

# **Why the US economy is taking so long to recover**

The American economy and job market are moving in the right direction, just not very quickly. The recent news that US employers added a solid 165,000 jobs in April and unemployment fell to a four-year low of 7.5 per cent came as a relief.

The Dow Jones industrial average surged 142 points, or 1 per cent, on the news to close at a record 14,973. The better-than-expected April numbers erased worries that the US economy was stalling for the fourth year in a row - a fear that had emerged after a disappointing jobs report for March. The report also showed job growth in March and February was stronger than first estimated.

Nearly four years after a devastating recession, the US economy and job market are far from a full recovery, but they have made steady progress. Here is an overview of America's economic health:

## **HIRING: PICKING UP BUT FACING A LONG SLOG**

The US economy has been adding 196,000 jobs a month this year, up from a monthly average of 179,000 in 2011 and 2012. Given how far it needs to go, the job market is recovering more slowly than people had hoped. The US still has 2.6 million fewer jobs than it had when the Great Recession began in December 2007. At the current pace of hiring, total US jobs won't reach the pre-recession level of 138 million for more than another year.

## **UNEMPLOYMENT: FALLING - BUT STILL HIGH**

Unemployment has improved dramatically since peaking at 10 per cent in October 2009. But by any normal standard, April's 7.5 per cent unemployment was still a recession-level figure - higher, for example, than it ever got in the short recession of 2001. The Federal Reserve doesn't expect the unemployment rate to reach a healthy level - 6 per cent or lower - any sooner than 2015.

At least unemployment fell last month from 7.6 per cent in March for the right reasons: More Americans reported having jobs and fewer reported being unemployed.

A big part of the drop in unemployment the past three-and-a-half years has come because people have given up looking for work. Only 63.3 per cent of working-age Americans were working or looking for work last month and in March. That is the lowest "labor force participation rate" since May 1979.

People without a job who stop looking for one are no longer counted as unemployed. If the participation rate were at the pre-recession level of 66 per cent, the unemployment rate could have reached 11.3 per cent last month.

## **THE ECONOMY: GROWING SLOWLY**

The economic recovery from the Great Recession is the slowest since World War II. Growth has been hobbled by lingering damage from a housing bust and financial crisis. The economy expanded just 2.4 per cent in 2010, 1.8 per cent in 2011 and 2.2 per cent in 2012. It grew at an annual pace of 2.5 per cent in the January-March quarter this year.

If the economy were healthy, 2.5 per cent growth would be fine. But generating enough jobs to bring unemployment down quickly requires faster growth.

Economists had originally hoped the economy would expand at a brisker pace this year - 3 per cent or 4 per cent. But across-the-board government spending cuts, which began taking effect March 1, are forcing federal agencies to furlough workers, reducing spending on public projects and making businesses nervous about investing and hiring.

Growth is expected to slow to 2 per cent in the April-June quarter.

Budget cuts have already been a drag on the economy. Government spending at the local, state and federal levels fell at an annual rate of 4.1 per cent from January through March and 7 per cent the last three months of 2012. Normally, government spending contributes to economic recoveries.

The damage from government austerity has been offset in part by the Federal Reserve, which has kept short-term interest rates near zero since the end of 2008 and has been pumping \$85 billion a month into the economy by buying bonds.

## **CONSUMERS, HOUSING AND THE STOCK MARKET: LOOKING UP**

Some of the US economy's fundamentals are looking healthier. Consumers have shrugged off an increase in their Social Security taxes this year and the budget shenanigans in Washington: From January through March, they spent at the strongest pace in two years. That's good news because consumers account for 70 per cent of US economic activity.

Fueled by near-record low mortgage rates, the housing market has been bouncing back. New-home sales in March were up 18.5 per cent from a year earlier. Sales of previously occupied homes were up 10.3 per cent. For the first time in five years, homebuilders started work on more than 1 million homes in March at a seasonally adjusted annual rate.

Investors have celebrated rising corporate profits and other good news. The Dow Jones industrial average is up 1,870 points, or more than 14 per cent, so far this year, including Friday's gain.

Rising stock and home prices help feed consumer spending by making people feel wealthier and more willing to spend.

## **EUROPE: MAKING THE US ECONOMY LOOK GOOD**

The American economy and job market look a lot better when you compare them with Europe's. Across the Atlantic, governments have been cutting spending and raising taxes even more aggressively.

The 17 European Union countries that use the euro currency slid back into recession in the fall of 2011 and have been stuck there since. Eurozone unemployment hit a record 12.1 per cent in March, reaching 27.2 per cent in Greece and 26.7 per cent in Spain.

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