Latest Jobs Report Indicates That the Current Expansion Has Achieved Record Length

A Report by the
Council of Economic Advisers
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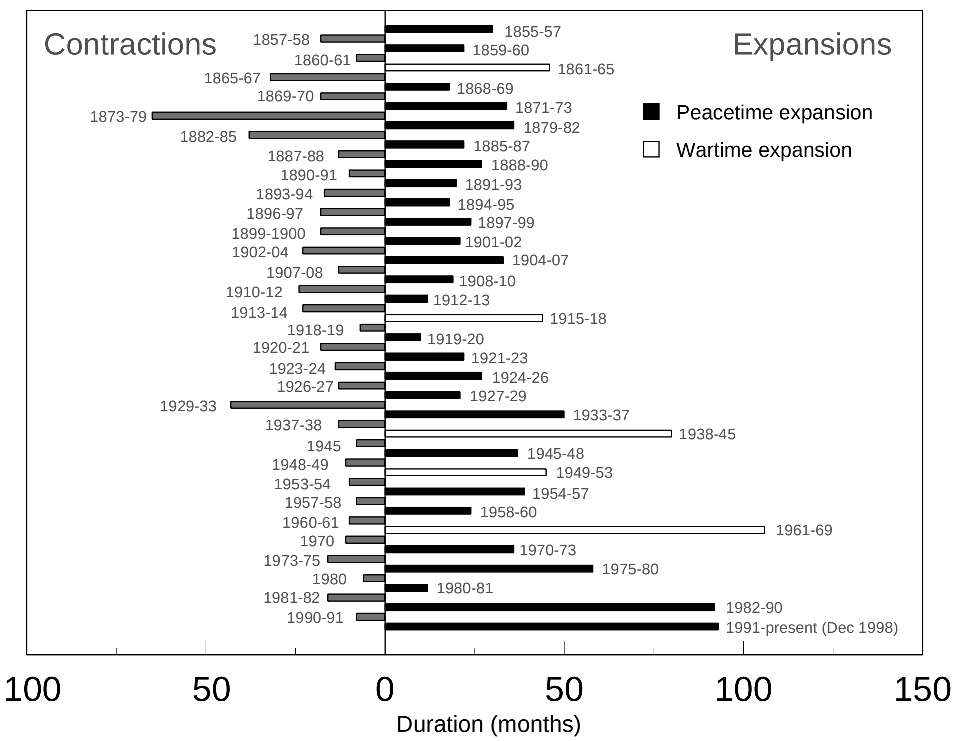
With today's strong jobs report, the CEA believes that December will be rung up as the 93rd month of the current economic expansion, making it <u>the longest peacetime expansion on record</u>.

- The longest previous peacetime expansion ran 92 months, from December 1982 to July 1990.

- When wartime expansions are included, the current expansion is the second longest on record; the expansion from March 1961 to December 1969 lasted 106 months (Chart 1).

Chart 1: Duration of Business Cycles since 1855



The Dating of Business Cycles

The consensus of private forecasters sees the expansion continuing in 1999, but its precise length will not be known until some time after it has ended.

- The dating of business cycles is not an official U.S. government function. Instead, once it has become clear that the economy has reversed direction, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) meets to determine the turning point for historical and statistical purposes. For example, the July 1990 business cycle peak was announced April 25, 1991 and the March 1991 trough was announced December 22, 1992.

- A popular recession indicator is two consecutive quarters of decline in real GDP, but the NBER does not use this approach. Rather, a recession is a recurring period of decline in total output, income, employment, and trade, usually lasting from 6 months to a year.

The Policy Framework

According to NBER dating, the economy was out of the 1990-91 recession when President Clinton took office.

- But the recovery was weak and job growth appeared slow. In fact, the unemployment rate rose a full point to 7.8 percent between the March 1991 trough and June 1992.

- And, of course, the recession had aggravated the problem of large budget deficits inherited from the 1980s.

The President put in place an economic strategy grounded in deficit reduction, investment, and opening markets abroad.

- In contrast to the previous two long expansions, which were marked by tax cuts and a stimulative fiscal policy, the President's program was based on the idea that reducing the Federal budget deficit would allow interest rates to come down and stimulate private investment.

- This policy of fiscal discipline, together with an appropriately accommodative monetary policy by the Federal Reserve, produced a favorable climate for business investment and a strong investment-led recovery.

- While reducing overall Federal government spending as a share of GDP, the Administration has pushed for more spending in critical areas such as education and training, children, the environment, health care, and research and development.

- The United States has been successful in expanding its real exports by almost 8 percent per year since 1993, even though the trade deficit has widened dramatically as the strong U.S. economy has continued to attract imports while slower growth abroad has reduced demand for U.S. exports.

Achieving the Employment Act's Objectives

The Employment Act of 1946 established a policy framework in which the Federal government assumed responsibility for trying to stabilize short-run economic fluctuations, promote balanced and non-inflationary economic growth, and foster low unemployment. The three longest expansions of the past century—including the current one—have occurred since the Act was passed.

Judged by the objectives of stabilization policy (inflation and unemployment), the current economic expansion is one of the most successful in the Nation's history.

- *Jobs*. The unemployment rate is the lowest it has been in almost 30 years and more Americans are working than ever before.

    - Between the March 1991 trough and December 1998, 18.8 million jobs have been created (17.7 million of them since January 1993).

    - Employment is at an all-time high, with 132.5 million Americans working in December (64.2 percent of the working age population) and only 4.3 percent of the labor force unemployed.

    - Demographic change and other factors have altered the relationship between the unemployment rate and the risk of inflation over time, and the unemployment rate has not come down quite so low in this expansion as it did in the 1960s (Chart 2). But with a responsible fiscal policy in place and favorable inflation and productivity developments, there was little pressure for interest rate hikes that could have choked off the expansion prematurely.

- *Inflation*. Three-quarters of the way through the eighth year of expansion, inflation (both core and total) remains tame even though the unemployment rate has been very low for almost 2 years.

    - This situation stands in marked contrast to the sharply rising inflation experienced at the end of the 1960s expansion and the milder price acceleration seen at the end of the 1980s expansion (Chart 3)

Chart 2: The Unemployment Rate in Three Long Expansions

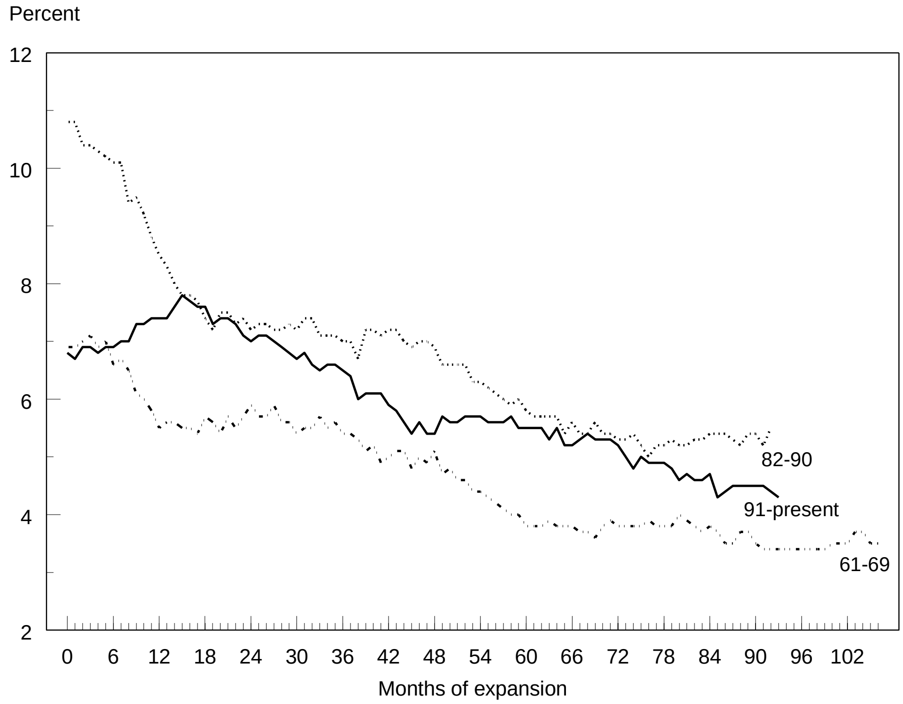
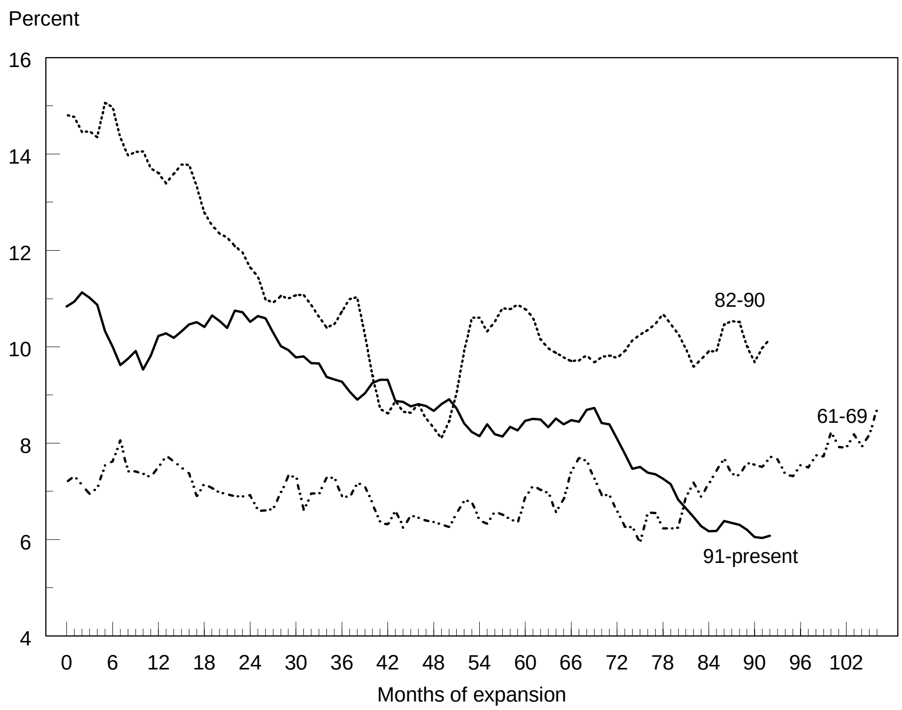


Chart 3: Core CPI Inflation in Three Long Expansions

- This good inflation performance has been aided by favorable conditions such as the continuing sharp decline in computer prices, a drop in oil prices, rapid growth of industrial capacity, and downward pressure on traded goods prices due to weakness in the world economy.

- *A very low misery index*. <u>The combination of low inflation and low unemployment in this expansion is comparable to the low "misery index" (the sum of the two) achieved in the late 1960s</u> (Chart 4). This time, however, inflation is tame rather than rising.

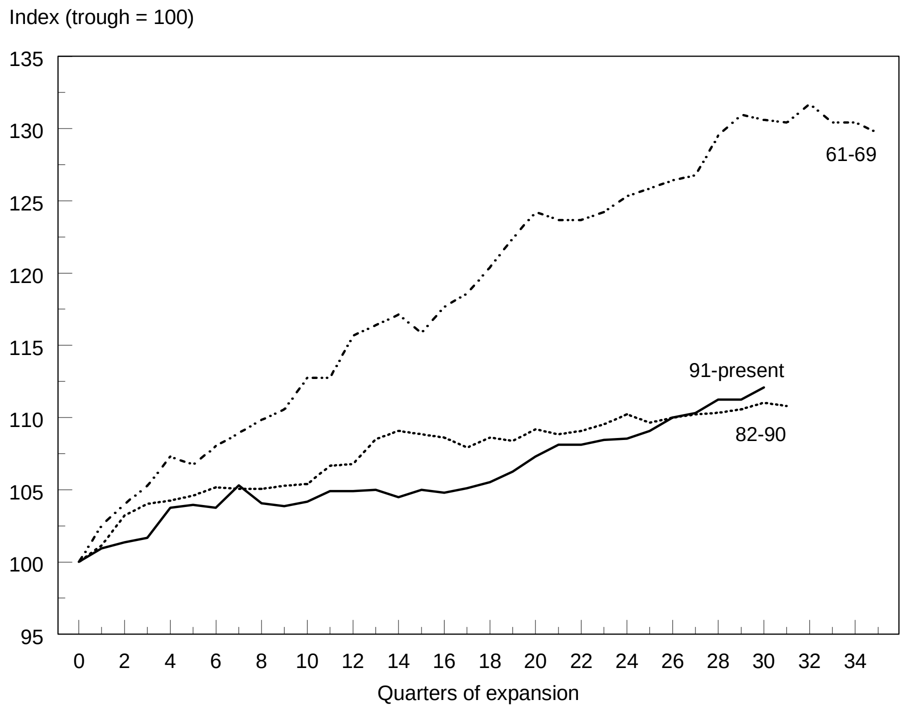
Chart 4: The Misery Index in Three Long Expansions



Sustained productivity growth over the course of this expansion has been an important contributor to growth.

- With slower growth in the working-age population and lower trend productivity growth since the early 1970s, aggregate GDP could not have grown as fast as it did in the 1960s.
- Productivity growth—which is what matters for real wages and a rising standard of living over the longer term—has continued to be relatively strong well into this expansion (rather than exhibiting the decline that often occurs late in expansions, Chart 5). However, the rate of productivity growth over this expansion remains well below that achieved prior to the productivity slowdown of the early 1970s.

Chart 5: Nonfarm Productivity in Three Long Expansions



An Investment-Led Recovery

The deficit reduction strategy underlying the current expansion has paid off in higher private investment.

- As the largest component of GDP, consumption was the largest contributor to growth in all three long expansions. However, <u>the contribution of investment to growth in this expansion has been almost twice as great as it was in the other two long expansions</u>, and <u>the contribution of government spending has been substantially smaller</u> (Chart 6).

- Business investment, especially in producers' durable equipment, has grown particularly rapidly on a sustained basis over this expansion (Chart 7)

- Net exports have subtracted from growth in this expansion. In contrast to the current account deficits of the 1980s, however, when both national saving and domestic investment were falling as a share of GDP over much of the period, the current account deficits of the 1990s reflect generally rising net national investment that is greater than generally rising net national saving.

- Federal government spending has provided no stimulus in this expansion. The small contribution of government has been due to state and local government spending.

Chart 6: Contributions to Growth in Three Long Expansions

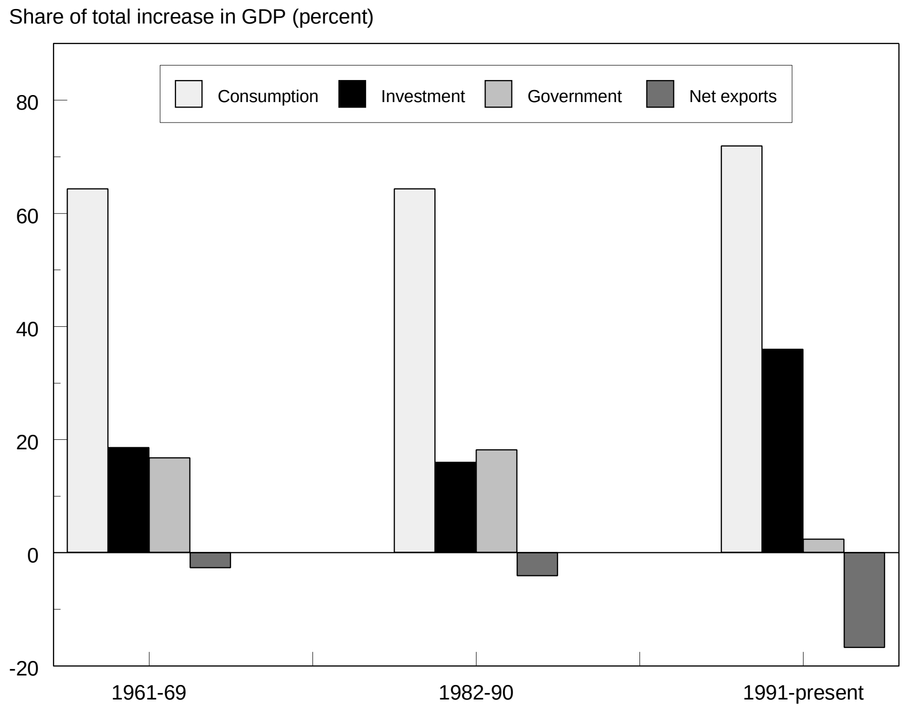
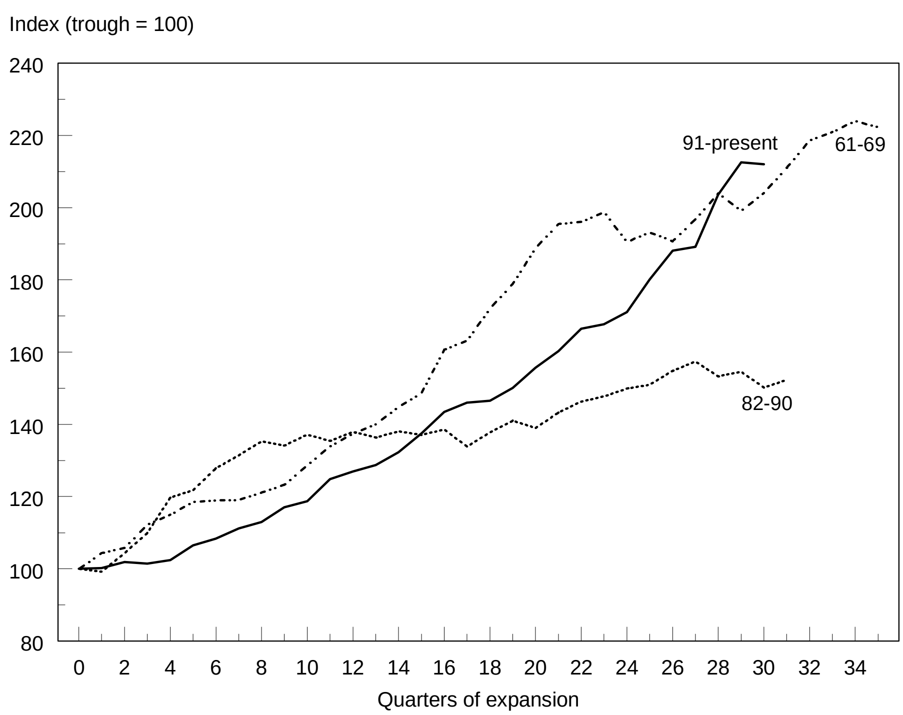


Chart 7: Producers' Durable Equipment in Three Expansions



Benefits of a Strong Labor Market

American workers, including groups that had fallen behind over the past two decades or so, have been major beneficiaries of the sustained tight labor market this expansion has produced.

With strong increases in the past 2 to 3 years, <u>real wages have grown more over the course of this expansion than they did in the 1980s expansion</u> (Chart 8).

- Real hourly earnings of production and nonsupervisory workers rose by 5.4 percent between

Chart 8: The Real Wage in Two Long Expansions

January 1993 and November 1998.

- The widely documented long-term slide in the real wages of men (a drop of 11.4 percent in the median between 1979 and 1996) has been checked by increases of 1.7 percent in 1997 and 2.3 percent in the first 10 months of 1998, according to CEA calculations for full- and part-time workers, aged 16 and over.

- Real hourly wages in the two lowest-paid tenths of the distribution for male workers aged 16 and older have increased by 5 to 6 percent since 1993. The increases for women were significant as well, with wages in the second tenth of the distribution increasing by 4 percent since 1993.

More people are finding work than ever before and they are finding it faster than they would in a less strong labor market.

- The average length of unemployment among workers searching for a job declined to 14.1 weeks in December 1998. It was 18.8 weeks in 1994, the earliest year with comparable data.

- Almost three-quarters of those who were unemployed in December had been unemployed for less than 15 weeks; only 13.7 percent were looking for work for more than 27 weeks.

Recent analyses suggest that <u>the employment relationship is strong</u>.

- *Job displacement*. Job losses due to layoffs, plant closures, and the like have declined substantially since the 1993-95 period, and among those who have been displaced, the share that have found new work has increased. These reemployed workers still typically earn less on the new job than at the job they lost, but these wage losses are the smallest on record.

- *Job tenure*. The popular assertion that secure lifetime jobs have disappeared is overstated. In 1996, a substantial 27 percent of male workers aged 45-64 had long-term jobs (20 or more years with the same employer), even though this fraction had fallen by 7 percentage points between 1979 and 1996. Moreover, the fraction of similarly aged women holding long-term jobs actually *increased* during this period.

- *Discouraged workers*. The number of workers who are not employed and who have not looked for work in the past 4 weeks because they did not think they could find a job has shrunk by one-third since 1994, the earliest year for which comparable data are available.

The strong labor market has also generated <u>gains among groups whose labor market status had not improved in the past decades</u>.

- Median real wages of blacks and Hispanics have risen rapidly in the past 2 years (based on CEA calculations for full- and part-time workers aged 16 and over). The inflation-adjusted increase between 1996 and the first 10 months of 1998 was 5.8 percent for black men, 4.0 percent for Hispanic men, 6.2 percent for black women, and 2.6 percent for Hispanic women. Furthermore, the black and Hispanic unemployment rates for 1998 are at historic lows—8.9 percent for blacks and 7.2 percent for Hispanics.

- Welfare reform, the expansion of the Earned Income Tax Credit, and the strong economy have caused the labor force participation among single women with children to increase to unprecedented levels.

- Employment among male high school dropouts, immigrants, and blacks and Hispanics has increased.

- High-school dropouts have experienced a much larger relative increase in their employment rate since 1993 than those with more education, due to increased labor force participation among dropouts and decreased unemployment among those dropouts who are in the labor force.

Conclusion

The economic policies of the past 6 years have nurtured and sustained what is now the longest peacetime expansion in the Nation's history. More Americans are working than ever before, the unemployment rate is the lowest it has been in a generation, and inflation remains tame. In addition, disadvantaged groups that have been left behind in the past are beginning to experience the benefits of a sustained tight labor market. Turmoil in world financial markets and a slowdown in world growth have tested the strength of this expansion, but the economy remains fundamentally strong. Moreover, evidence suggests that expansions do not die of old age. If we continue to pursue sound policies and enjoy good fortune, we can reasonably look forward to achieving the longest expansion ever in February 2000.