



ECONOMICS COMMENTATOR

South Dakota State University

No. 527

January 14, 2011



Economic Outlook 2011

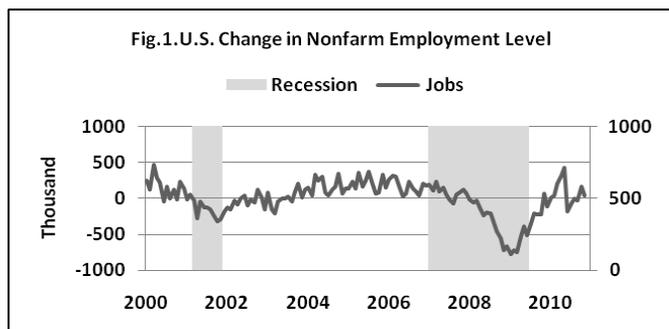
by
Emmanuel Opoku*
Research Associate
Scott W. Fausti*
Professor of Economics

Introduction

The Great Recession, which lasted for 18 months, began in December 2007 and ended in June 2009. The duration of this economic downturn is the longest since 1981. However, the current trend in U.S. job growth is positive and should aid the current economic recovery as we move into 2011.

Employment

The U.S. Bureau of Labor Statistics reported that the U.S. economy created 39,000 jobs in November 2010 which represents a decline in the level of job creation relative to October, when the U.S. economy created 172,000 new jobs.¹ Total employment, as measured by the nonfarm payroll employment survey, indicated the employment level increased by 842,000 from November 2009 to 2010 (Fig.1). Employment gains



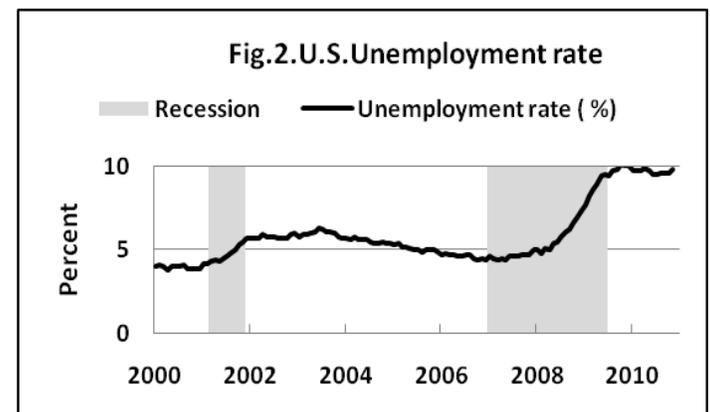
Source: Bureau of Labor Statistics

in 2010 were recorded in the areas of temporary help services, mining, and health care sectors.

Unemployment

The Bureau of Labor Statistics reported the U.S. unemployment rate for November 2010 declined to 9.8% from 10.0% in November 2009. The November unemployment rate edged up to 9.8% after remaining unchanged at 9.6% in each of the prior 3 months (Fig.2). The estimated number of unemployed persons in November 2010 is 15.1 million.

The official unemployment rate includes only job seekers who are actively looking for work. Underemployed workers (those who indicate that they would like full-employment) and discouraged workers (individuals who would like to work but are not actively engaged in a job search) are not included in the official unemployment statistics. A measure of unemployment (U-6) that includes workers who are underemployed and those who are marginally attached to the labor force declined from 17.4% in October 2009 to 17.0% in October 2010. The U-6 estimate indicates that this latest economic downturn has increased the level of structural unemployment in the U.S. economy.



Source: Bureau of Labor Statistics

*Contact the authors at Emmanuel.Opoku@sdstate.edu or Scott.Fausti@sdstate.edu or 605-688-4141.

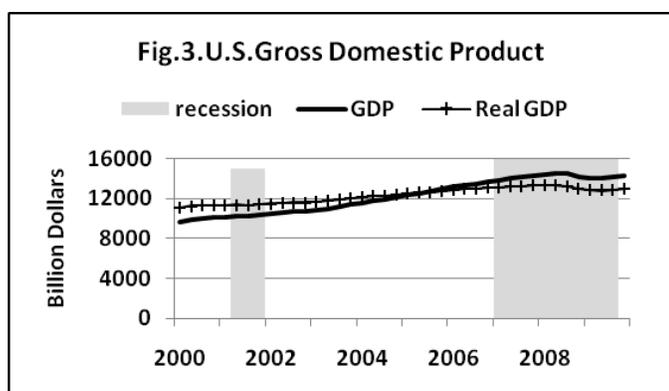
Industrial Production

Industrial production (comprised of manufacturing, mining, and electric and gas utilities) was unchanged from September to October 2010². Manufacturing production edged up 0.5%, production at mines fell 0.1% , and the output of utilities dropped 3.4% in October 2010 because unseasonably warm temperatures reduced demand for heating.

The effect of the recession on U.S. industrial production was dramatic. Industrial output declined from October 2008 to October 2009 by 7.1%.³ Industrial production began to recover in the fall of 2009, leading the economy out of recession. Industrial production increased 5.3% from October 2009 to October 2010. As a consequence of increased industrial production, Industrial Capacity Utilization (ICU) increased 4.1% from October 2009 to October 2010.

Economic growth

Real gross domestic product is the output of goods and services produced by labor and capital located in the United States. Real GDP in 2010 increased at an annual rate of 2.5%, 2.0%, and 1.7% in the first three quarters, respectively (Fig. 3). These increases reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, nonresidential fixed investment, federal government spending, and net exports. Net exports refer to exports minus imports. A fall in imports, coupled with a slight rise in exports, made a positive contribution to GDP growth.



Source: Source: Bureau of Economic Analysis.

Credit Crisis

To ease the level of economic hardship on the American public, the Emergency Economic Stabilization Act of 2008 (EESA) was enacted during the time of economic uncertainty and deep recession. The Troubled Assets Relief Program (TARP) was also established to stabilize the U.S. financial system. Credit and capital markets were assisted under the TARP in order to bring down the cost of borrowing and increase the flow of credit to consumers and businesses.

The U.S. Treasury is currently disbursing TARP funds to certain programs, such as Making Home Affordable Program, Hardest Hit Fund, Consumer and Business Lending Initiative, Public-Private Investment Program and Automotive Industry Financing Program⁴. The objective of these programs is to reduce the negative impact of the economic downturn on the American people, by supporting credit market stability for both the housing market and homeowners.

Economic Policy

According to the U.S. Treasury, the federal budget deficit edged down to \$1.3 trillion (8.9% of GDP) in fiscal year 2010, from \$1.4 trillion (nearly 10% of GDP) in fiscal year 2009.

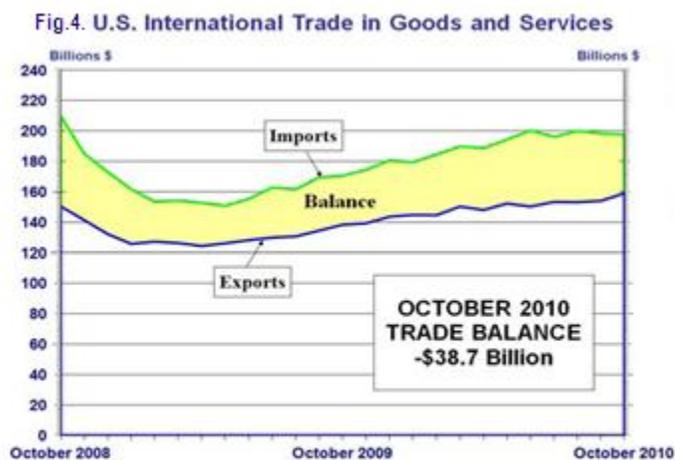
Key fiscal and monetary policy actions taken over the past few years have kept the economy from contracting even further, and provided economic support for the recovery in 2010 and beyond.

Fiscal policy: The American Recovery and Reinvestment Act of 2009 (ARRA) authorized the Federal Government to spend \$787 billion toward stimulating domestic demand. The government had spent \$565 billion of the initial amount as of October 2010. According to U.S. Treasury, the estimated economic impact of the Recovery Act lifted employment during the first quarter of 2010 between 2.2 million and 2.8 million jobs above what it otherwise would have been without the stimulus. The U.S. government continues to provide support in order to maintain the recent growth in jobs and income. The government also recently passed legislation to provide \$26 billion to support jobs and medical services at the State and local government level in August 2010⁵.

Monetary policy: As a result of the slow pace of recovery in output, employment, and income, the Federal Reserve target for the Federal Funds Market has remained unchanged (interest rate on overnight bank-to-bank loans of reserves) at a record low level of 0% to .25%. The Federal Open Market Committee (FOMC) has recently indicated that it intends to purchase \$600 billion of longer-term treasury securities by the end of the second quarter of 2011 at a pace of \$75 billion per month. The goal of the FOMC policy is to provide support for economic recovery by stimulating private sector lending, which will lead to job creation.

International Trade

According to the Bureau of Economic Analysis, the level of exports in October was \$158.7 billion and imports were \$197.4 billion⁶. This indicates an increase of \$4.9 billion in exports and a decrease of \$0.9 billion in imports in October. As a result, the trade deficit in goods and services declined from \$44.6 billion in September (revised data) to \$38.7 billion in October (Fig. 4). A declining trade deficit has positive effect on the level of U.S. economic activity.



Source: U.S. Census of Economic Analysis

South Dakota Economy

The economy of South Dakota has continued to recover from the recession. South Dakota's unemployment rate was down 0.3% from 4.8% in January 2010 to 4.5% in September 2010⁷. The Rapid City Metropolitan Area (MSA) unemployment level edged down from 4.7% in May 2010 to 4.1% in September 2010, and the Sioux Falls MSA unemployment rate fell from 4.4% to 4.1% over the

same period. The state's total nonfarm employment was 402,800 in May 2010 and increased to 404,700 in September 2010, for a 0.52% increase in total nonfarm employment (seasonally adjusted data). 2010 job gains were due to expansion in manufacturing and professional & business services. The Rapid City Metropolitan Area (MSA) gained 1,100 jobs between May and September 2010. Job gains were added in manufacturing, financial activities, and education & health services. The Sioux Falls MSA gained 400 jobs between May and September 2010.

The state's leading economic indicators indicate positive but slowing economic growth in the months ahead⁸. The South Dakota Business Conditions Index, which is based on a survey of supply managers in the state and is conducted by Ernie Goss from Creighton University, declined to 57.8 from 61.3 in October and 70.2 in September. However, there has been tremendous improvement in the South Dakota Business Condition Index for 2010 relative to 2009. The Index for September, October and November 2009 were 58.1, 55.5, and 50.2, respectively, whereas the same months in 2010 were 70.2, 61.3, and 57.8, respectively. Prof. Goss observed that an expansion of manufacturing in the state played a major role in the level of economic growth in the state over the past six months. Prof. Goss predicts a slower pace of economic growth for the state in the months ahead despite the strong growth that the state has experienced over the past six months.

Outlook for 2011

The outlook for the U.S. economy for 2011 is positive. The recession which began in December 2007 finally ended in June 2009 according to The National Bureau of Economic Research (NBER). The economic indicators discussed above suggest that although there was an increase in economic activity, the U.S. economy will recover at a slower pace. Despite the improvement, the economic activity has yet to rise as quickly as it did in the recoveries from deep previous recessions⁹. The current trend in U.S. job growth is positive and should aid the current economic recovery as we move into 2011. Prudent fiscal and monetary policy initiatives at the Federal level should continue to stimulate the economy and create more jobs.

ECONOMICS COMMENTATOR

Department of Economics
South Dakota State University Phone: 605-688-4141
Box 504 Scobey Hall Fax: 605-688-6386
Brookings, SD 57007-0895 E-Mail: Penny_Stover@ sdstate.edu
125 copies of this newsletter were produced at a cost of less than \$100

-
- ¹ <http://www.bls.gov>
 - ² <http://federalreserve.gov/releases/G17/Current/>
 - ³ <http://www.federalreserve.gov/releases/G17/20091117/>
 - ⁴ <http://www.financialstability.gov/roadtostability/autoprogram.html>
 - ⁵ http://www.fms.treas.gov/bulletin/b2010_4.pdf: U.S. Treasury Bulletin, December 2010. "Profile of the economy"
 - ⁶ http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf
 - ⁷ <http://www.bls.gov/eag/eag.sd.htm>
 - ⁸ <http://www.creighton.edu/business/economicoutlook/regional/midamericanstates/southdakota/index.php>
 - ⁹ http://www.fms.treas.gov/bulletin/b2010_4.pdf: U.S. Treasury Bulletin, December 2010. "Profile of the economy"