Has the Recovery Stalled?

The recovery from the Great Recession that began in mid-2009 has been the most anemic of the postwar period. Over the first half of this year, growth in real GDP slowed to only a one percent annual rate and the level of output at mid-year had yet to reach the previous peak recorded in late-2007. The chart below illustrates average annual growth in real GDP over the first two years of this recovery along with what has been typical of previous recoveries.

Growth has been less than half of what is typical and at a pace that is not sufficient to bring down the unemployment rate. Of the components, personal consumption outlays (PCE) have been particularly weak, but investment (residential and nonresidential construction and equipment and software outlays) has also been subpar.

This disappointing economic performance has occurred despite unprecedented monetary stimulus provided by the Fed and the earlier massive fiscal stimulus. (It should be noted, however, that the fiscal stimulus, while likely still boosting the level of output, has been fading over recent quarters and is actually acting to lower growth in real GDP.) It has been well documented that recoveries from downturns caused by financial turmoil—such as current one—are weaker and more protracted than other recoveries. However, the current situation is particularly lacking vigor, even against this standard.
The moribund housing sector is continuing to produce headwinds—most notably facing the household sector. The overhang of homes for sale, shown on the right, will need to be absorbed before new construction can turn up and provide its usual impetus for expansion.

Moreover, this measure of unsold homes does not include the considerable shadow supply arising from foreclosed and soon-to-be foreclosed properties that will be clogging the pipeline in the months ahead. Little wonder that house prices show no sign of improving, even as mortgage rates have hit historic lows.

Weak home prices have not only depleted the equity positions of homeowners wanting to trade up, but, along with the deterioration in stock prices, shown on the left, have erased enormous amounts of wealth.
Consumption Expenditures

Combined with the stagnant jobs market, these forces have contributed to deflated consumer sentiment and subdued consumer outlays.

Business Sector

Overall, the business sector is in a better position to expand its spending, as it sits on mountains of cash and has experienced surprisingly strong profits.
Business Sector Continued

In addition, large firms have had generally favorable access to financing in the past couple years. Nonetheless, they have been disinclined to undertake investments that might have been made in earlier times, and see conditions facing their sector as having slipped.

Small Businesses

The mood among smaller businesses—which typically have accounted for most new jobs—is even more sullen. Smaller businesses continue to face difficulties in accessing finance and repeatedly note concerns about regulatory and prospective tax burdens as a significant constraint on their spending and hiring.
Looking Ahead

While real GDP can be expected to pick up in the period ahead from the anemic—below one percent—pace of the first half of this year, it will barely be sufficient to place the unemployment rate on a downward trajectory. Turbulence in financial markets—coming importantly from the crisis in the euro area—and constraints of public budgets—both federal and state and local—will be acting to restrain the expansion. In contrast, a resumption in the dollar’s slide and solid growth in emerging markets should be providing support for expansion before long.

Adding to this will be replacement needs and pent-up demands that cannot be postponed much longer. Under current circumstances, monetary policy has very little left in its arsenal for restoring the economy to full health any time soon.

In this context, inflation is expected to be under control. The considerable amount of slack and stable inflation expectations should counter any upward pressures coming from a weakening dollar. In sum, the recovery has not stalled, but it will continue to feel like it has.
Gross Domestic Product (GDP), a measure of total production, in the Wilmington Metropolitan Statistical Area (Brunswick, New Hanover and Pender Counties) grew at an annual compound rate of 4.7 percent over 2002-2010. The comparable growth rates for the state and nation were 4.4 percent and 3.9 percent, respectively. Over the nine-year period, area GDP fell in two years, 2002 when output fell 2.4 percent and 2009 when output fell almost one percent.

Unemployment Rates

Unlike five of the prior six recessions and ensuing recoveries in which both the Wilmington MSA and state unemployment rates were consistently below the same for the nation, the chart shows that, with the exception of the first six months of the most recent recession, both the MSA and state rates were above that for the nation. The seasonally adjusted August 2011 rates in the separate counties of the MSA matched or exceeded the highest rates of the most recent recession.
Retail Sales

After falling dramatically in 2008 and 2009, area county and state retail sales rebounded in 2010. Growth was especially strong in those quarters outside of the tourism season.

Airport Traffic

Passenger traffic at the Wilmington International Airport fell in 2009. This decrease was offset by growth in 2010. Traffic has continued to grow through 2011, although growth rates that prevailed prior to the start of the most recent recession have yet to be matched.
Tonnage

Following a decline in container tonnage handled by the state port facilities at Wilmington in 2008, tonnage grew in both 2009 and 2010. Growth was especially robust during the fourth quarter of 2009.

Occupancy Taxes

After declining in 2008 and 2009, collections from the two 3-percent room occupancy taxes levied in New Hanover County rose during 2010. Collections have continued to grow through August 2011. Growth was especially strong during the first quarter of 2011.

The H. David and Diane Swain Center for Business and Economic Services at UNC Wilmington is the business research and outreach division for the Cameron School of Business. Center staff collect and analyze local, state, and national economic data that impact our region and its growth. The H. David and Diane Swain Center for Business and Economic Services also provides professional and executive educational opportunities for organizations and professionals with major emphasis on business training, entrepreneurship and real estate.

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