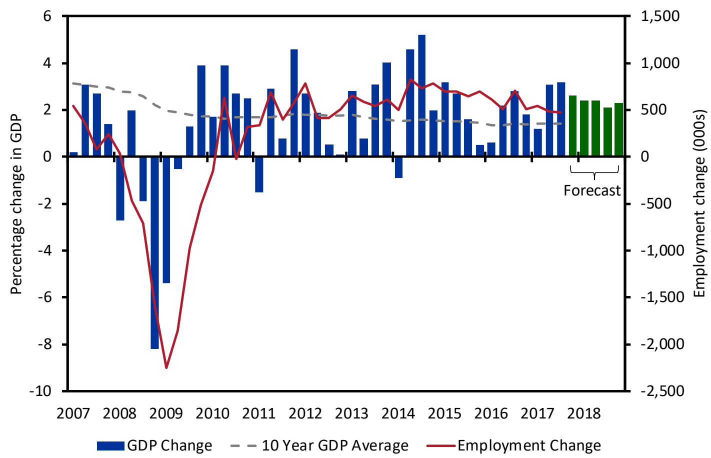
NATIONAL ECONOMY

In this issue, we are taking a retrospective look at the national and regional economy since 2007. It was in December of 2007 that the economy plunged into the Great Recession, which officially lasted until it hit bottom in June 2009. From then on, the economy has been in an expansion and is within a few months of becoming the second longest expansion since business cycles started being recorded in 1854. Some think the pace has been too slow, but we find that the long upward trend has placed the U.S. and Great Lakes economies on firm footing.

Gross Domestic Product and Nonfarm Employment



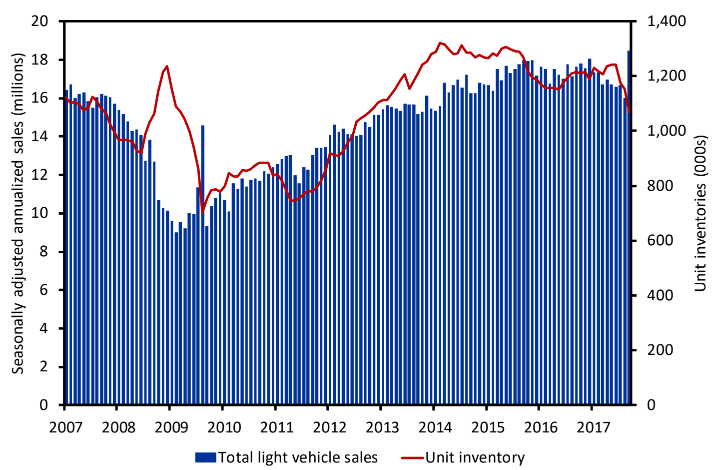
Forecasts have GDP showing steady if unspectacular growth at somewhere above 2 percent for the rest of 2018.

In 2007, GDP got off to a slow start for the year (0.2 percent), did well in the second and third quarters (3.1 percent and 2.7 percent, respectively), then slid to 1.4 percent in Quarter 4. It turned negative in the first quarter of 2008. Similarly, in 2017, the year started off slowly at 1.2 percent, and the middle two quarters showed strength at 2.2 percent and 2.8 percent. However, that's where the patterns diverge: estimates from the Bureau of Economic Analysis peg fourth-quarter growth at 2.6 percent, nearly twice as good as in 2007, and forecasters predict GDP will remain above 2.0 percent in 2018.

The job numbers are vastly different between the two years: Employment in 2007 averaged only 96,000 new jobs a month and totaled 1.5 million for the year. January (240,000) and March (190,000) showed strong growth, but as the year wore on, other months, such as July (–34,000) and August (–20,000) saw employment losses.

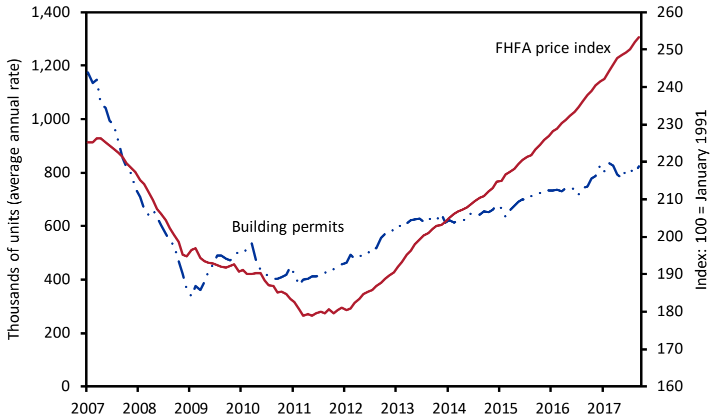
In contrast, in 2017, employment growth averaged 175,000 jobs a month and totaled almost 2.1 million jobs.

U.S. Light Vehicle Sales and Inventories



Light vehicle sales have made a long, steady climb since the low point was reached in early 2009, but they now appear to be leveling off. The spike in the most recent month shown is an outlier, spurred by replacement of vehicles damaged in the hurricanes.

Single-Family Building Permits and Index of Existing Home Prices



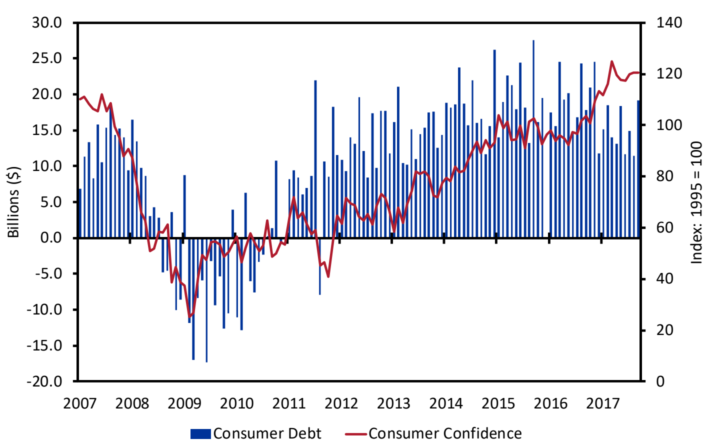
Building permits for single-family homes have spent seven years on the rise but have yet to return to prerecession levels. Home prices, on the other hand, are zooming.

How did consumer markets do in 2017 compared to 2007? Light vehicles (cars, light trucks, and CUVs/SUVs) in 2007 sold 16.1 million units. However, going into 2008, sales declined, and they did not begin to rebound until mid-2009 (bottom figure, opposite page). In 2017, light-vehicle sales recovered to 17.2 million units.

The national housing market tells an interesting story when one compares prerecession activity and prices with current conditions. Early in 2007, permits for single-family housing stood at an annualized rate of 1.2 million units, but they declined to just under 750,000 permits by the time the recession was declared in December, and they hit bottom in January 2009 at 337,000 (figure above). Since then, housing permits issued have returned to the 2007 levels, averaging 809,000 for the first nine months of 2017, but have not yet returned to the much higher prerecession levels of more than a million permits. However, on the price side, the index of home prices reported by the Federal Reserve Bank of New York shows prices to be much higher now than when the recession began. The index, pegged to the year 1991, was at 225 in January of 2007 and fell to 178 for a number of months in 2011. It has since rebounded to an average of 248 for the first nine months of 2017.

Consumer confidence has also surpassed prerecession levels (figure below). The index was at 97.9 in the last half of 2007 and plummeted to 25.0 in early 2009. Early this year, it rebounded to prerecession levels, at 111.0, and by November 2017 the index had risen to 129.5. For household debt, the prerecession marks from the fourth quarter of 2007 ($12.37 trillion in debt) and the third quarter of 2017 ($12.93 trillion) are similar. So what has changed? In 2007, housing debt was 78.8 percent ($9.75 trillion) and nonhousing debt (auto loans, credit cards, student loans, etc.) was 21.18 percent ($2.62 trillion). By 2017, the share of housing debt had dropped to 71.0 percent ($9.19 trillion) and nonhousing debt had ballooned to 29.0 percent ($3.76 trillion).

Consumer Confidence and Change in Consumer Debt



Consumer confidence continues to climb during what is now approaching the second-longest expansion in U.S. history.