Excerpts from remarks on:
"Measuring the Improvement in the Economy and
Improving the Measurement of the Economy"
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National Association for Business Economists (NABE) Conference
March 27, 2012

As Prepared for Delivery

"I'm delighted to carry on the tradition of having the CEA chairman participate in the NABE meetings. This is my second speech at NABE. Some of you may recall that in the Fall of 2009, when I was Assistant Secretary for Economic Policy and Chief Economist of the Treasury Department, I spoke at the NABE meeting in St. Louis about the need for better and more timely economic data to help us analyze trends in the economy, make better business decisions and guide economic policy. This was a theme in the *Economic Report of the President* this year as well. Every chapter contains a box on how our statistical indicators have improved, where we need to improve them, and how we can improve them."

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"In some respects the situation has improved since 2009, and in others we have learned that it was worse than we thought it was. Let me highlight an important example where the data were less accurate than we appreciated. Back when I spoke to NABE in October 2009, the latest estimate was that GDP had contracted at an annual rate of 5.4 percent in Q4 of 2008. This was already revised down 1.6 percentage point from the initial estimate of -3.8 percent announced earlier in the year. But last summer we learned from the annual revision that the economy was contracting at an even faster annual rate of 8.9 percent in 2008:Q4. This was the largest downward revision to quarterly GDP growth since the series started over 60 years ago.

Although we knew things were bad, the revised data indicate just how close we were to falling off the edge of a cliff when the Obama Administration took office in January 2009. The economic crisis that struck in the months before President Obama took office caused more Americans to lose their jobs than at any time since the Great Depression. Initial claims for unemployment insurance rose to over 600,000 a week, and the Job Openings and Labor Turnover Survey (JOLTS) data indicated a plunge in hiring."

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"These problems didn't happen overnight, and the recession made them much worse. It will take more than a few years to meet challenges that have been more than a few decades in the making – but we are making progress. I'd like to use the rest of my time to discuss progress in the recovery to date, and, while we still have a long way to go, there are reasons to be cautiously optimistic about the economy going forward. My theme is that the unique nature of the financial crisis and recession have made the pace of the recovery uneven, but – with the essential help of policy actions that the Obama Administration has taken – the economy is making a transition to more sustainable footing. The job market is healing from the deep wounds inflicted by the financial crisis. Although there is a long way to go before the labor market is operating normally, the accumulating evidence should lend confidence to the view that we are on a better path. I say this in full recognition of the fact that there is a long way to go to address the severe economic problems that had been simmering for a long time and that then boiled over in the Great Recession. There are still far too many Americans out of work or under employed. That's why the President has put forward a number of proposals to create jobs and speed the recovery, including support for State and local governments to retain teachers and first responders, investments in infrastructure, and help for more homeowners to refinance their mortgages. Families across the country are still struggling to make ends meet while currently dealing with high gas prices, and the President will continue to pursue every responsible effort to expand clean energy sources and domestic energy production."

GDP growth

"…we have had 10 consecutive quarters of economic growth. On the whole, the pace of real GDP growth so far during this recovery has been almost as fast as was the case at a similar stage of the recoveries following the 1991 and 2001 recessions. If we look at just the private sector, the recovery has been a bit faster than the recovery from the 2001 recession. The sectors which are lagging behind the most are those most closely related to the financial crisis, and they are still impaired by its lingering effects.

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"Despite these headwinds, the recovery in the private economy is stronger than it was in the last recession and almost as strong as it was in the early 1990s."

Employment growth

"Private sector job growth began 8 months after the end of the recession, which is earlier than in the past two recoveries. Private sector employment has grown for 24 consecutive months since February 2010, and has increased by a total of 3.9 million jobs in this period. In the corresponding 24 months of the recovery in the early 1990s, 3.2 million private sector jobs were added. And in the corresponding period of the recovery from the 2001 recession, only 1.2 million jobs were added. Job growth has strengthened in recent months. Over the past 6 months, private employment has increased by 1.3 million jobs, the most in any 6-month period in six years."

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"This job growth has been broad-based rather than in just a small number of industries. And this job growth has included manufacturing, which has added more jobs than in the past two recoveries. After losing 3.4 million jobs in the seven years before the recession, and another 2.0 million jobs during the recession, the manufacturing sector has added 429,000 jobs in the past two years."

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"I served as Chief Economist at the Labor Department in 1994-95. I remember scrutinizing the jobs data every month. It is noteworthy that private sector job growth is tracking rather closely to the path in the early 1990s recovery. Indeed, one could argue that the job market is on a path similar to that in the mid-1990s – when slow and steady job gains eventually led to a healthy job market. The main difference now is that the problems from earlier in the 2000s have given the job market a much deeper hole to dig out of, but we are headed in the right direction despite the many challenges the economy faces. Some have questioned whether the job growth in this recovery is sustainable. Just six months ago, predictions of a double dip recession were common. Those odds have greatly diminished. In the 2012 *Economic Report of the President*, the CEA predicted 2 million jobs would be added in 2012. If this forecast proves to be correct, we would have the strongest job growth in six years."

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"More recently, some have chalked up the faster pace of job growth and drop in UI claims in January and February to unseasonably warm weather. We have indeed had warmer weather this winter. But the evidence suggests that the recent job gains have been more robust than merely a result of favorable weather. For example, if we look at regions of the U.S. with more temperate climates, the drop in UI claims and rate of job growth were at least as strong as in the nation as a whole. For example, Western and Gulf Coast states had the strongest rate of job growth from the third quarter of 2011 to January 2012. Yet others have argued that inaccurate seasonal adjustment factors have been responsible for the drop in unemployment and acceleration of job growth. Although it is always difficult to disentangle seasonal from cyclical effects, I am skeptical that seasonal factors are skewing our key statistics in a major way. The BLS does a more sophisticated job seasonally adjusting employment data at the industry level, and scanning for outliers, than most people realize."

Employment Recovery Across Firm Size

"Putting aside seasonal and weather factors, the evidence suggests that the extension of the payroll tax cut and other steps that have been taken to support the economy are helping the job market to gradually heal. This is suggested, for example, by the broader based growth across industrial sectors in recent months, and by some lagging sectors reaching bottom and beginning to turn around."

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"Credit availability for small businesses is also picking up now. According to the Federal Reserve's Senior Loan Officer Opinion Survey, credit standards for commercial and industrial loans to small businesses began to ease in the second half of 2010. FDIC-insured financial institutions began to expand commercial and industrial loans to small businesses in 2011. Notably, the amount of outstanding small business loans increased in the fourth quarter of 2011—the first increase since the FDIC began collecting quarterly data two years ago. Given that the financial crisis hit small business lending particularly hard, it is a significant addition to our statistical infrastructure to now have more frequent data on small business loans."

Innovations in Measurement

"Improvements in official government statistics have helped us to learn more about the performance of the economy over the business cycle. For example, JOLTS data permit decompositions of job growth into hires and layoffs. And BED data enable breakdowns by firm size. Other improvements are in stream. The NIPA data should become more accurate as the BEA's Quarterly Services Survey data accumulate to allow enough time for seasonal adjustment and validation. And the private sector is moving rapidly to expand the types of economic data that are available. Everyone probably already knows that Google Trends provides a great tool. And, as we highlight in the *Economic Report of the President*, sources like LinkedIn have the potential to provide real time information on the types of jobs that are in high- and low-demand in real time."

Conclusion

"In closing, the U.S. economy appears to be on the mend after suffering deep wounds from the financial crisis and consequent recession. The Obama Administration is continuing to address problems that were a long time in the making, and we are committed to continue to do so."

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"Sustaining the recovery in the short run is critical for having the wherewithal to further address our long-run problems of a declining middle class and an unsustainable federal budget. The extension of the 2-percentage point payroll tax cut and continuation of extended Unemployment Insurance benefits, which President Obama called for his American Jobs Act, should support demand in the current year and provide a buffer against the rise in gasoline prices."

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"The U.S. economy has considerable long-run strengths that will put us in good stead as long as we build on our strengths and take the necessary actions to make the economy more innovative and our workforce more highly skilled."