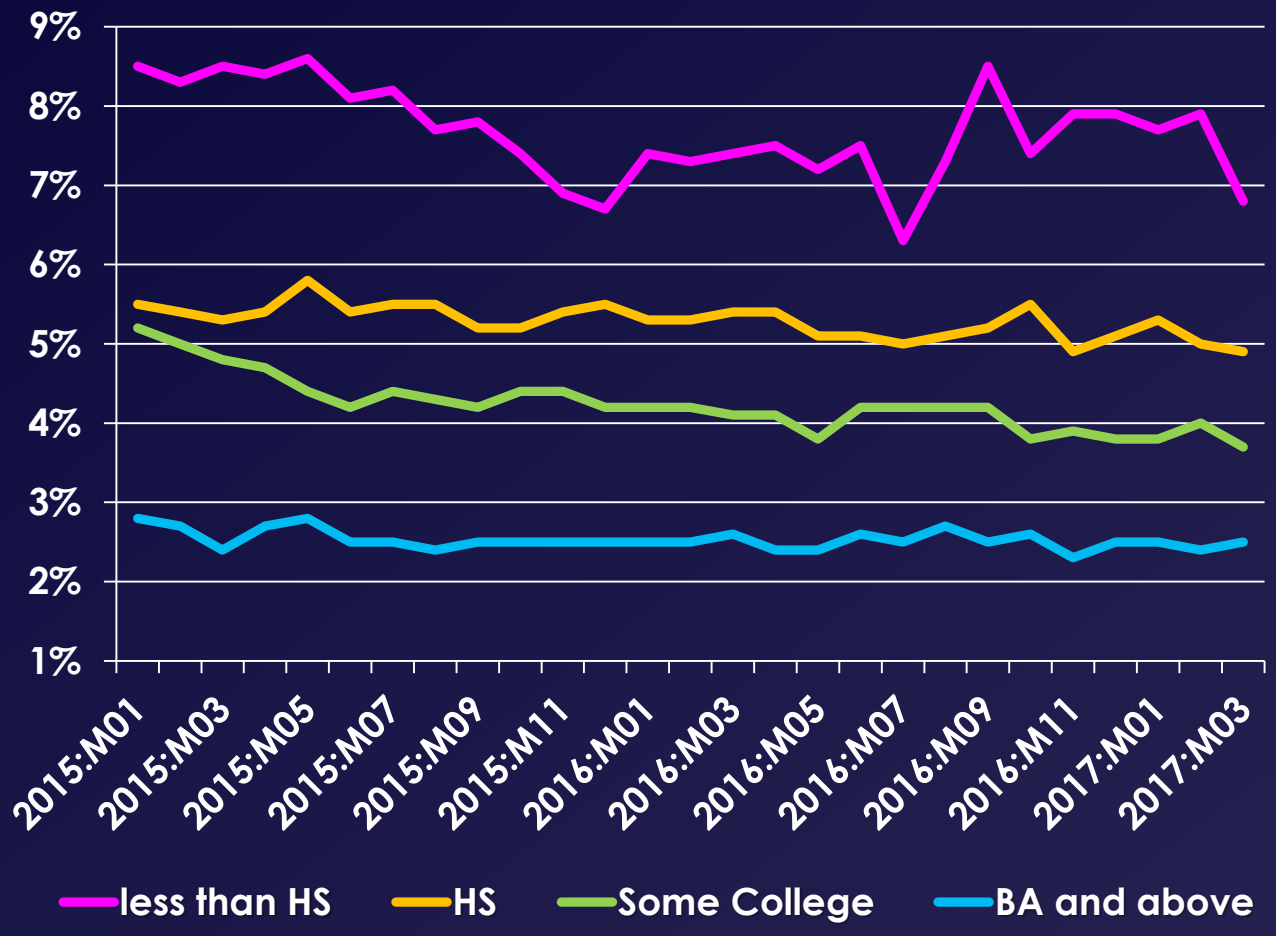
Unemployment Rate (seasonally adjusted): 2015:M1 to 2017:M3

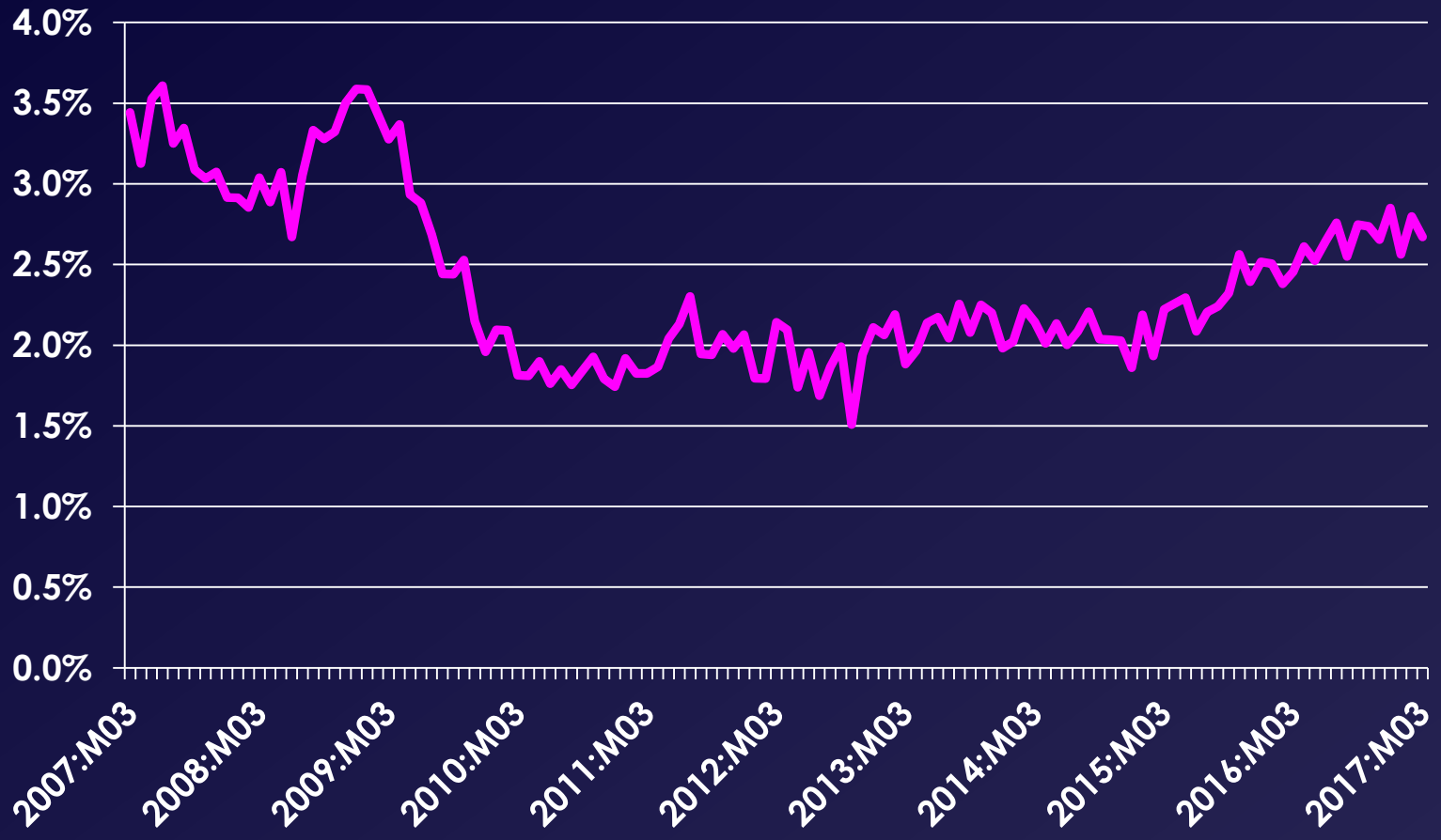


Data Source: U.S. Bureau of Labor Statistics – CPS

Median Weeks Unemployed (seasonally adjusted): 2007:M1 to 2017:M3

Data Source: U.S. Bureau of Labor Statistics – CPS

Y-o-Y Avg. Hourly Wages (seasonally adjusted): All Private Sector Employees



Data Source: U.S. Bureau of Labor Statistics – CES

Manufacturing

- **Trended back into positive M-o-M employment growth in December 2016 and positive Y-o-Y growth in February 2017.**
- **The ISM Purchasing Managers Index was 57.2 in March, marking seven straight months of expansion.**

Construction

- **US single-family homes sold hit an annuallized rate of 592,000 in February, the second highest month since February 2008.**
- **US housing starts hit an annuallized rate of 1,288,000 in February, the second highest month since August of 2007.**

Construction

- US housing permits hit an annuallized rate of 1,216,000 in February, part of an upward trend that began in 2012.
- The Dodge Momentum Index (measures non-residential building projects in planning) hit 144.4 in February, marking six consecutive months of expansion.

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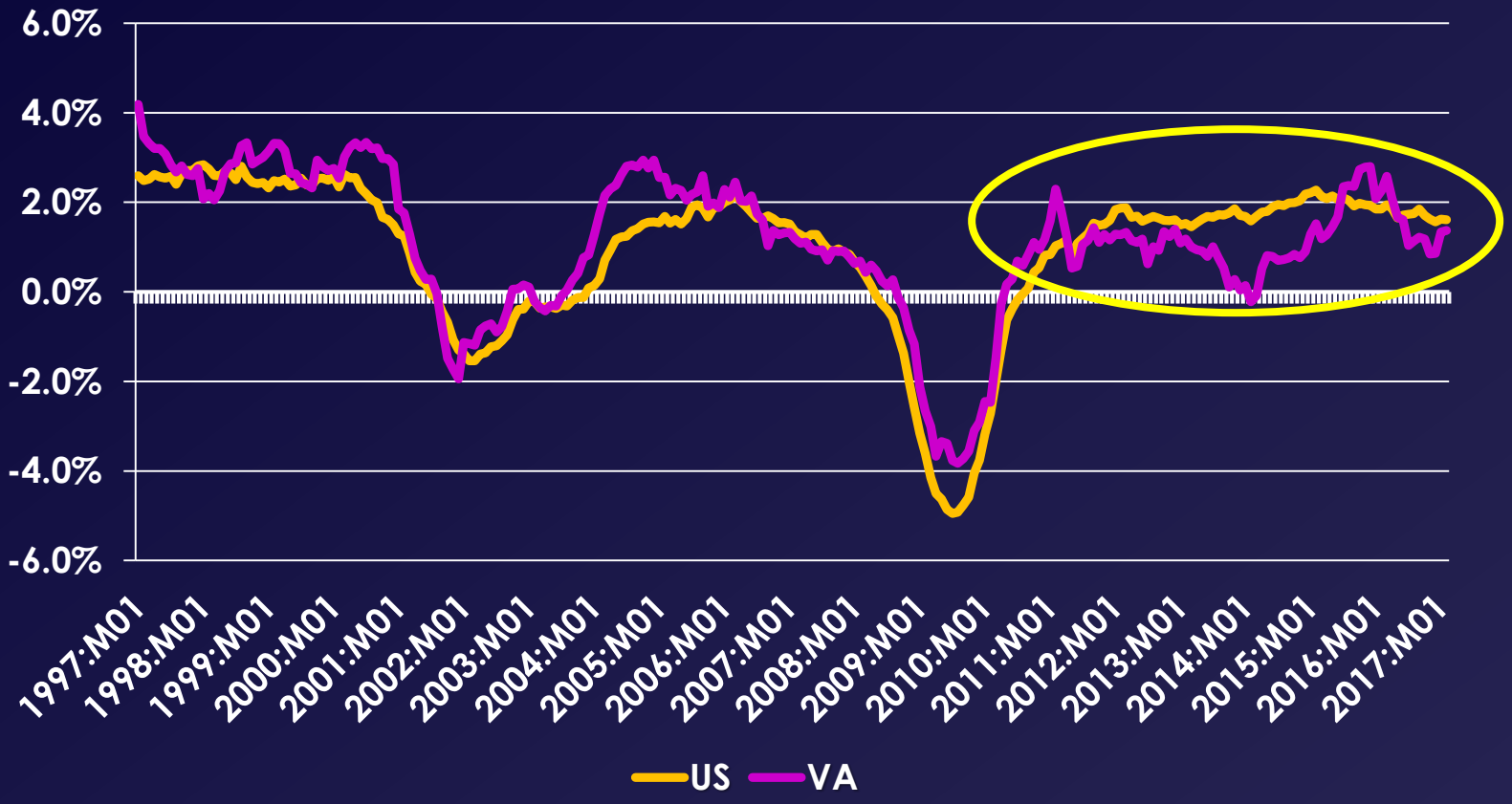
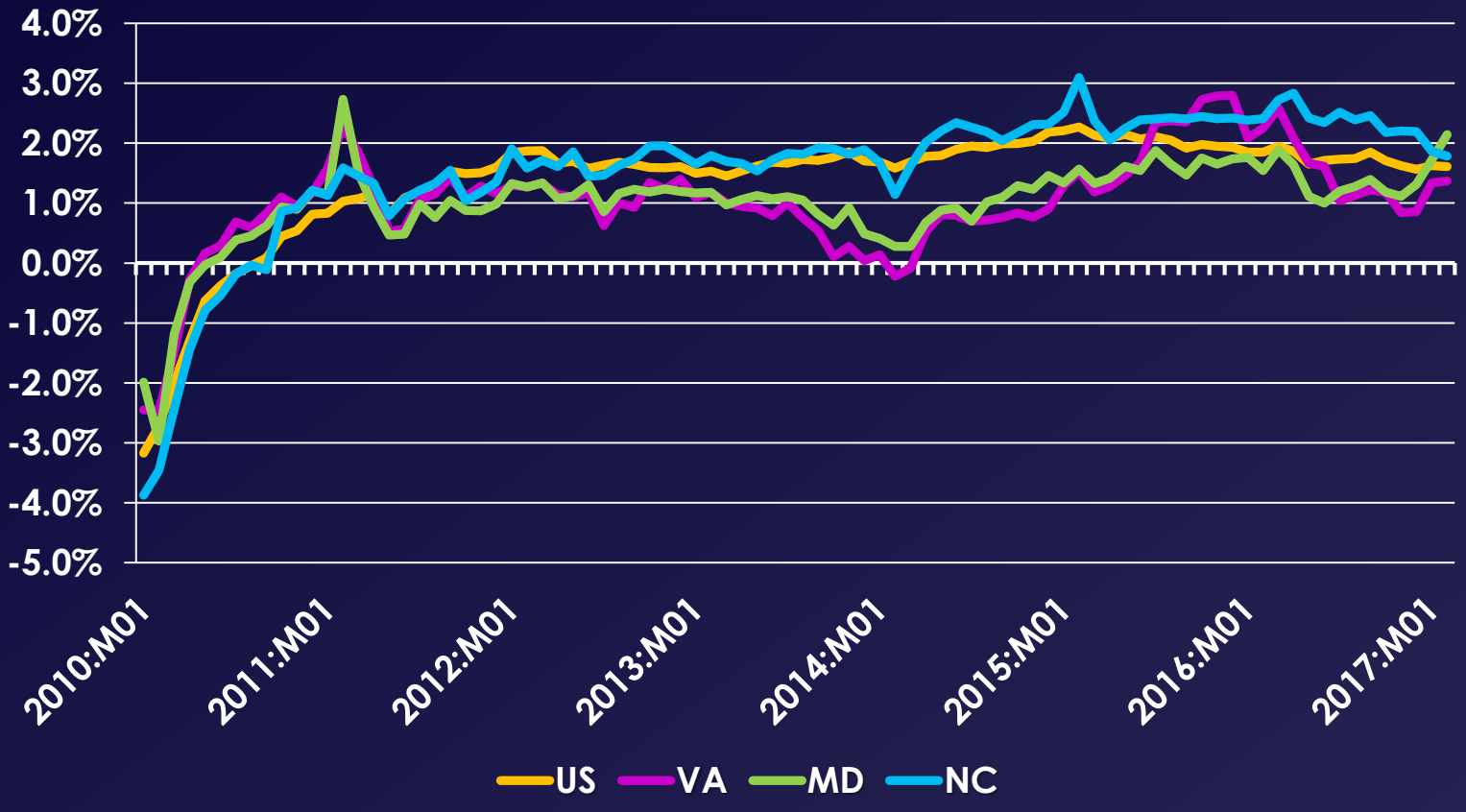
Y-o-Y Non-Farm Employment (seasonally adjusted): 1997:M1 to 2017:M3



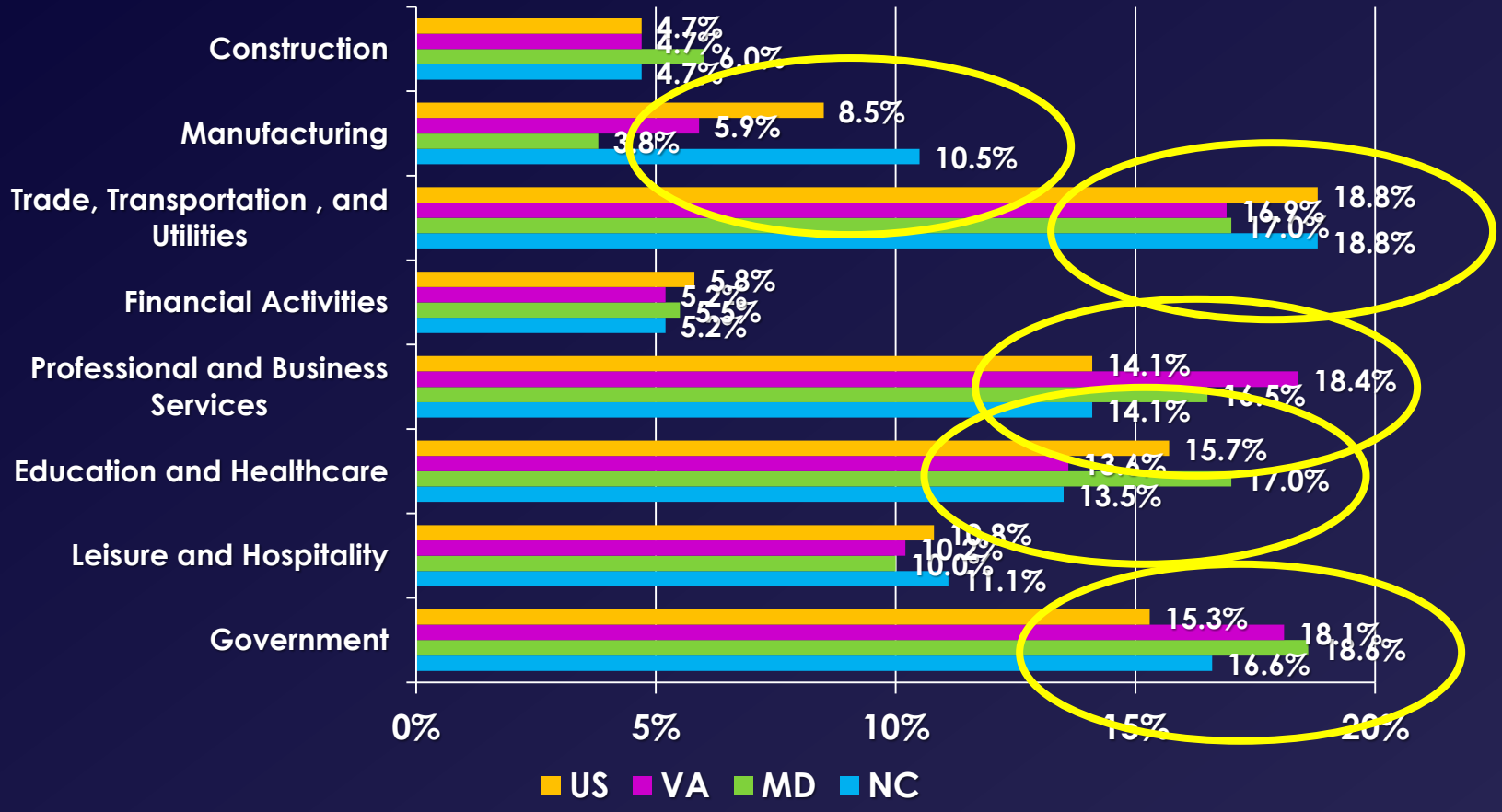
Data Source: U.S. Bureau of Labor Statistics – CES

Y-o-Y Non-Farm Employment (seasonally adjusted): 2010:M1 to 2017:M3



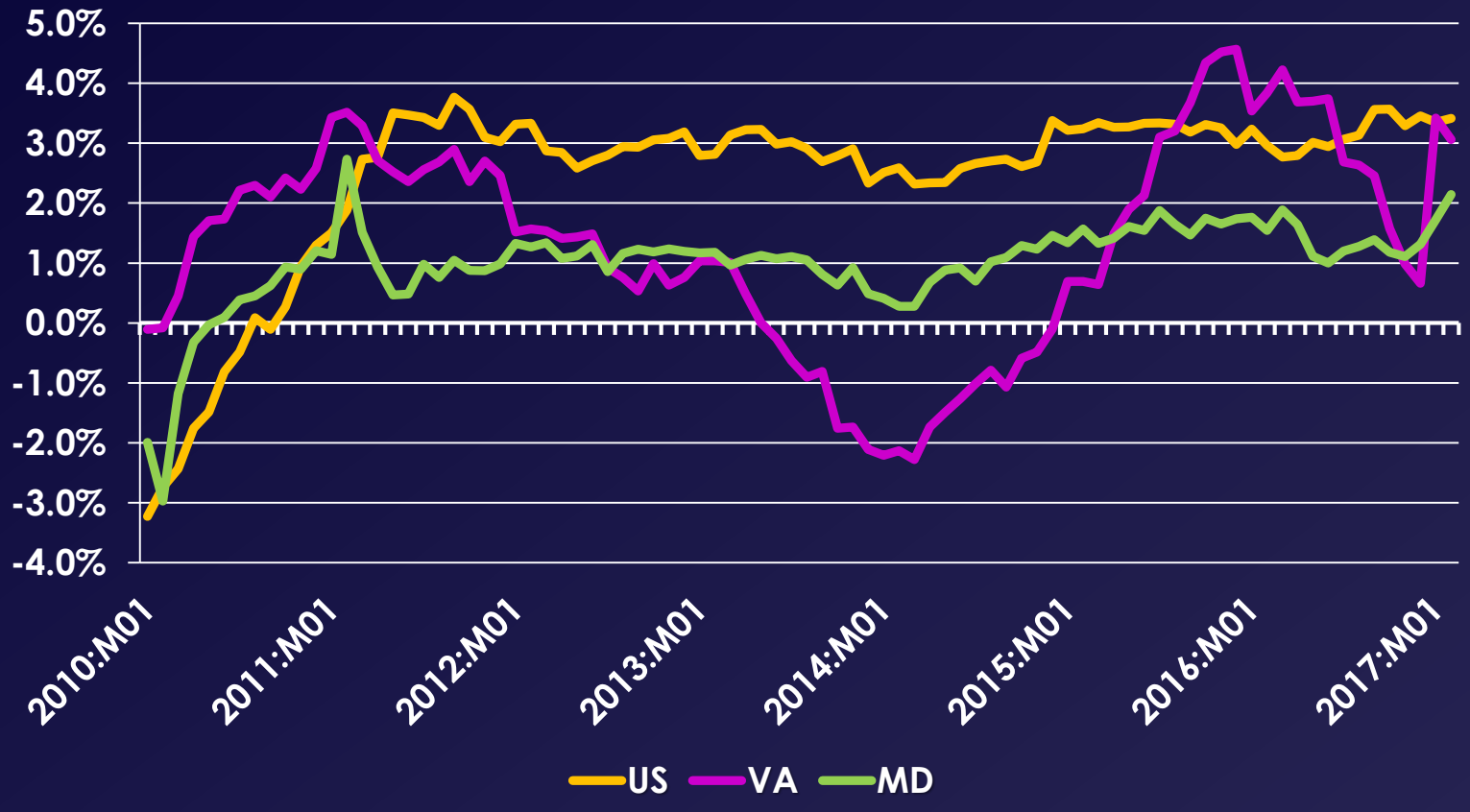
Data Source: U.S. Bureau of Labor Statistics – CES

Key Sectors as % of Total Employment by State



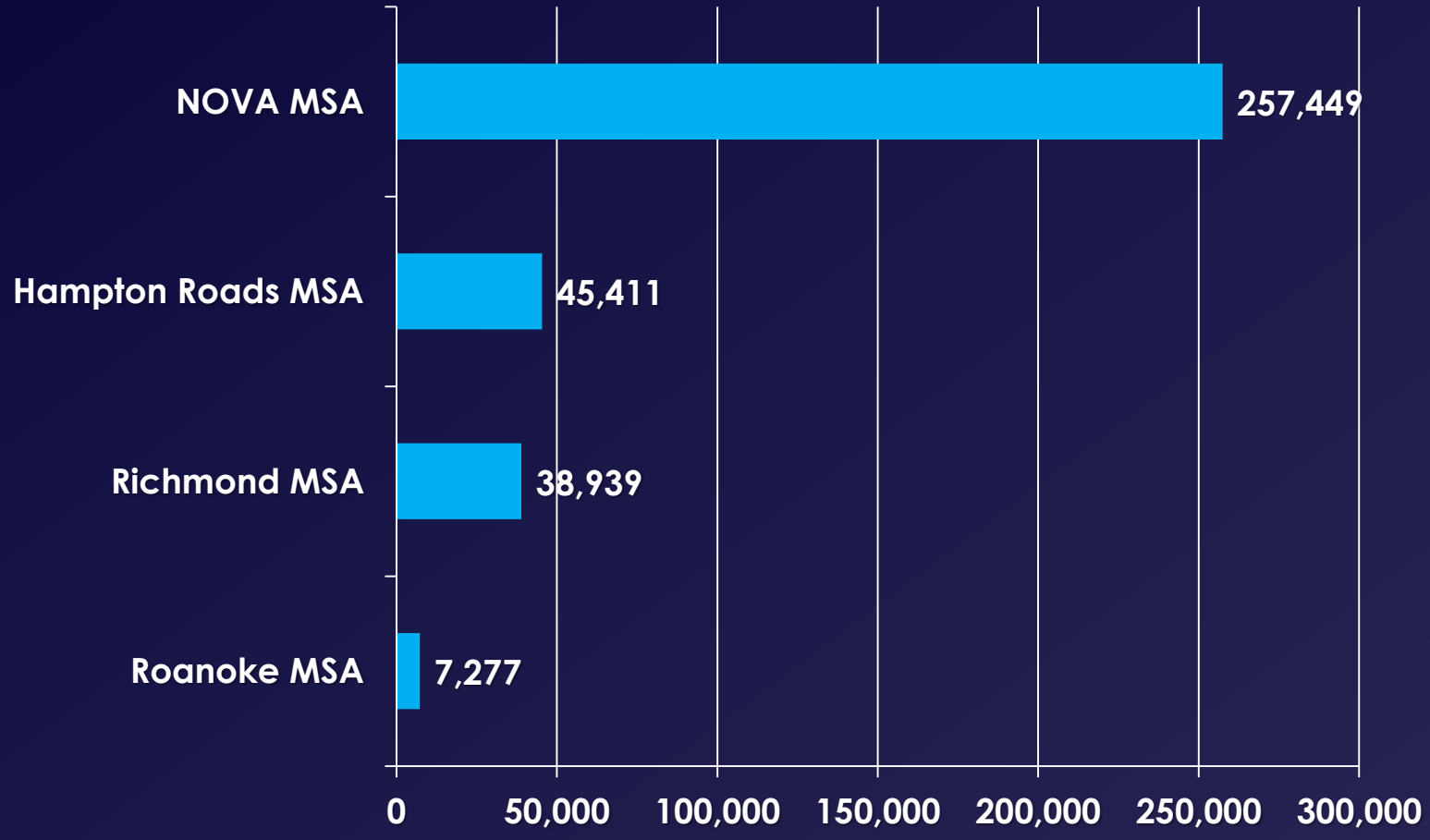
Data Source: U.S. Bureau of Labor Statistics – CES

Y-o-Y Professional and Technical Services (seasonally adjusted): 2010:M1 to 2017:M3



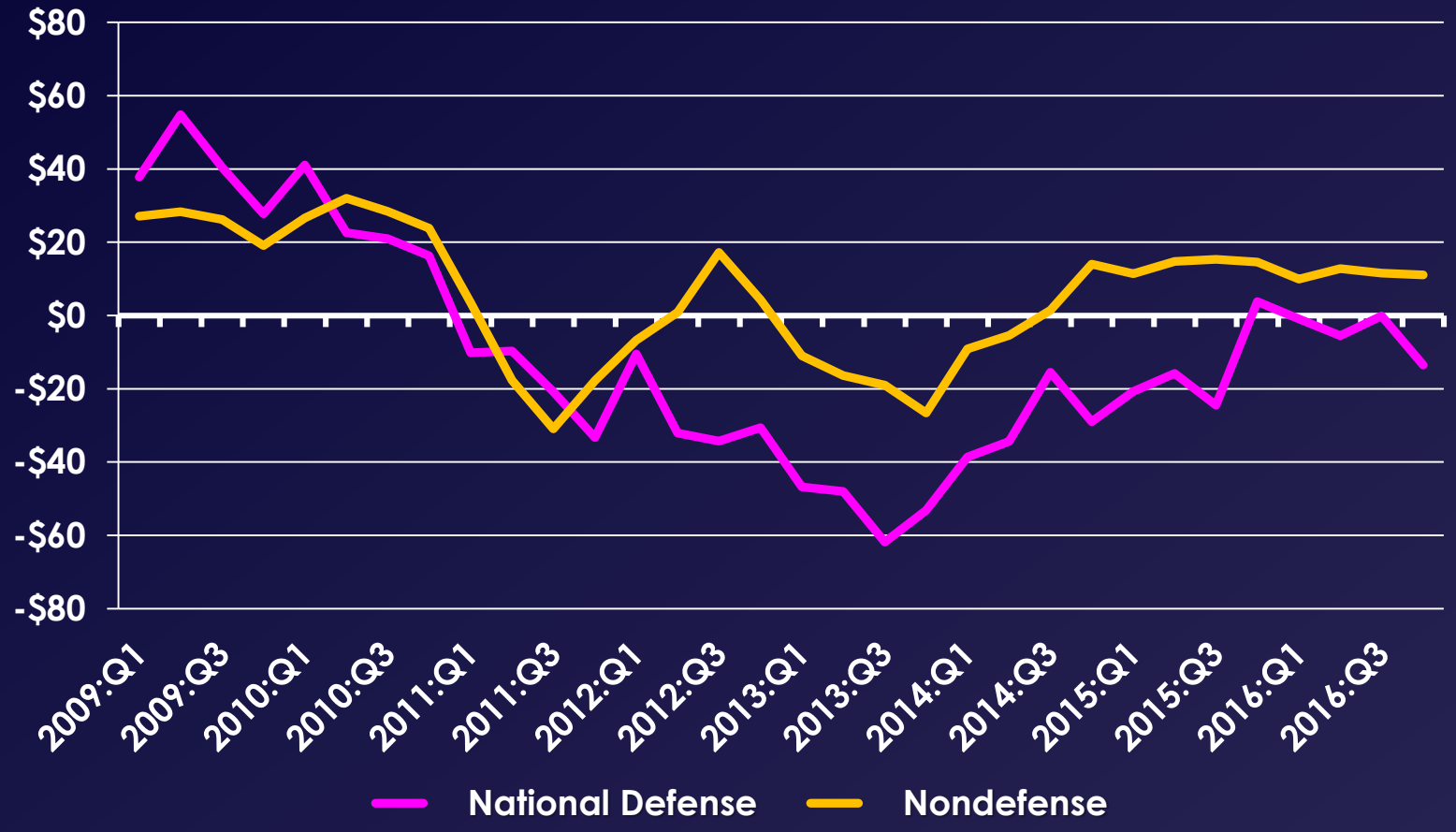
Data Source: U.S. Bureau of Labor Statistics – CES

Professional, Scientific, and Technical Services: 2016:Q3



Data Source: VEC -- QCEW

Y-o-Y Change in Real Federal Government Expenditures (in billions)



Data Source: U.S. Bureau of Economic Analysis

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Current Issues

We had an election!

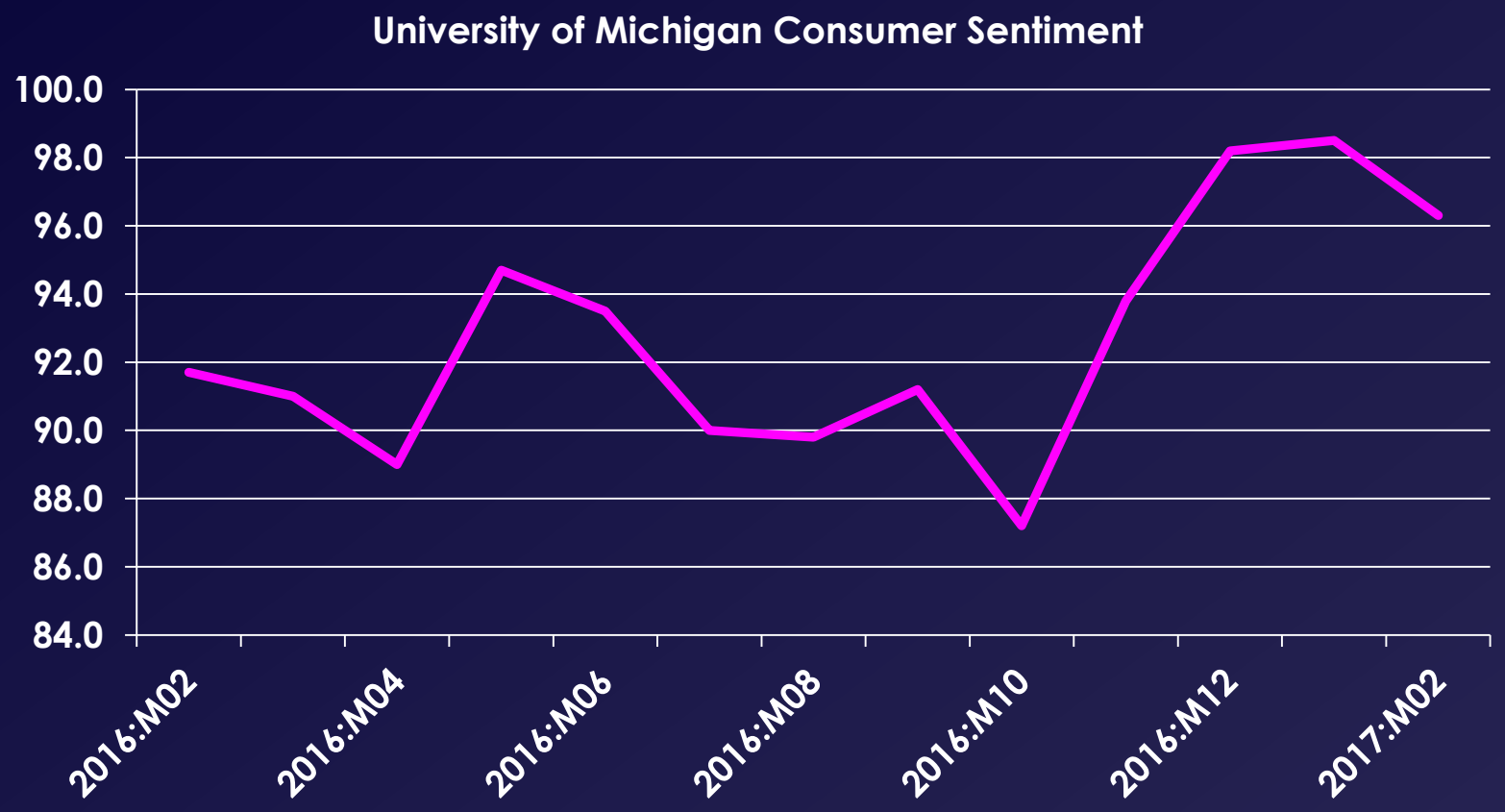
Regime Uncertainty

- "Regime Uncertainty," Robert Higgs, *The Independent Review*, Spring 1997.
- Economy crashed in 1929. Bottomed out in 1933. After which, GDP and private investment both began to climb.
- By 1937, GDP had almost returned to pre-crash levels, although private investment still lagged somewhat.
- Then, both took a dive and the economy did not fully recover until 1940.

Regime Uncertainty

- Higgs makes the case that what cut short the recovery was "regime uncertainty."
- Contends that the avalanche of new legislation under the *New Deal* and particularly the *Second New Deal*, along with appeals to class warfare, "soak the rich" tax plans, and a tripling of union membership, created an environment in which businesses were unwilling to risk their capital and invest.
- That decline in private investment forestalled the recovery.

Consumer and Business Confidence have Soared Since the Election



Data Source: University of Michigan

Consumer and Business Confidence have Soared Since the Election

- National Federation of Small Business' *Small Business Optimism Index* spiked to 105.3 in February before moderating to 104.7 in March (100 = 1986). Highest levels since 2003.
- IBD/TIPP's *Economic Optimism Index* hit a 10 year high of 56.4 in March before moderating to 51.7 in April
- Business Roundtable's *CEO Economic Outlook* jumped 19.1 points between 2016:Q4 and 2017:Q1 to hit a seven year high.

Why?

Expectations regarding:

- **Regulation**
- **Tax Reform**
- **Trade**

Why?

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Regulation

- Nationwide, our economic growth has been declining for some time.
- From 1950 to 1979, our average annual increase in real GDP was 4.0%, between 1980 and 2009 it fell to 2.7%, and since 2010 it has fallen to 2.1%.
- A recent study by Gallup found that much of this decline can be traced to disproportionate cost increases in just three sectors – education, healthcare, and housing – and that those cost increases have largely been driven by increased regulation.

Regulation

- Regulations are like rubber mulch – they have less effect on larger established firms that are better able to absorb the costs, but keep smaller firms from taking root and growing.
- Small business has traditionally been our largest job creator.
- In the six years prior to the recession, small business (< 50 employees) was responsible for 64% of total job growth in Virginia. Since the recession that proportion has fallen to 46%.

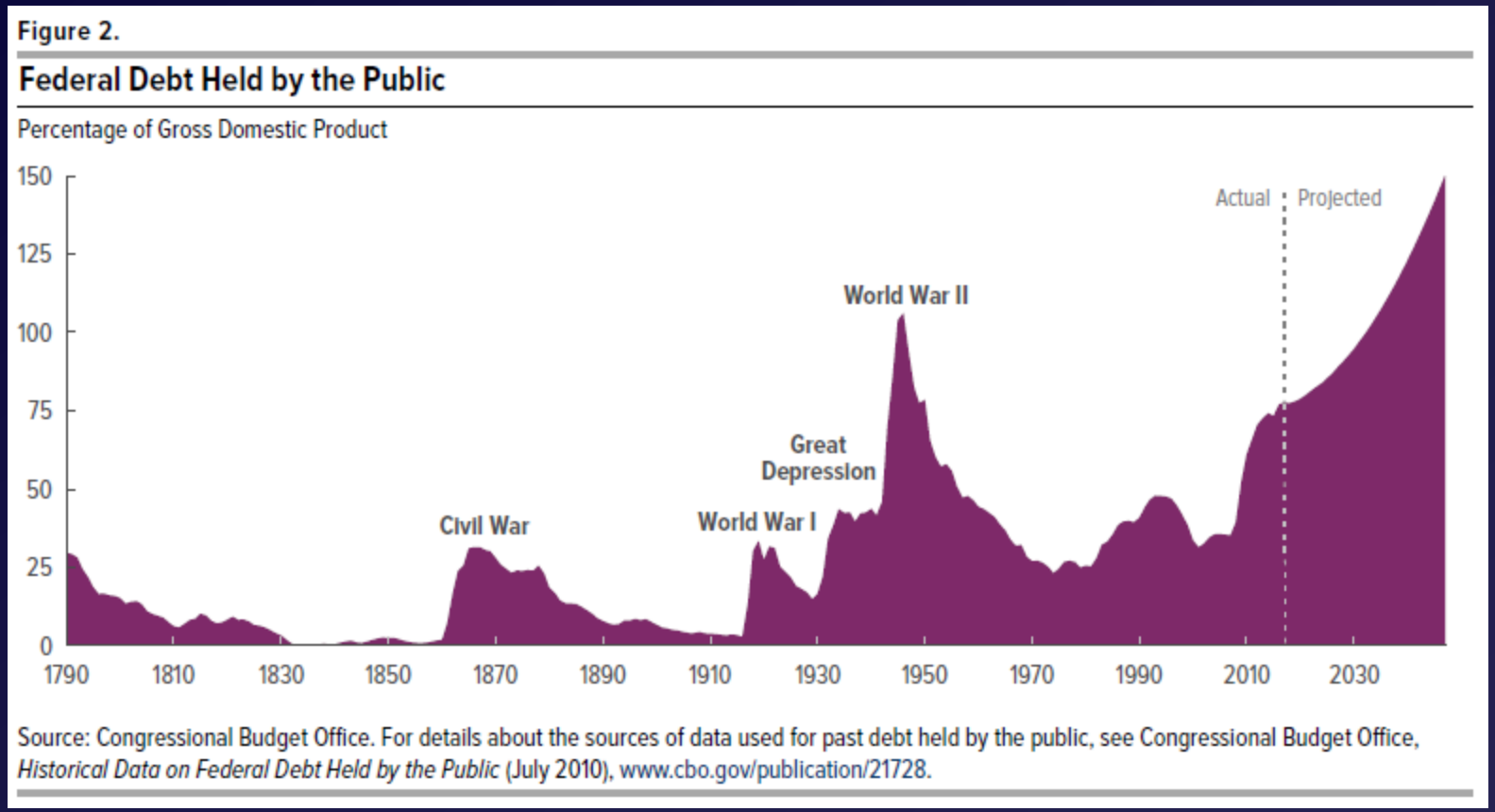
Regulation

- Congress is using the *Congressional Review Act* to revisit many of the "midnight" regulations that came out in the last days of the Obama administration.
- President Trump's nomination of Neomi Rao to head OMB's Office of Information and Regulatory Affairs is widely seen as an indication that the administration is serious about regulatory reform.
- Here in Virginia, state Senator Jill Vogel's proposed constitutional amendment would create a *Congressional Review Act* like mechanism.

Current Issues

Too many grasshoppers, too few ants

National Debt will Soon Exceed WWII Levels



Data Source: Congressional Budget Office

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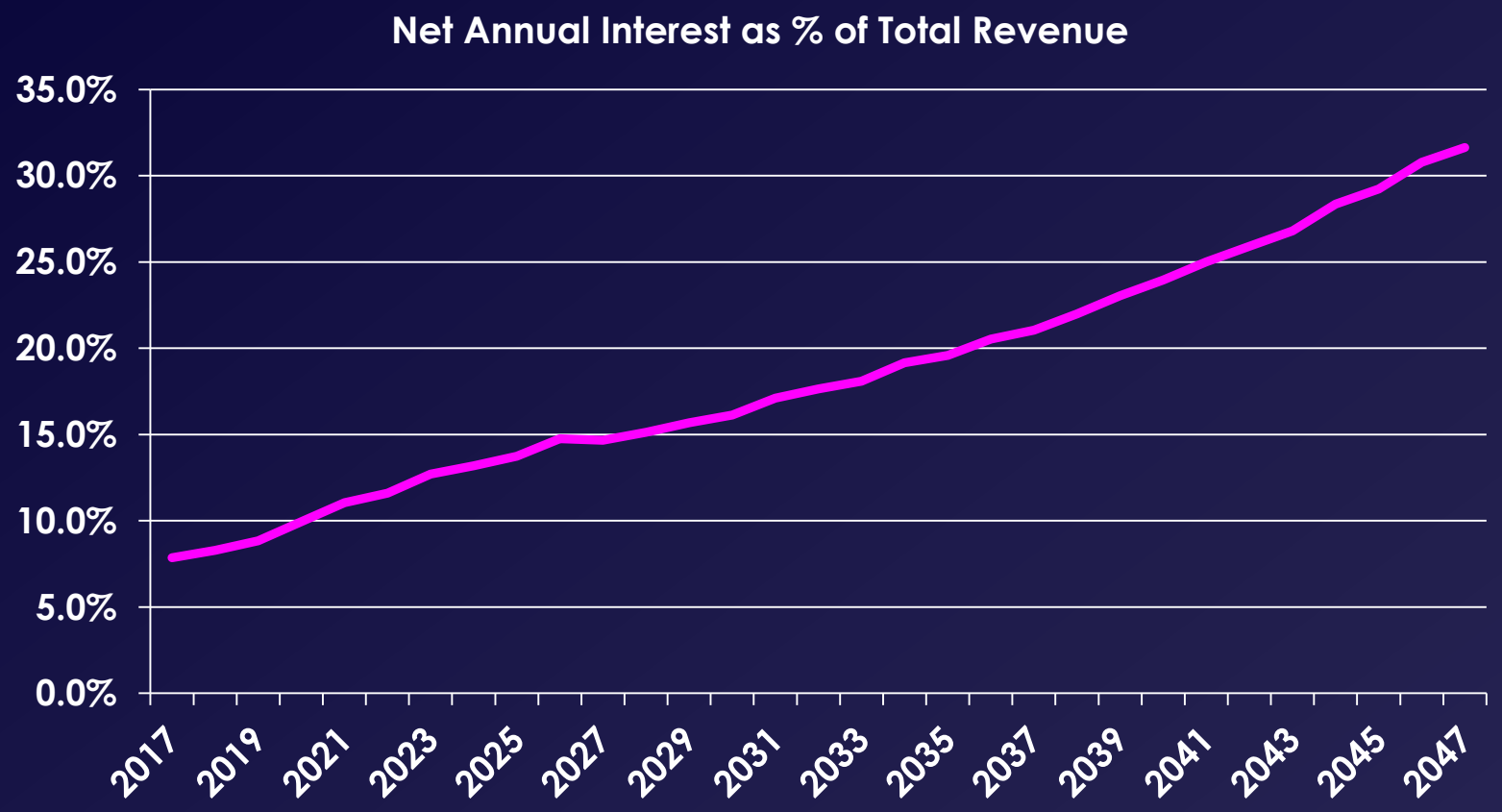

Data Source: Congressional Budget Office

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Take-Aways

- **Nationally, growth in total non-farm employment has been decelerating since the beginning of 2015.**
- **Much of that decline has been driven by four sectors: Manufacturing, Retail Trade, Leisure and Hospitality, and Construction.**

Take-Aways

- **Labor market is tightening and that is pushing wages up.**
- **But, with working-age labor force participation still 1.7% below its pre-recession level, arguably we still have some room to grow before we hit “full employment.”**

Take-Aways

- **Uncharacteristically, Virginia under-performed during the recovery.**
- **That under-performance was driven by declines in the Professional and Technical Services sector, which was in turn driven by cuts in DOD expenditures.**

Take-Aways

- Consumer and business optimism have soared since the presidential election.
- That change is driven by expectations regarding the Trump administration's anticipated policies regulation, tax reform, and trade.
- We are already seeing demonstrative progress on the regulatory front.

Take-Aways

- **Our national debt is approaching and will soon exceed WWII levels.**
- **That will place a substantial binding constraint on government flexibility as annual interest payments on the debt go from $1 out of every $13 collected in revenue in 2017 to $1 out of $7 in 2027, $1 out of $5 in 2037, and $1 out of $3 in 2047.**

Thank You

Dr. A. Fletcher Mangum

CEO and Founder

804-346-8446

fletcher@mangumeconomics.com

MANGUM economics