

CENTER FOR BUSINESS AND ECONOMIC RESEARCH MILLER COLLEGE OF BUSINESS

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Economic Forecast Update

June 1, 2012

- June 2012 marks the 36th month since the formal end of the Great Recession, during which time GDP and employment growth have been at near record post-recession lows.
- With the release of the May, 2012 <u>Employment Situation Summary</u>, it is now clear that the United States is either in, or at the precipice of another cyclical downturn. While the Business Cycle Dating Committee of the National Bureau of Economic Research is unlikely to identify peak dates this year, it is likely that the peak of economic activity was in 1st Quarter, 2012.
- The average post-war duration from the trough of a business cycle to the peak of the next business cycle is 59 months, with six out of eleven recessions (1981, 1973, 1960, 1957, 1953, 1948) occurring in less than 48 months from the end of the previous cycle. While the expansionary period following the great recession was smaller, and shorter than is typical, it is not outside the historical experience with the 1981 recession is the most recent obvious example.
- The May 2012 Employment Situation Summary reported the U.S. Civilian unemployment rate rising to 8.2 percent, with the creation of 69,000 net new jobs, accompanying a downward revision of the already disappointing March and April 2012 data. Most job growth occurred in sectors which are largely insensitive to business cycle activity, with declines and static job growth occurring in those industries most likely to exhibit recessionary shrinkages. While Indiana continues to do well, with preliminary April, 2012 data indicating the state produced one out of 8 net new jobs nationally, the Hoosier experience is unlike the national job creation numbers. At the average job growth numbers of February- May 2012, the U.S. will not return to its pre-recession level of employment until 2019-2020.
- Few econometric models of the national economy have yet detected the recession inflection point several other indicators suggest a broadly slowing national economy.



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The European Union, a source of roughly 2.3% of U.S. exports has slipped into a recession, with unemployment rates as high as 24.4 percent in Spain, and an EU wide 11.1 percent. The Monetary Union in Europe is unstable, and at least temporary disruptions in financial markets are likely in June and July, 2012.

- The Institute for Supply Management Chicago, reported a 3.5 point decline in May, culminating a three month decline and equaling the early post recession levels. This measure evaluates manufacturing growth in the most manufacturing intensive portions of the United States.
- China's GDP growth has declined for six consecutive quarters, and has prompted a second round of fiscal stimulus last month.
- o India's GDP growth rate has declined from 9.2 to 5.3 percent, and signals a slowing of the south Asian economy.
- Slowing economic activity in Brazil has prompted their Central Bank to reduce interest rates on bank loans to historic lows in an effort to spur economic activity.
- There are conditions which suggest that this recession will be milder than typical, and more like the 2001-2002 recession. The most obvious is that U.S. companies are lean and profitable, with robust productivity growth allowing them to resist downsizing during a mild recession. Also, further shrinkage of the labor supply seems unlikely, which will prevent upward pressure on wages and prices.
- Economic growth in the United States will continue to slow during this recessionary period, with GDP growth ebbing to below zero and the unemployment rate increasing through the coming months.

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