Joint Economic Committee
Republicans
Representative Kevin Brady *Vice Chairman*
Senator Jim DeMint *Senior Republican Senator*

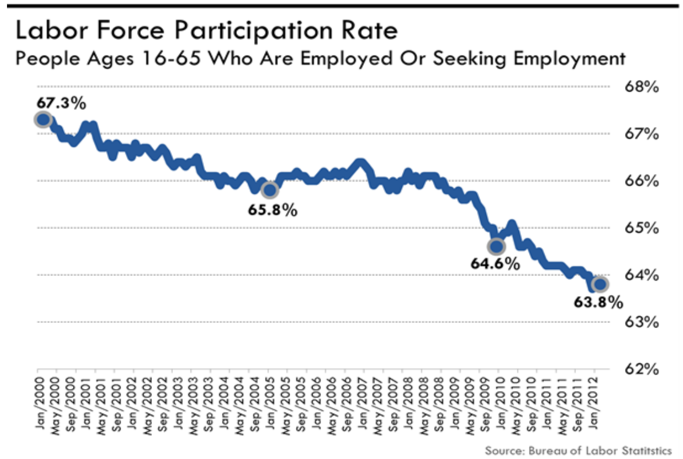
RECENT ECONOMIC DEVELOPMENTS

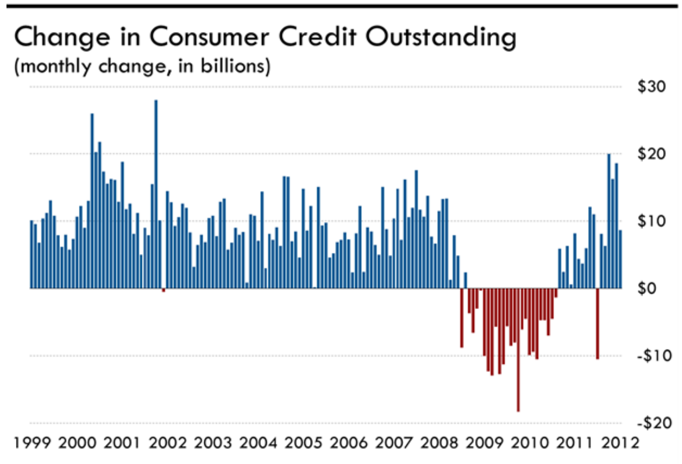
ECONOMY SLOWLY GROWING, LABOR MARKET LAGGING BEHIND, AND HOUSING MARKET STILL STUCK IN A RUT

It took 15 quarters for the U.S. economy to return to its pre-recession level of real GDP, which was three times longer than the average for 10 previous recoveries since World War II, according to Bloomberg. The labor market has yet to recover, and uncertainty regarding future tax increases scheduled to begin next year has left businesses hesitant to hire. Although the unemployment rate has fallen to 8.2%, it has remained at or above 8% for the past 38 months. The decrease in the unemployment rate masks the real problem of the exceptionally low labor force participation rate. If and when the millions of discouraged workers who have left the labor force re-enter, it could cause an increase in the unemployment rate, or at the very least, a prolonged period of high unemployment.

Highlights

- The ***unemployment rate*** fell to 8.2% in March.
- ***Payroll employment*** increased by 120,000 in March and is only 23,000 higher than it was in June 2009 when the recession officially ended.
- ***GDP*** grew at a 2.2% annualized rate in the 1st quarter of 2012, following a 3.0% rate of growth in the 4th quarter of 2011 and 1.8% growth in the 3rd quarter.
- The ***housing market*** has shown no signs of recovery, as 22.8% of homeowners are underwater with $2.8 trillion in total mortgage debt outstanding on properties in negative equity.
- ***Consumer credit*** has experienced a six-month increase of $78 billion, reaching $2.521 trillion.
- ***The federal funds rate*** will remain near zero until at least late 2014 as the Federal Reserve holds steadfast in its attempts to stimulate the economy.





Unemployment rate falls to 8.2%; Labor Force Participation Rate Near 30-Year Low.

The unemployment rate declined to 8.2% in March, its lowest level since January 2009. The economy added 120,000 jobs in March, marking a deceleration from gains of 240,000 in February and 275,000 in January. In a healthy economy, job gains of 130,000 per month are necessary just to keep up with growth in the labor force. But labor force participation is at a near 30-year low of 63.8%, as millions of discouraged workers have left the labor force. Since the end of the recession more than two and a half years ago, the labor force has barely budged (it is up only 23,000), despite the millions of young workers who have entered the labor force. If and when these discouraged workers re-enter the labor force, it could place upward pressure on the unemployment rate, causing either an uptick in the rate, or a prolonged period of high unemployment.

Consumer Credit Continues to Rise.

Consumer credit has experienced six consecutive monthly increases, during which credit has risen by $78 billion, to $2.521 trillion. Revolving credit (primarily credit card debt) has declined over the past two months and remains $174 billion (17.8%) below its September 2008 peak of $972 billion. Non-revolving credit (i.e., auto loans) has expanded to a record high $1.723 trillion.

GDP Grew at a 2.2% annualized rate in the 1st Quarter.

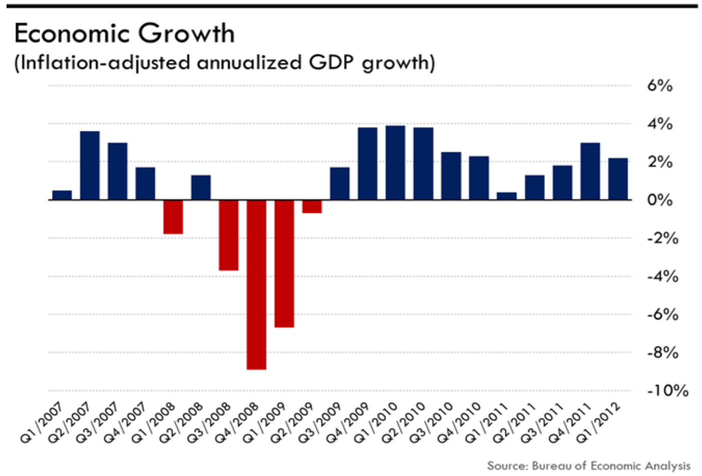
The economy expanded at a real, annual rate of 2.2% in the 1st quarter of 2012. This is below economists' expectations for a 2.5% pace. The 1st quarter growth follows a 3.0% increase in the 4th quarter of 2011 and a 1.8% increase in the 3rd quarter.

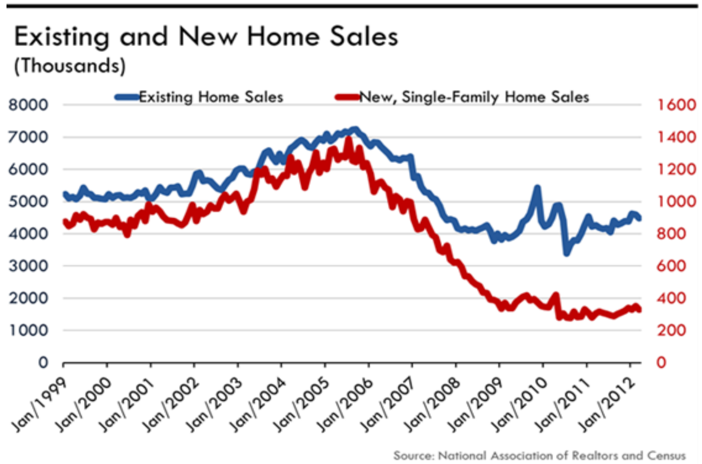
Housing Market Yet to Recover.

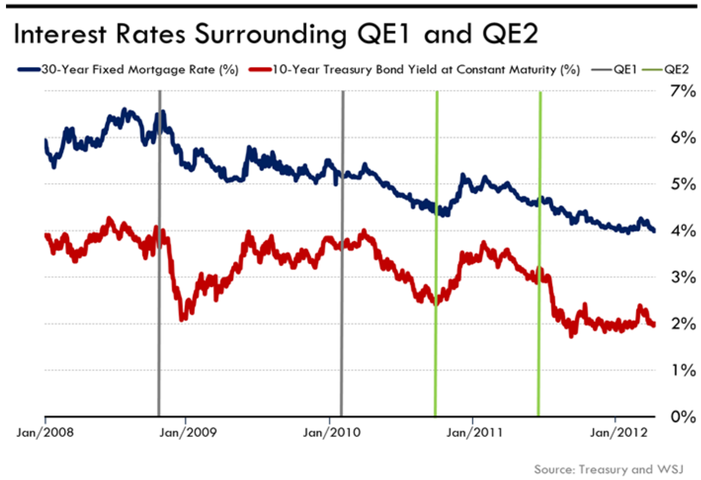
Despite continued efforts to stimulate the housing market, it remains distressed. Both existing home sales and new single-family home sales are still well below their pre-recession levels. Although up slightly through the 1st quarter, existing home sales are still not much above their 2008 levels. New, single family home sales have edged up only slightly, to an annual pace of 328,000 in March (this compares to a peak rate of 1.4 million in 2005). The home ownership rate is at a near 14-year low of 66%. CoreLogic reports that at the end of the 4th quarter of 2011 there were 11.1 million residential homes that had a mortgage in negative equity (roughly 22.8%), totaling $2.8 trillion in mortgage debt on those properties outstanding. The median existing-home sales price is 29% below its July 2006 peak.

Interest Rates Remain at Record Lows.

At the last FOMC meeting the Federal Reserve announced that it will continue to hold interest rates at near-zero levels until at least 2014. After rising from a low of 1.8% at the start of the year to a high of over 2.3% in March, the 10-year U.S. Treasury bond yield is currently about 1.98%. The 30-year fixed rate mortgage remains little changed at 3.88%. These low rates, and the $2 trillion in new money created through QE1 and QE2, have had a muted effect on the housing market because banks are sitting on more than $1.5 trillion in excess reserves and heightened lending standards along with the high percentage of homeowners who are underwater have prevented most homeowners from taking advantage of low interest rates.







Upcoming Indicators

- **Employment –** The Bureau of Labor Statistics reports on the April employment situation on May 4.
- **GDP –** The second estimate of 1st quarter GDP is scheduled for release on May 31.
- **Federal Reserve –** The Fed's next policy meeting is scheduled for June 19-20.