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## Prospects for Job Growth

The economy has been growing for nearly two years, but many Americans feel as though we’re still in a recession. Why? It may be because they, or someone they know, are unemployed or working for less money than they used to. The unemployment rate in June was 9.2 percent and has been hovering around 9 percent since April 2009. The labor participation rate – the number of people working or looking for work, as a percentage of the population – is at its lowest point since 1983. And when those who want a job but aren’t technically counted as unemployed are factored in, the percentage of Americans out of work rises to over 16 percent.

Job growth in this sluggish recovery has been stagnant for far longer than in any other post World War II recovery. The recession – the worst since the Great Depression – began in December 2007 and officially ended in June 2009. But with overall economic growth averaging just 2.3 percent over the last four quarters, the high unemployment rate has many Americans worrying about a “jobless recovery” and wondering why this recovery is so different from previous economic upturns. To find out, Outlook turned to economist Robert E. Hall, a professor at Stanford University and chairman of the National Bureau of Economic Research’s Committee on Business Cycle Dating, the group that officially dates the beginnings and ends of U.S. recessions.

***OUTLOOK: The economy has been in expansion since the third quarter of 2009, but the jobless rate remains high. Why?***

**Robert E. Hall:** There’s simply not enough demand for the products the U.S. economy produces to generate adequate job growth. Why is that? It traces back to a lot of the events of the financial crisis. In the years leading up to 2008, there was a binge of accumulated personal debt from people buying houses and consumer durables, especially cars. That clearly resulted in debt levels that were above-normal. And that means people are disposed to buy fewer of those things now. Households are de-leveraging, paying off their debt, and simply don’t have the cash to buy stuff anymore.

About this article



Robert E. Hall is the chairman of the National Bureau of Economic Research's Committee on Business Cycle Dating and serves as director of the NBER's research program on economic fluctuations and growth. He is the Robert and Carole McNeil Joint Hoover Senior Fellow and Professor of Economics at Stanford University, and was president of the American Economic Association in 2010.

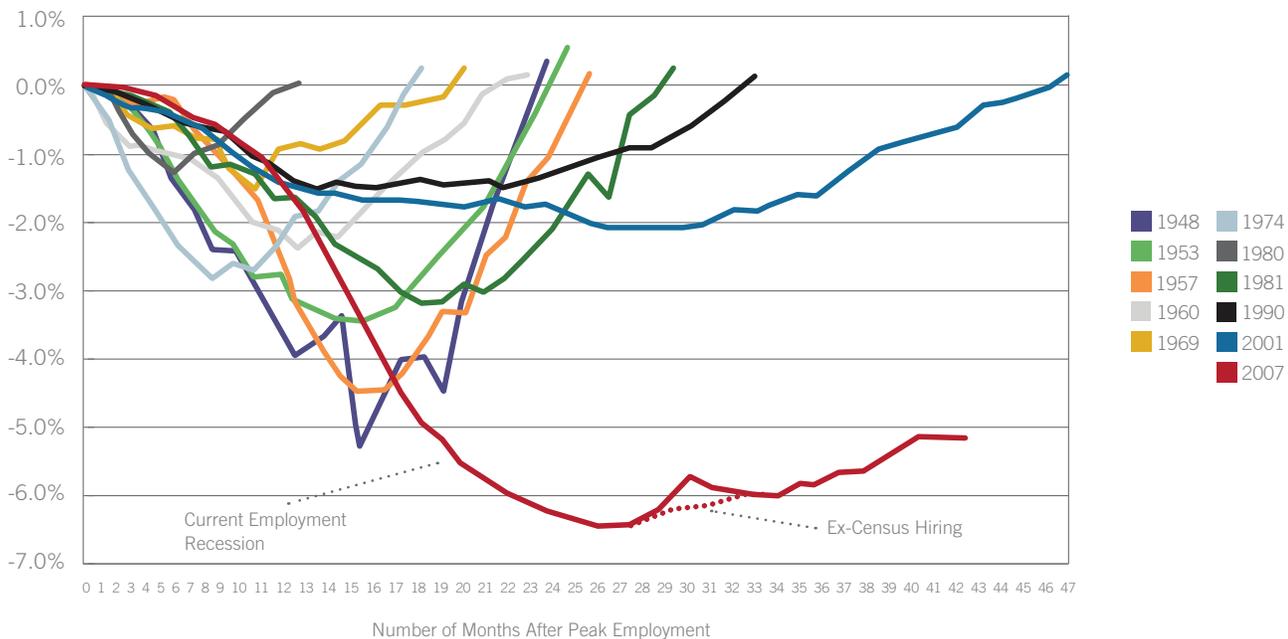
**OUTLOOK: Is there a direct relationship between GDP growth and job creation, or is this relationship breaking down?**

**RH:** It's almost exactly in its traditional relationship. Except for some special things that happened at the beginning of this contraction – the last quarter of 2008 and the first two of 2009 – the employment-to-GDP relationship is almost exactly on target. GDP rises about 2 percent faster than employment, so we need 2 percent GDP growth just to keep employment stable. For employment to rise by just over 1 percent per year, we need GDP growth of 3 percent. We haven't had that, and that's why employment growth has been such a disappointment. We've gotten close to the 2 percent, so employment has been rising very slowly and unemployment has been stable. We haven't had the necessary extra percent to keep employment rising as fast as the labor force, and we need a further bulge of growth to get the 9 percent of people unemployed back down to 5 percent.

**OUTLOOK: How does job creation in this recovery compare to past recoveries?**

**RH:** It's been weaker than ever before for the time we have really good data, which starts in about 1948. It used to be, especially in a deep recession, that we'd have quite a rapid bounce-back in employment. The last time that happened, though, was in 1983. Employment bottomed out after the recession of 1981 in December 1982. A year later, it was up 3.9 percent and two years later, 8.3 percent. The three recessions we've had since then – in 1991, 2001 and 2007-2009 – have featured progressively weakening recoveries.

**PERCENT JOB LOSSES IN POST WWII RECESSIONS**



Source: Calculated Risk Blog

In 2006, I published an opinion piece in the *Wall Street Journal* saying “Poor Ben Bernanke is going to be forgotten because we can put monetary policy on auto-pilot. It doesn’t matter who’s chairman of the Fed, he’ll never get into the news.” I couldn’t have been more wrong.

The concept of a “jobless recovery” was first discussed in the early 1990s, but that corrected itself after a couple of years and by this time we were beginning to see good employment growth.

***OUTLOOK: Is there something fundamentally different about the U.S. economy now than in previous recoveries?***

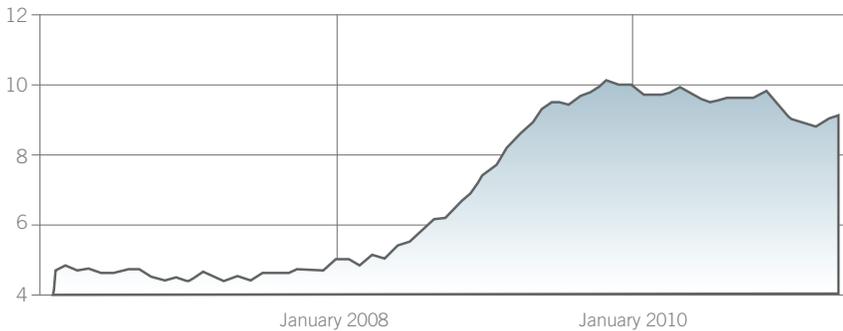
**RH:** We’ve had 25 years of low and stable inflation. If you go back to the early 1980s, we had a pair of recessions – 1980 and 1981-82, both of which were caused by the sense that inflation was totally out of control, which by American standards it was. So the Federal Reserve, having been very accommodative about inflation in the 1970s, suddenly got serious and deliberately created a recession by stepping very hard on the monetary brake and driving interest rates way up. But that negative force was quite transitory and as soon as inflation came down and monetary policy returned to normal, people started spending again. There wasn’t anything fundamental holding people back like there is now.

With the recession of 2008-2009, there wasn’t any need for the Fed to step on the brakes. The Fed was cruising along, maintaining 2 percent inflation, and then the financial crisis hit. There was way less headroom for monetary expansion in the low inflation environment. In recent years, we have tended to have relatively low inflation rates even in normal times. When we need to stimulate by lowering rates, there are fewer percentage points of lowering available before we get to zero. In the 1980s the federal funds rate was in the teens so there was plenty of room to get it down and steer the economy toward a period of stability.

In 2006, I published an opinion piece in the *Wall Street Journal* – this was the biggest mistake I’ve ever made in print – saying “Poor Ben Bernanke is going to be forgotten because we can put monetary policy on auto-pilot. It doesn’t matter who’s chairman of the Fed, he’ll never get into the news.” I couldn’t have been more wrong.

## UNITED STATES UNEMPLOYMENT RATE

Percentage of the Labor Force



Source: U.S. Bureau of Labor Statistics

**OUTLOOK:** *What sectors of the U.S. workforce have been hardest hit by this recovery?*

**RH:** Construction jobs have been the hardest hit, with the 75 percent decline in home building. That, by itself, is a pretty big factor. Durables employment – the manufacture of goods like cars, appliances, furniture – is down, as is typical of recessions. Some durables sectors, like apparel – a semi-durable – and furniture had been in the process of moving to low-wage countries like China. Employment in

those sectors declines in recessions and never comes back. Apparel and furniture are having both their typical problems in a recession and the special vulnerability to competition from low-wage countries.

**OUTLOOK:** *Are there any sectors that are particularly strong?*

**RH:** Health has been the sector of the biggest increase. Health spending, helped out a lot by Medicare and Medicaid, resists the decline that affects every other category of spending. There really aren't any others – services are weak but not as weak as goods, especially durable goods.

**OUTLOOK:** *There's so much talk about the decline of manufacturing jobs in the United States. Is the manufacturing sector responsible for our current job weakness? Is it a short-term issue or long-term issue?*

**RH:** One of the short-term reasons for decline in manufacturing is the problem we've seen in the housing market. Construction uses a lot of manufactured inputs, and some of the decline in manufacturing is because they're not selling much to homebuilders these days.

Long-term, the trend in manufacturing employment has been steadily downward, and that's true of advanced economies in general. We have global specialization. Stuff is made in places that specialize in making things, like China. It's designed and engineered and marketed in the U.S., so the people involved in those activities have been doing very well, with employment rising over time in those areas, except in the recession. So, you're seeing this pattern of worldwide specialization that definitely points to the decline, long-term, of manufacturing employment in the U.S. The U.S. will continue to design and sell large volumes of manufactured goods in world markets, but much of the employment will be outside the U.S.

One thing to understand, though, is that manufacturing productivity has risen significantly. The quantity of manufactured stuff made in the U.S. has actually been pretty stable because productivity growth has been so rapid. But because we've been producing a stable amount of goods, and productivity is rising rapidly, employment has to fall, by definition. That's a very basic, important story, and it's been going on since about 1950.

The best bet for the U.S. is not to try to compete with low-wage countries, it's to do high-wage work better. We ought to specialize in things – problem-solving, computerized jobs – that require a substantial amount of formal education.

**OUTLOOK:** *Have you sensed in this recovery that business owners, even more than before, are looking for ways to invest in productive equipment that lessens the need for human capital?*

**RH:** We've struggled with this question for years, and we still don't have a good grasp of that. On the one hand, we've seen major increases in productivity thanks to information technology, which has led to job losses in some areas. For instance, it has reduced the amount of routine paper-shuffling work at companies, because databases do a better job of it. At the same time, IT is a sector that has had growing employment, so you can't necessarily say the IT revolution has been harmful to U.S. employment. In fact, it's been a growth area because of the need for people to harness those technologies in places like retail. IT employment in retail, which used to be zero, has grown tremendously, leading to a growth in retail productivity. Retail chains, Wal-Mart in particular, have applied IT to make retail so much more efficient.

**OUTLOOK:** *Do you believe rising wages overseas, particularly in China, may result in some U.S. multinationals bringing manufacturing and production jobs back to the U.S.?*

**RH:** It would be too much to ask for the jobs to start coming back, but at least we can reduce the flow going out. The best bet for the U.S. is not to try to compete with low-wage countries, it's to do high-wage work better. That's why there's been a lot of concern about trying to improve education. We ought to specialize in things – problem-solving, computerized jobs – that require a substantial amount of formal education. That's what we're really good at. We rule the world in that segment of activity. No other country in the world has a company like Apple. If you described a company like Apple, you would know it was in the U.S. It's just a given. As assembly-type jobs disappear, we need to be sure we expand the sectors of people designing stuff, coordinating worldwide activity – all the things done most effectively in the U.S.

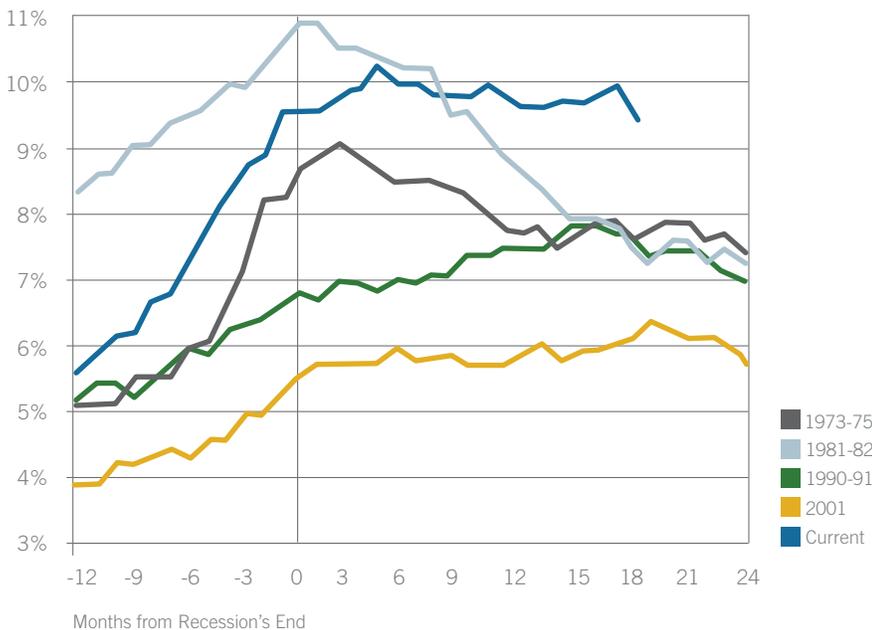
**OUTLOOK:** *But isn't it important for the U.S. economy to have jobs that provide a middle-class lifestyle to people who don't want to get a college degree or can't afford a college education?*

**RH:** When you look at what's happening in higher education, well over 50 percent of recent college graduates are women. It's clear that women tend to fit into the new economy better than some men. So you have one-third of men or so who are not temperamentally suited to college, who don't go or go and don't finish. Then what do they do? They could be a security guard or something like that, but it condemns them to relatively low income. About 65 percent of the U.S. workforce sits at a desk and looks at an LCD screen. The remaining 35 percent are the people who work on their feet and don't spend much time at a desk, but that doesn't yield a very satisfying income in the modern economy, especially in a big city. And I don't think anyone has a really good answer besides "suck it up and go to college and learn to work at a desk." There's not a lot we can do about it, and it's a worldwide phenomenon.

**OUTLOOK:** *Can the economy fully rebound with high unemployment rates?*

**RH:** To me, a rebound hasn't happened until unemployment gets back down to normal levels, at least under 6 percent. Once we get back to 6 percent, we can debate whether that's normal or not, but we've got at least three percentage points to go.

### UNEMPLOYMENT RATES AFTER RECENT RECESSIONS



Source: U.S. Bureau of Labor Statistics

**OUTLOOK:** *The Obama administration has resisted the phrase "jobless recovery." How can you say this is not a jobless recovery?*

**RH:** I'm sympathetic to the president, because it's obviously a huge disappointment for a president who came in saying, 'We're going to be aggressive about stimulus, we're not going to stand by, we're going to do a lot.' And they did do a lot, but they got engulfed by these huge, persistent and negative forces in the economy. I think the biggest mistake they made was to make optimistic projections early in the administration, and when the economy didn't perform that well, people said, 'Oh, well, your policies are a complete failure.' There's been very little discussion of the counter-factual, which is suppose the Obama stimulus hadn't taken place, and all these adverse forces had been just as

Job creation occurs when product demand rises. If people were in a position to spend more, then the jobs would spring into being automatically.

they are. Then the unemployment rate could have been a couple percentage points higher. Instead of maxing out at 10 percent, it could've maxed out at 11 or 12 percent, which would have been seriously worse. But Obama isn't getting any credit for that, because politics works on the actual, not the counter-factual.

**OUTLOOK: *Has the battle this year over the deficit and the debt ceiling added to the uncertainty that's been a hindrance to hiring in the private sector?***

**RH:** The more uncertainty, the worse. But on the other hand I see these obvious negative forces in household spending that aren't caused by uncertainty. People are failing to buy houses and are unenthusiastic about buying cars and other stuff not because they're uncertain, but because they don't have the cash. And some measures of uncertainty in financial markets are not particularly high. The volatility index that the Chicago Board of Trade puts out is at pretty normal levels for good years. We do have uncertainty about what the government is going to be able to do. Congress is not willing, with such a large deficit and growing debt, to commit to additional spending. To the extent you think additional spending would have been beneficial, then the fact it won't happen is a negative.

**OUTLOOK: *So what can the U.S. do – in a combination of monetary policy, fiscal policy, and regulation – to increase job creation?***

**RH:** Job creation occurs when product demand rises. If people were in a position to spend more, then the jobs would spring into being automatically. That scenario has played out time after time in past recoveries. It will happen. I met with the first President Bush in 1991 at the worst time in that recession that killed his presidency, and I said, "Like all previous recessions, this one will eventually end." He didn't take much comfort in that. But it will this time as well – the overhang of debt will gradually get worked off. Cars will wear out and people will have to buy new cars. Unemployment will be down to the normal 5 to 6 percent range – maybe three years from now. What could we do to speed that up? Monetary policy lacks that normally reliable stimulus, which is lowering interest rates. We'll probably keep the federal funds rate close to zero for another year, which is the most we can do. That's going to keep us on the path of gradual recovery, but it's not going to speed it up.

While much delayed, the natural process of growth following a recession is going to occur. I have no reason to doubt that.

Politically, I don't think the Fed is in a position to expand its portfolio anymore through quantitative easing, and furthermore, I'm one of the skeptics about how much effect that has. Our hands are tied. There are some people saying "spend another trillion dollars," but it's not going to happen, and even advocating it strikes me as getting into totally unknown territory. Concerns about the solvency of the federal government are at a very low level. People are enthusiastically investing in 30-year treasury bonds, suggesting they really think the U.S. Treasury will be able to pay them back in 30 years. So there are reasons to be doing what we're doing, hoping we'll be able to live through this and maybe get some good news. I actually believe that we will get the government back on track, I just don't know how it will split between more revenue and less spending.

***OUTLOOK: It does seem like a vicious circle. Jobs are created through demand, and demand occurs when people have the money to buy things, which would seem to require they have jobs.***

**RH:** If magically we could increase jobs by 3 or 4 percent, that would generate a lot of spending power and get us out of this much faster. But even if you said "forget politics, what economic measure could you reliably say could raise employment by 3 percent over the next quarter?" I would be hard-pressed to give an answer to that. So we really need to do everything we can to avoid placing impediments, such as a premature tightening of monetary policy or big increases in taxes, to the natural process. While much delayed, the natural process of growth following a recession is going to occur. I have no reason to doubt that. ■

# Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 6/30/11. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

## KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

## ECONOMIC AND INTEREST RATE PROJECTIONS

Source: Insight Economics, LLC and Blue Chip Economic Indicators

US Treasury Securities

	2011	GDP	CPI	Fed Funds	2-year	10-year
Q1		1.80%	5.20%	0.16%	0.70%	3.50%
Q2		2.60%	3.90%	0.10%	0.60%	3.30%
Q3		3.30%	2.10%	0.13%	0.60%	3.30%
Q4		3.40%	1.90%	0.15%	0.80%	3.40%
	2012	GDP	CPI	Fed Funds	2-year	10-year
Q1		3.00%	2.10%	0.18%	0.90%	3.50%

## PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

## IMPLIED FORWARD SWAP RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	0.25%	0.39%	1.14%	2.04%	2.69%	3.28%
0.25	0.36%	0.49%	1.33%	2.21%	2.85%	3.38%
0.50	0.43%	0.62%	1.55%	2.43%	3.01%	3.50%
0.75	0.51%	0.78%	1.78%	2.63%	3.16%	3.65%
1.00	0.65%	1.00%	2.02%	2.83%	3.32%	3.75%
1.50	1.10%	1.51%	2.52%	3.21%	3.63%	4.02%
2.00	1.67%	2.03%	2.96%	3.57%	3.91%	4.24%
2.50	2.19%	2.56%	3.35%	3.84%	4.14%	4.41%
3.00	2.71%	3.10%	3.73%	4.11%	4.37%	4.58%
4.00	3.62%	3.92%	4.29%	4.54%	4.69%	4.82%
5.00	3.95%	4.33%	4.59%	4.78%	4.90%	4.96%

## HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

## FORWARD FIXED RATES

### Cost of Forward Funds

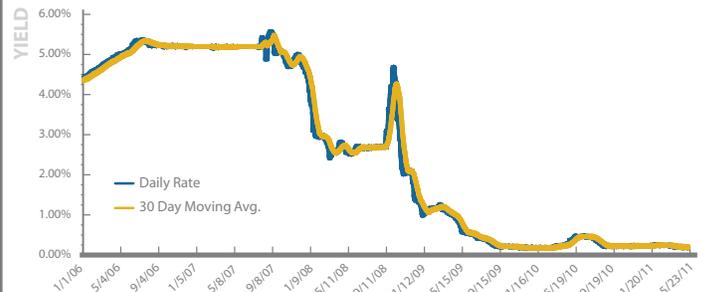
Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	7	8	9	7
90	18	21	24	18
180	34	41	46	33
365	78	90	91	66

Costs are stated in basis points per year.

## SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

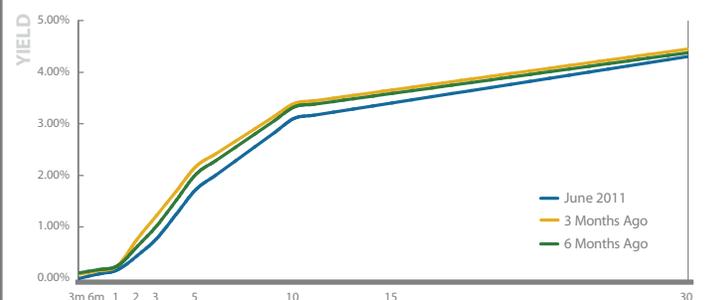
## 3-MONTH LIBOR



## RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

## TREASURY YIELD CURVE





**About CoBank**

CoBank is a \$69 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to farmer-owned agricultural cooperatives, other agribusinesses and rural power, water and communications providers in all 50 states. CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation’s rural economy.

In addition to serving its direct borrowers, the bank also provides wholesale loans and other financial services to affiliated Farm Credit associations and other partners across the country.

Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and maintains an international representative office in Singapore. For more information about CoBank, visit the bank’s web site at [www.cobank.com](http://www.cobank.com).

*Commentary in Outlook is for general information only and does not necessarily reflect the opinion of CoBank. The information was obtained from sources that CoBank believes to be reliable but is not intended to provide specific advice.*

## CoBank Creates Southern Region to Better Serve Rural Electric Customers

CoBank is creating a new Southern Region to better serve its customers and effectively manage the bank’s growth in the rural electric distribution industry. All changes are effective August 1.

The Southern Region will be created by splitting Arizona, New Mexico, Oklahoma, Texas, Arkansas and Louisiana from the existing Western Region. Joe Slagle, who has been a lead relationship manager for CoBank’s Western Region, will become Regional Vice President and Manager for the Austin, Texas-based region. Tamra Reynolds, a relationship manager for customers in Arizona, New Mexico and Oklahoma, also will join the Southern team. In addition, CoBank will hire two new relationship managers for this territory.

“By creating a third region, our relationship managers and teams will be better positioned to handle growth and better serve our customers,” said Paul Narduzzo, Executive Vice President for CoBank’s Electric Distribution Banking Division. “Being based in Austin gives us better proximity to the numerous customers and prospects in this large and important market.”

CoBank’s Western Region will be led by Ron Gascho, who will become Regional Vice President as of August 1. He will replace Jim Stutzman, who is joining CoBank’s Credit Approval Group. Gascho has been with CoBank for nearly 30 years in various roles, including relationship management and business development as well as credit and risk management. ■

