

Recent U.S. Economic Growth

In Charts

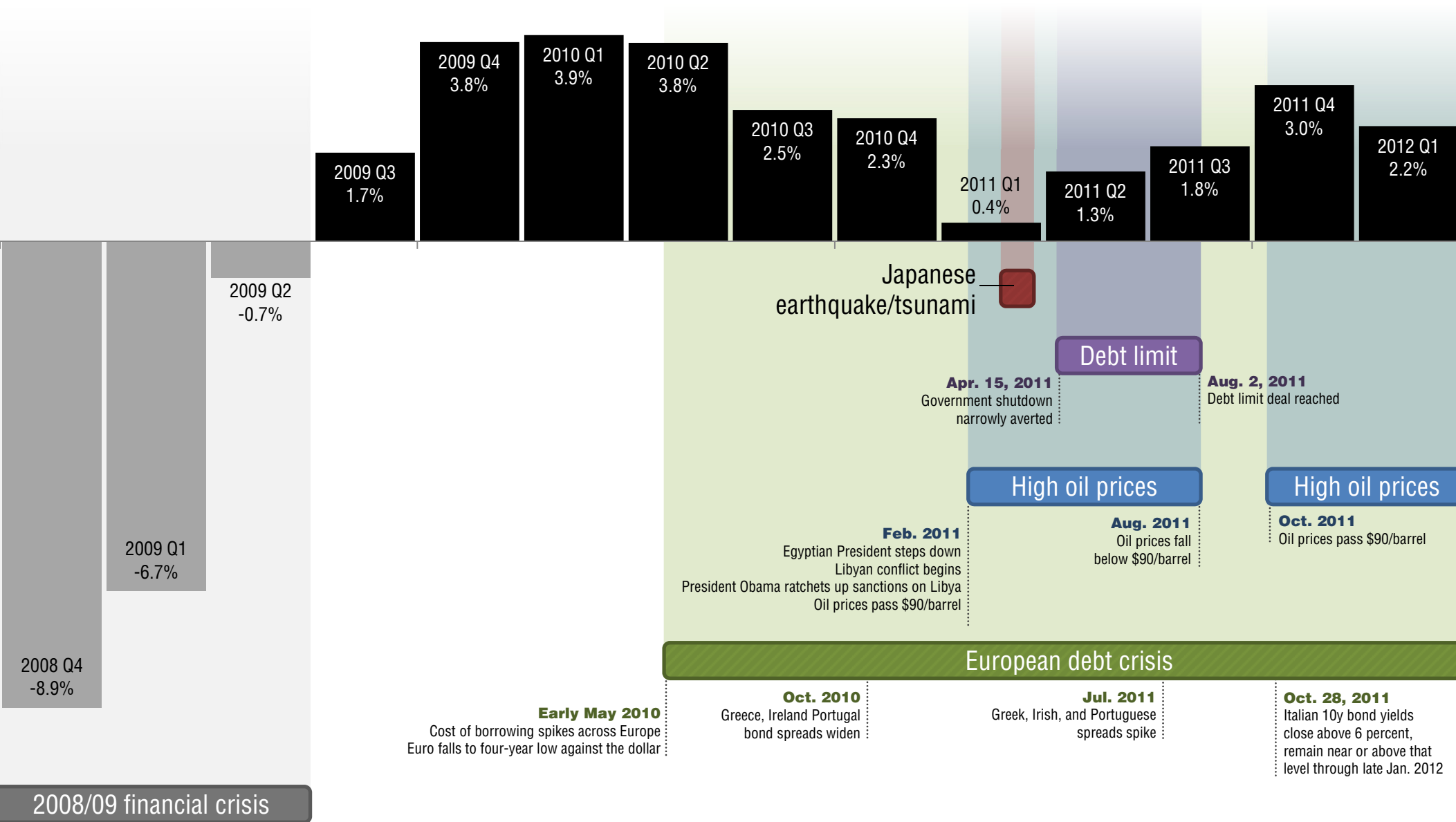


MAY 2012

The Growth Story Since 2009

▶ Despite the worst financial crisis since the Great Depression and a series of shocks in its aftermath, the economy has gradually strengthened since mid-2009, though more work remains.

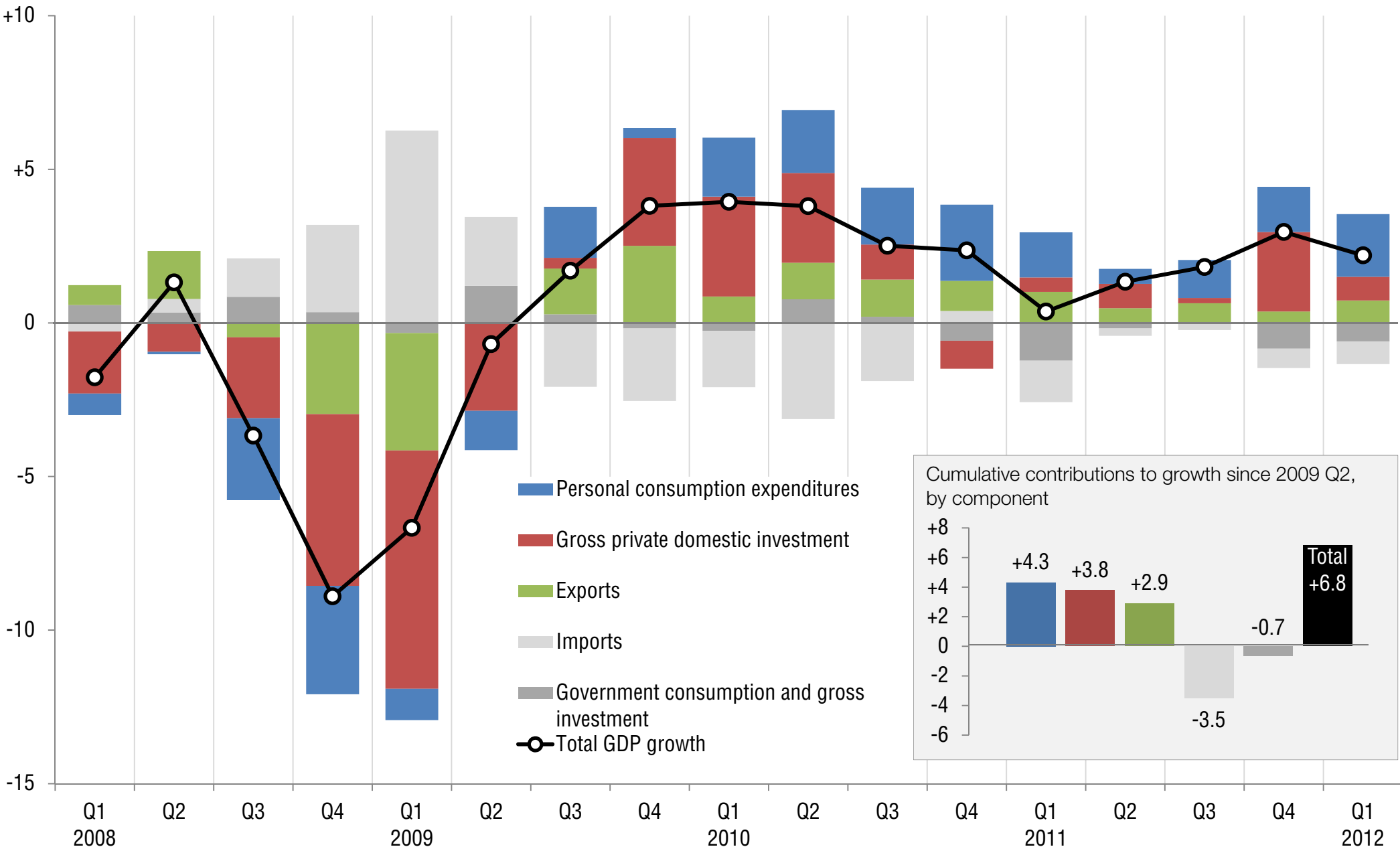
Real quarterly GDP growth



2 The Components of Growth Since 2009

▶ U.S. economic growth has been led by consumption, private sector investment, and exports.

Percentage point contribution to real quarterly GDP growth, by component



Source: Bureau of Economic Analysis.

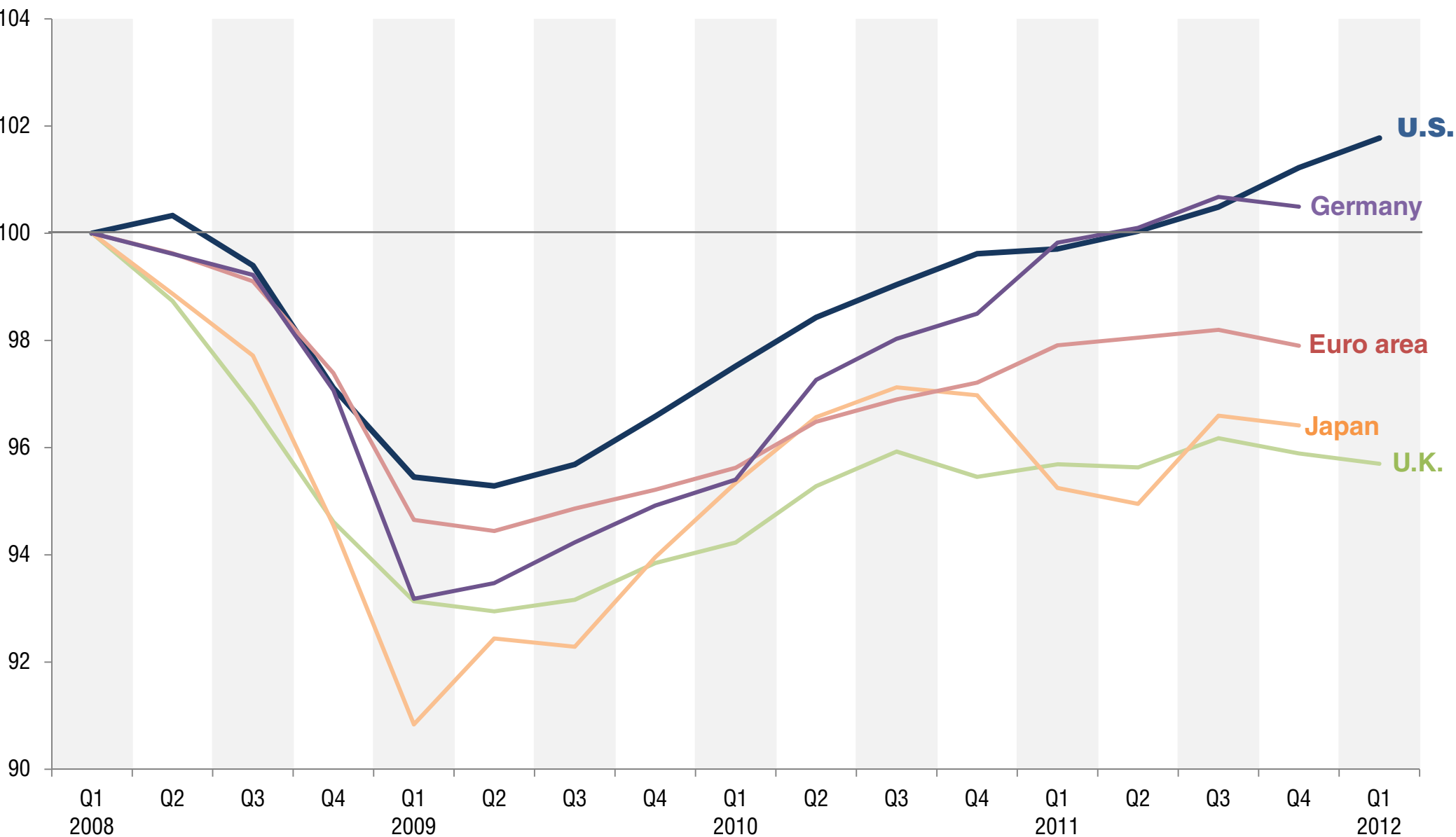
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GROWTH SINCE 2009

International Growth

► Growth in the U.S. has outpaced that of other advanced economies affected by the global financial crisis.

Real GDP, 2008 Q1 = 100

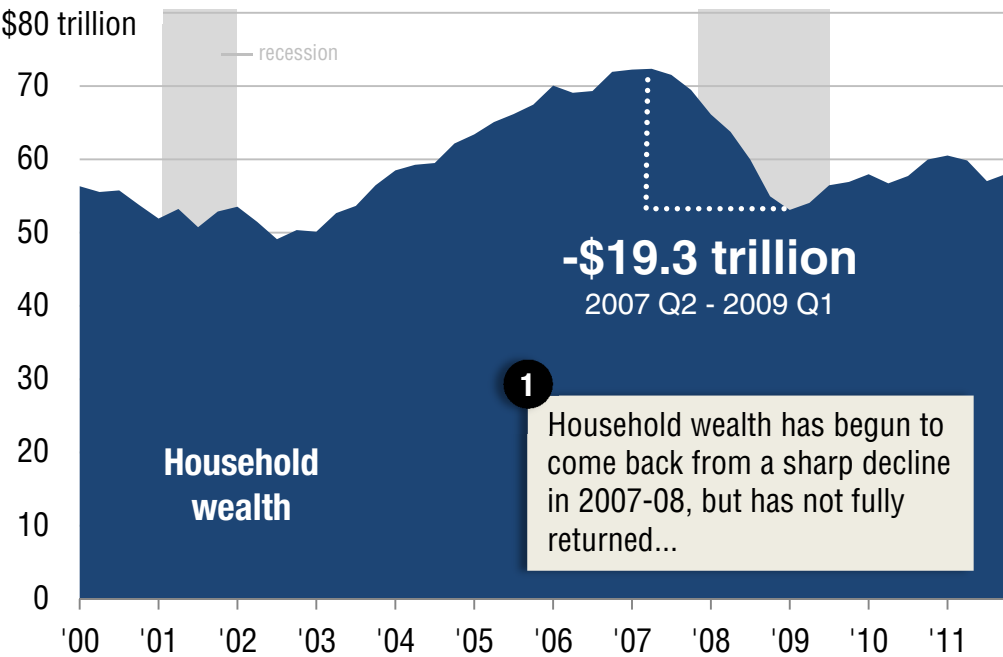


Source: Regional sources (see Notes section).

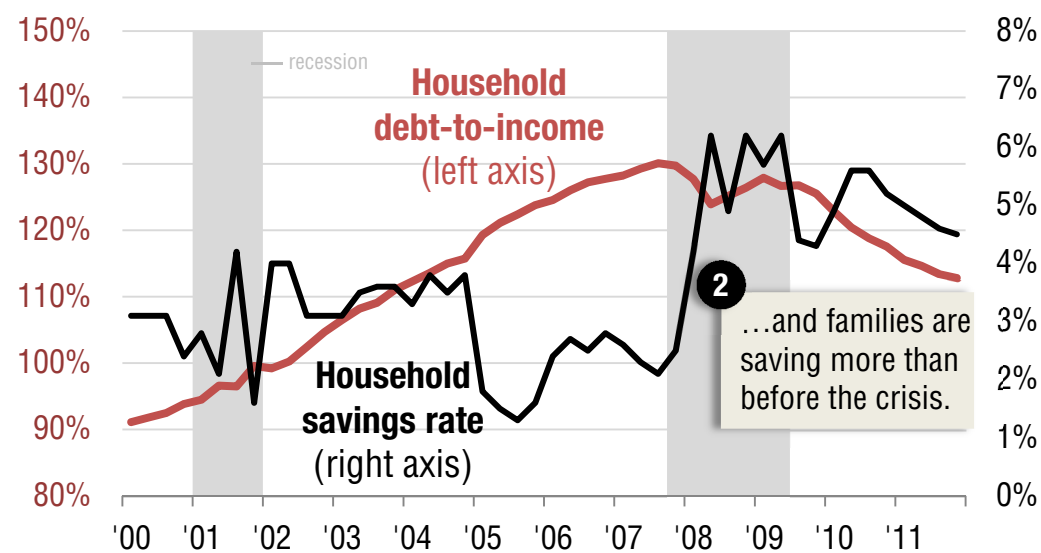
Wealth, Savings, and Private Demand

▶ Despite challenges, growth in private demand has outpaced GDP growth since late 2010.

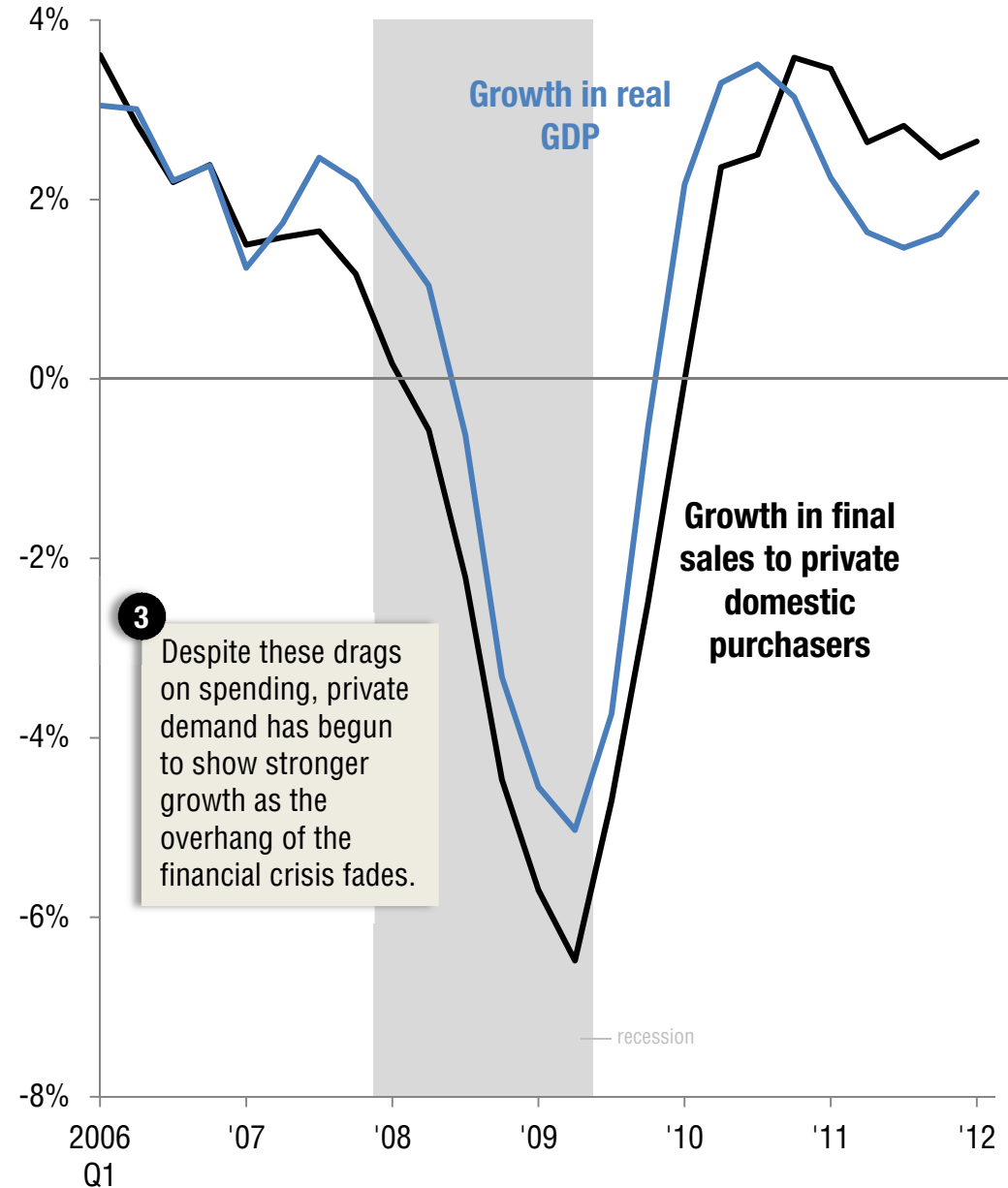
Household net worth, inflation-adjusted (constant 2011 dollars)



Household debt and savings as a percent of disposable income



Year-on-year percent change in real GDP and final sales to private domestic purchasers



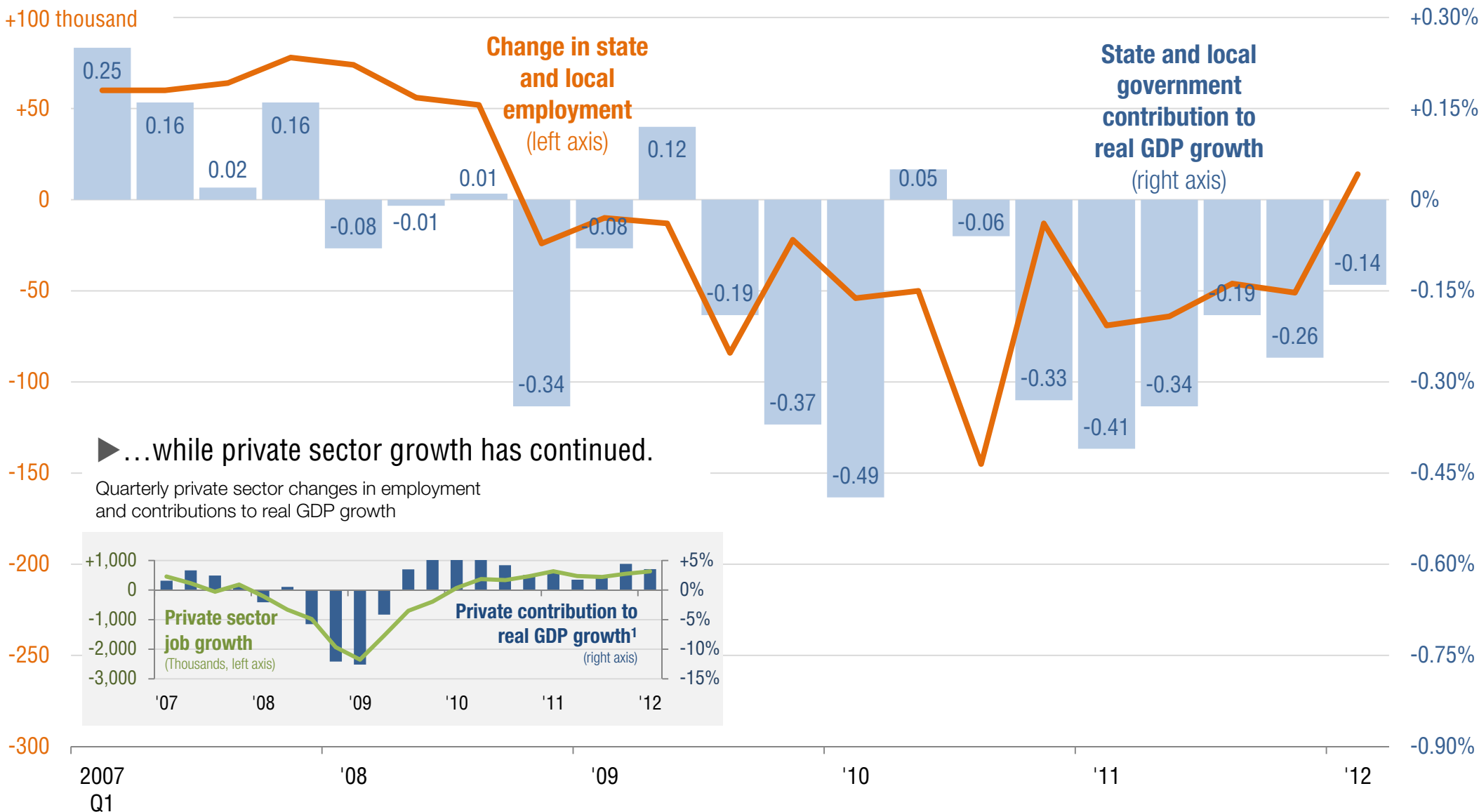


Fiscal Drag

► State and local governments have been forced to cut deeply and shed jobs in response to fiscal challenges...

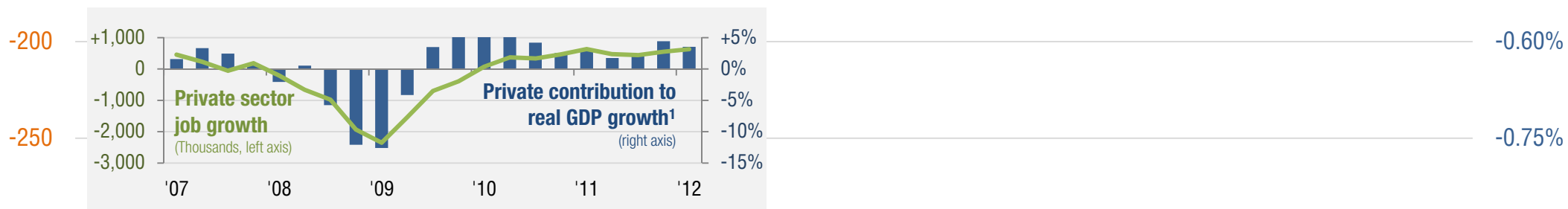
Change in quarterly state and local employment, end-of-period (line, left axis)

State and local government contribution to real GDP growth, percentage points (bars, right axis)



► ...while private sector growth has continued.

Quarterly private sector changes in employment and contributions to real GDP growth



Three Misconceptions About Recent Economic Growth

Some analysts have asserted that the following factors have been impediments to growth:

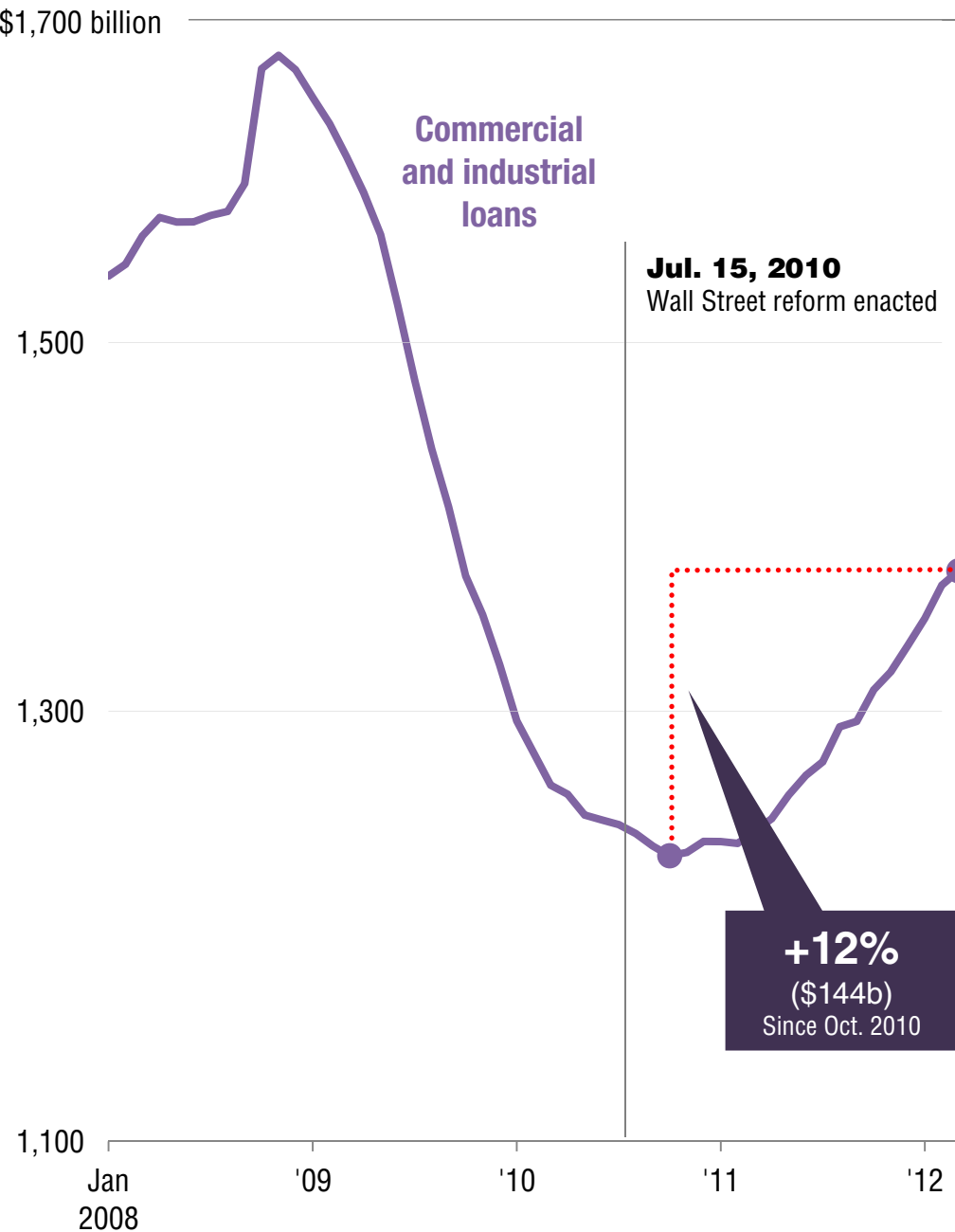
- 1. Regulations.** Have increased regulations or regulatory uncertainty been a major factor in holding back growth?
- 2. Taxes.** Is a high tax burden – or fears of future tax burdens – impeding growth?
- 3. Government.** Is government so large that it is getting in the way of private sector-led growth?

But the facts do not support these assertions.

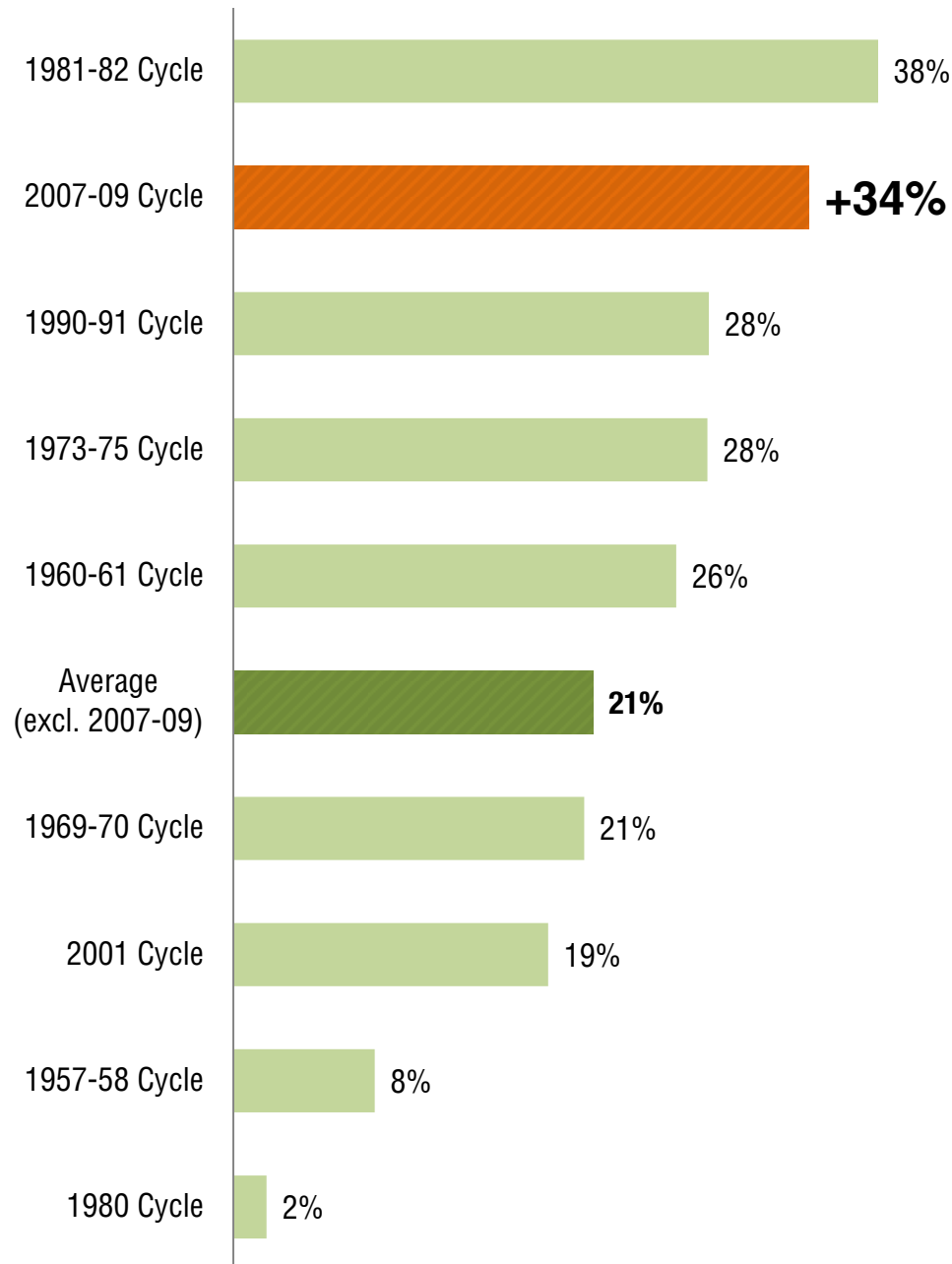
Are Regulations Holding Back Growth?

▶ Regulations are not impeding business lending or investment.

Commercial and industrial loans outstanding, constant 2011 dollars (log scale)



Percent change in real investment in equipment and software 11 quarters after NBER trough

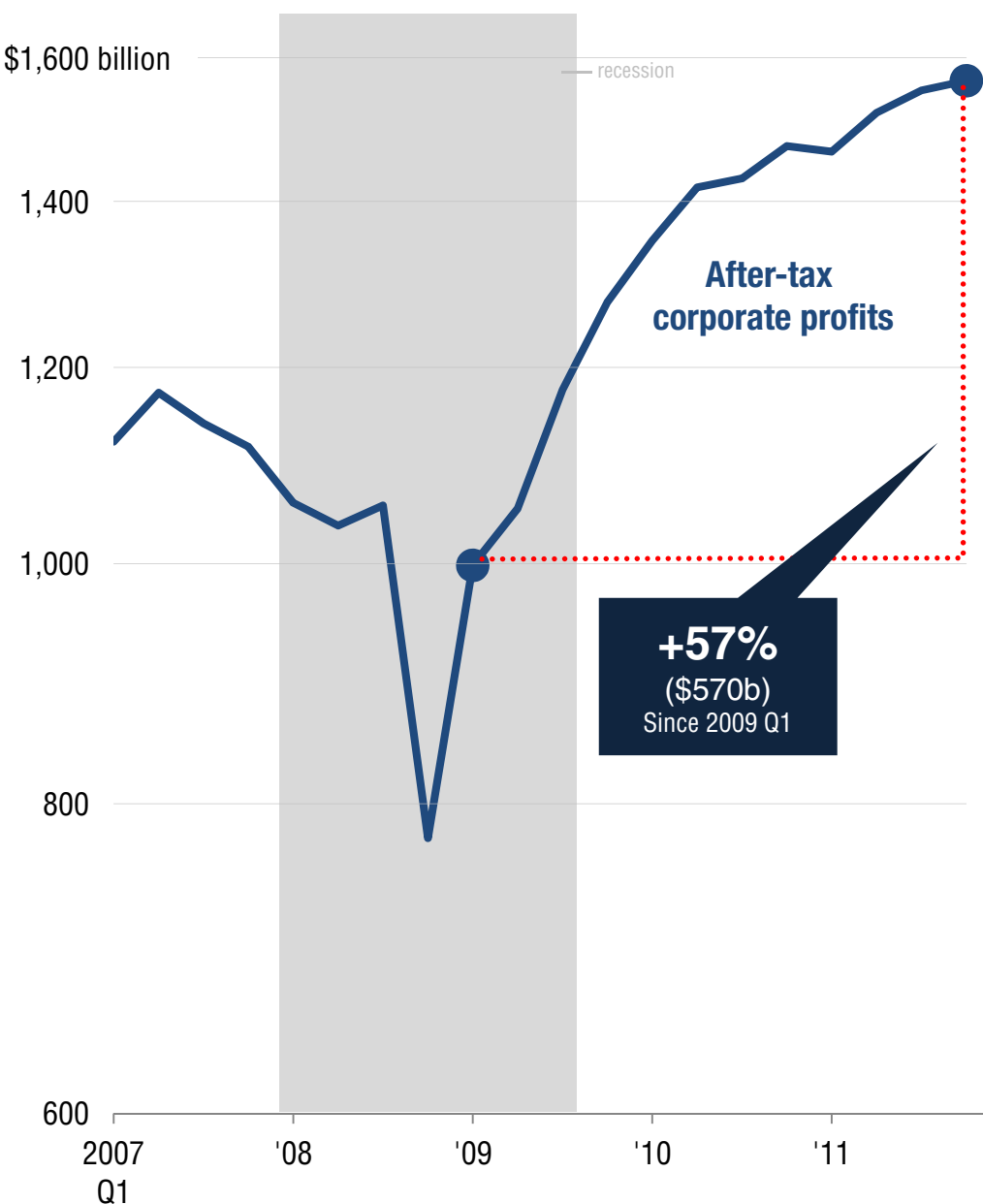


Source: Federal Reserve, BEA.

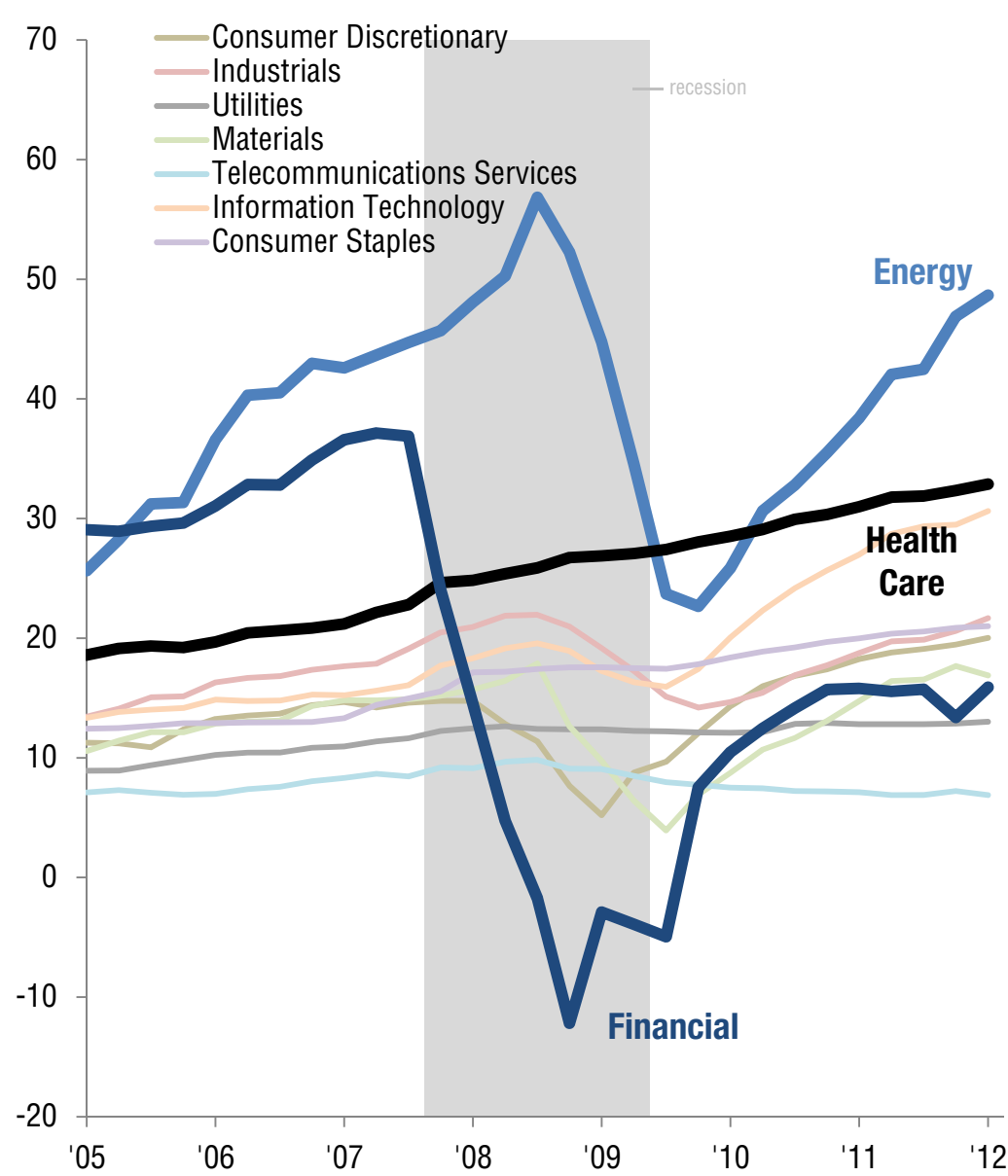
Are Regulations Holding Back Growth?

► Regulations have not dampened corporate profits, even in the industries undergoing significant regulatory change, such as energy, health care, and finance.

Corporate profits after tax, constant 2011 dollars (log scale)



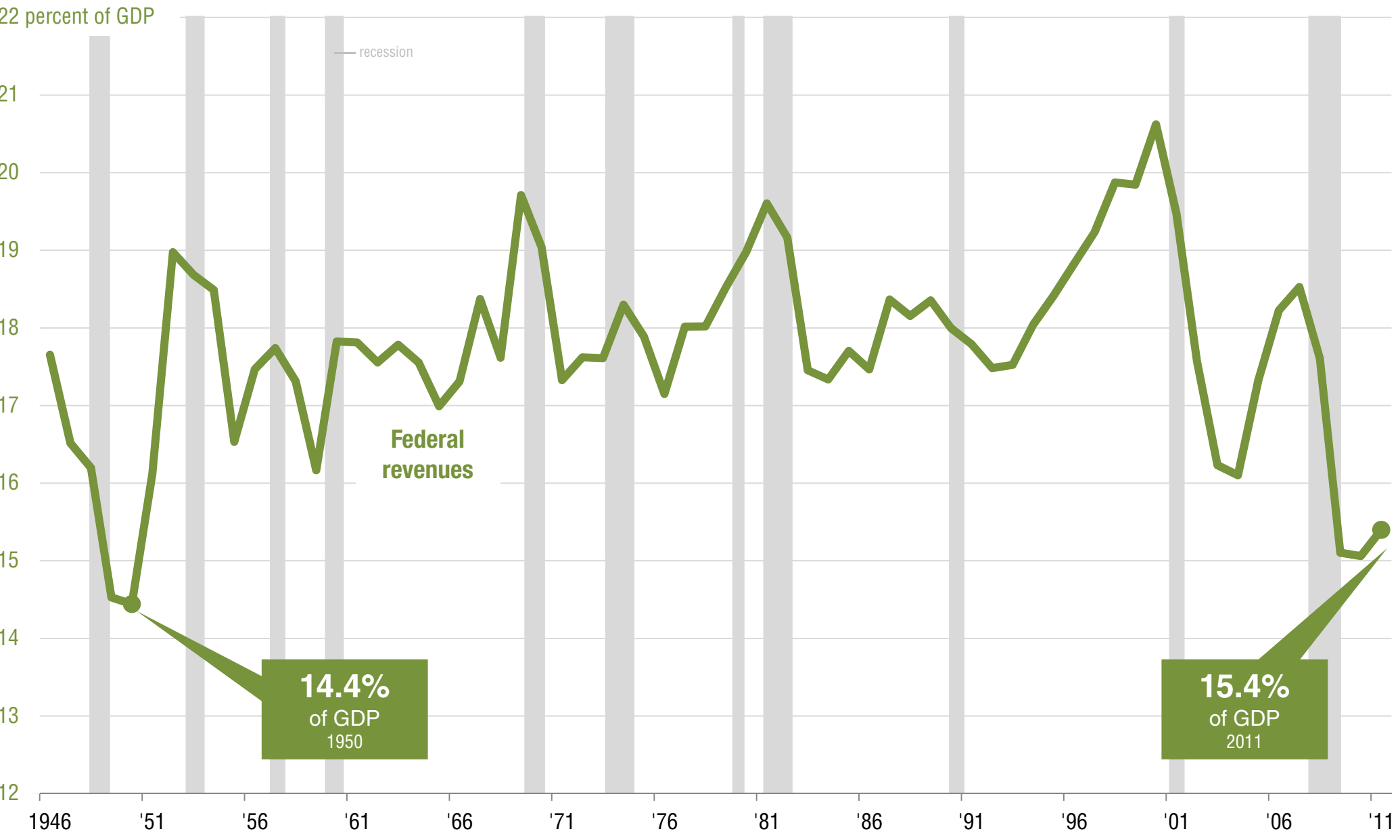
S&P 500 Economic Sectors Index, trailing 12-month earnings per share



9 Is a High Tax Burden Damaging Growth?

▶ From 2009 to the present, federal revenues relative to the economy have been at their lowest levels in 60 years.

Total federal revenues as a percentage of GDP (line, left axis)



Source: OMB, BEA, NBER.

0 How Large are Proposed Tax Changes?

▶ The President's Budget proposes new revenues that amount to less than 1 percent of GDP.

Projected revenue raised in the President's FY2013 Budget and projected cumulative GDP, Fiscal Years 2013 – 2022.

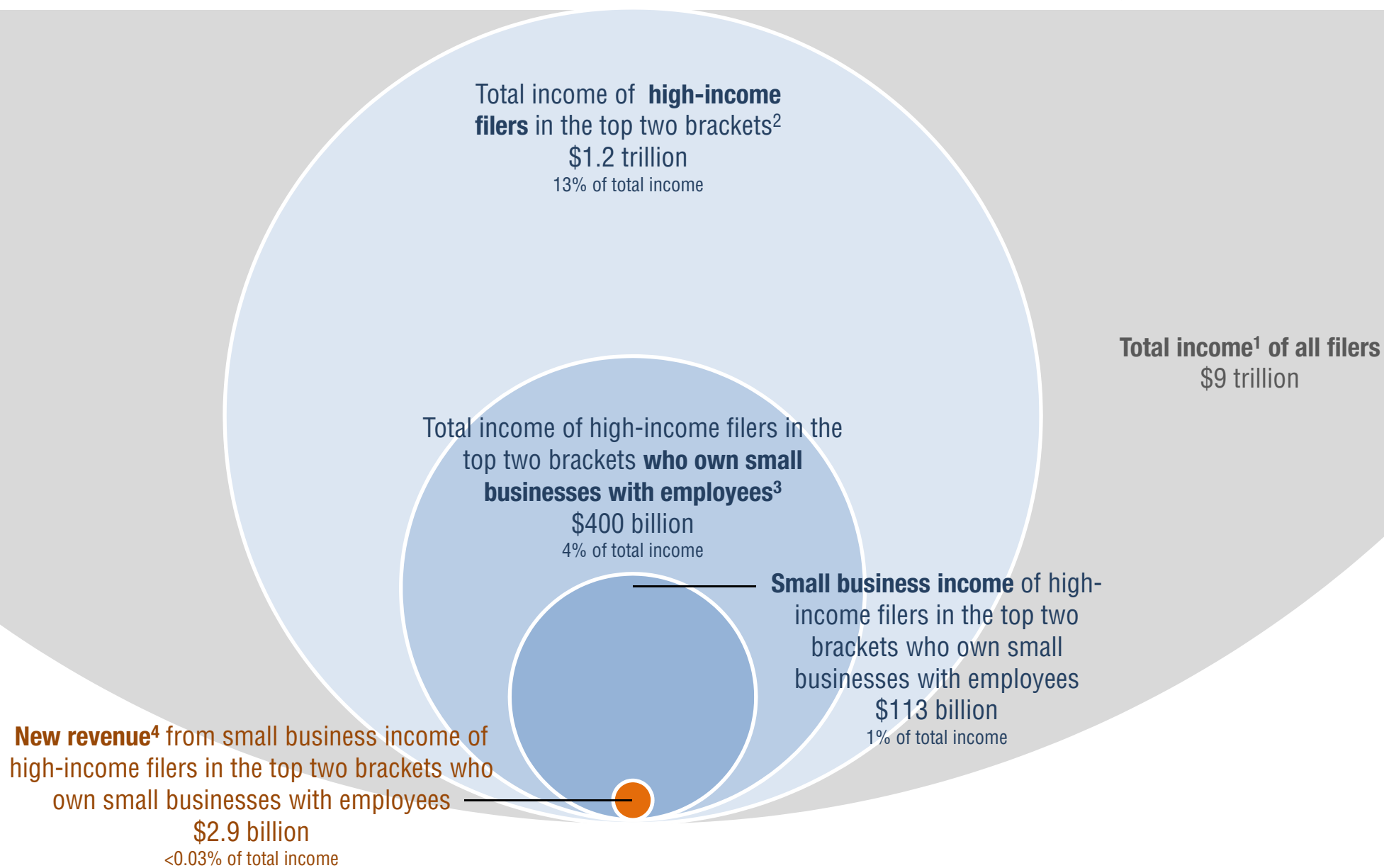


Total new revenue
proposed in
President's FY2013
Budget, 2013 - 2022
<1% of GDP

Would Proposed Tax Changes Hurt Small Business?

▶ Letting the top two income tax brackets return to pre-2001 levels has a minimal impact on small businesses with employees.

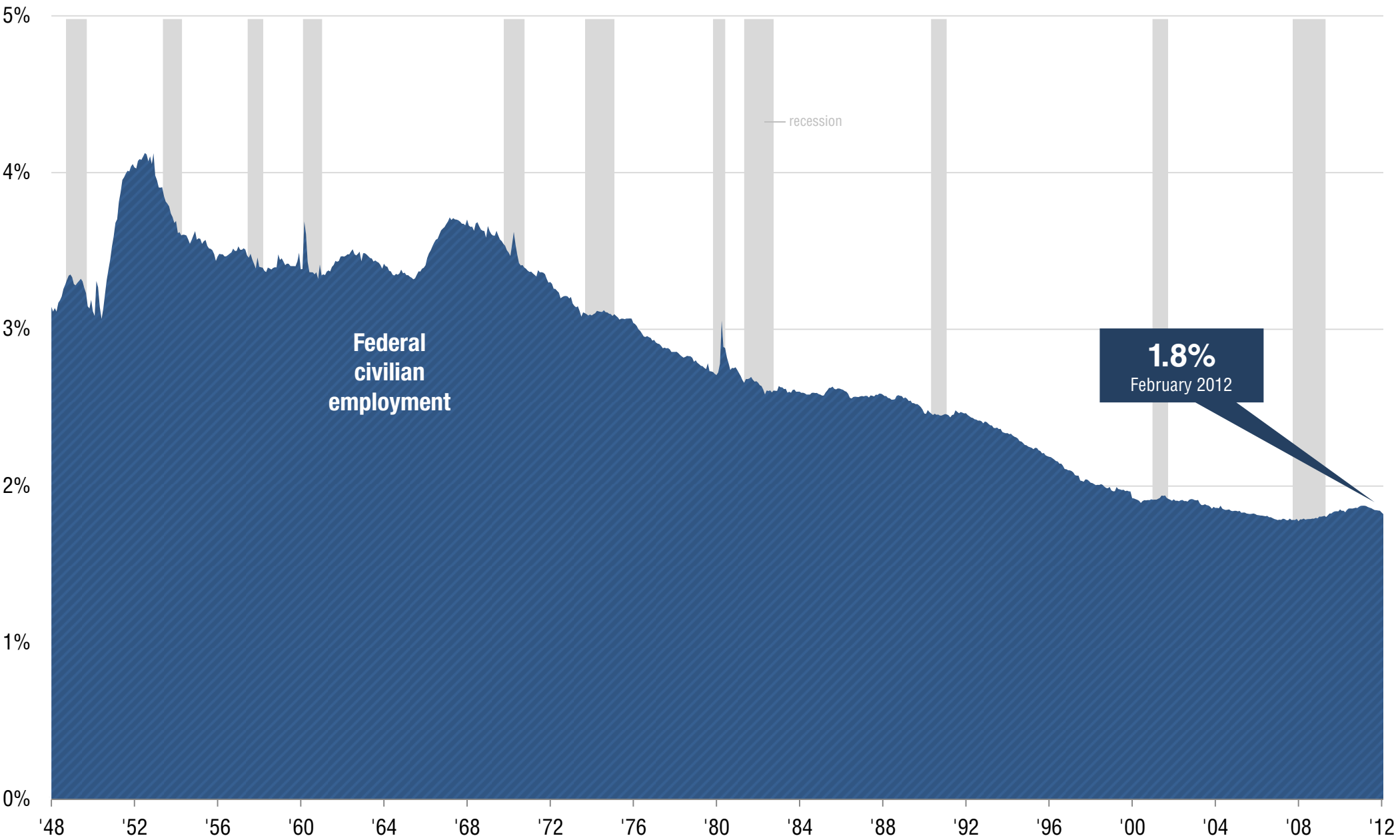
Projected revenue effect of reinstating 36 and 39.6 individual income tax brackets as proposed in the President's FY2013 Budget, Fiscal Year 2013



Has Government Grown?

▶ Federal employment is at historic lows relative to the overall workforce.

Federal civilian employment as a percentage of the labor force*



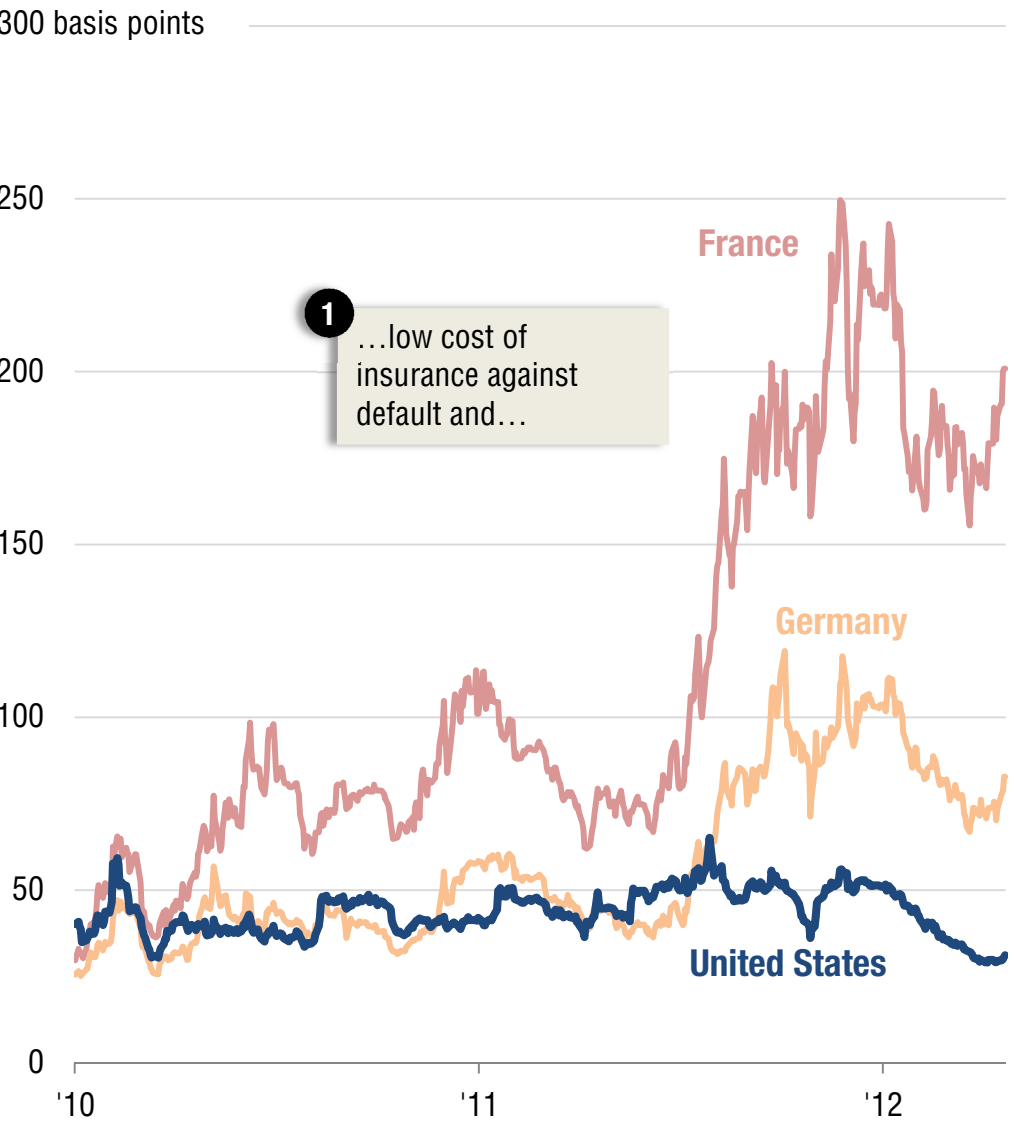
* Periods after 1980 exclude temporary Census workers.

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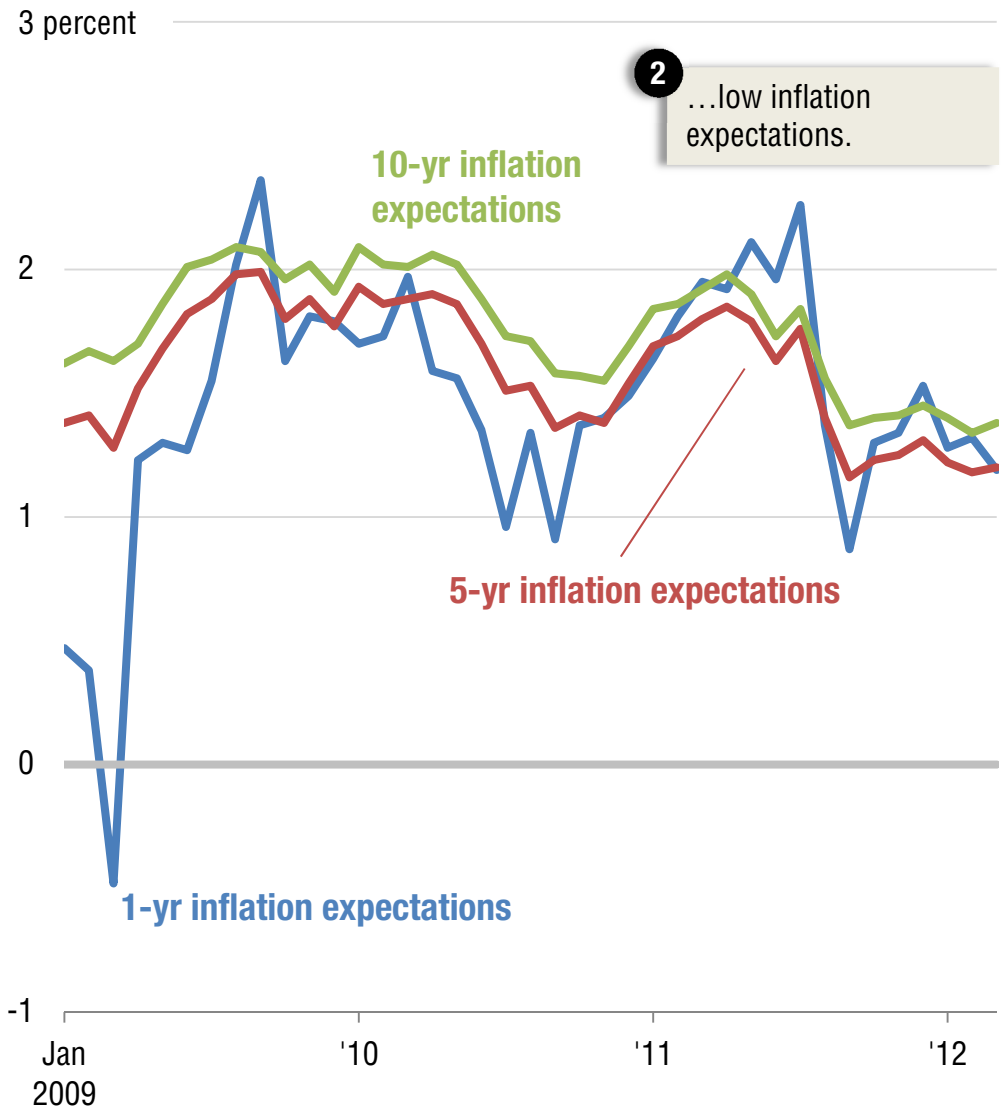
Is There Concern About the Size of Government?

► Investors remain confident that the U.S. government will meet its real fiscal obligations, as demonstrated by...

5-year sovereign credit default swap prices



One-, five-, and ten-year U.S. inflation expectations



Source: Bloomberg, Federal Reserve Bank of Cleveland, Treasury.

Chart 1

Oil prices are West Texas intermediate crude oil spot prices.

Chart 3

Regional sources

Euro Area: Statistical Office of the European Communities

Japan: Cabinet Office of Japan

U.K.: Office for National Statistics

U.S.: Bureau of Economic Analysis

“Euro Area” consists of the following 17 European Union member countries who have adopted the euro (European Monetary Union): the 11 original members - Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain - and Greece (from January 2001), Slovenia (from January 2007), Cyprus and Malta (from January 2008), Slovakia (from January 2009) and Estonia (from January 2011).

Chart 5

“Private contribution to real GDP growth” defined as the sum of the contributions of real personal consumption expenditures, real gross private domestic investment, and real exports to overall annualized quarterly real GDP growth, in percentage points.

Chart 10

1 “Income” defined as adjusted gross income.

Chart 10 cont.

2 “High-income filers” are those who would be subject to the top two individual income tax brackets under the President’s FY2013 Budget proposal.

3 “Small business owners” defined as filers a) with business income and deductions of less than \$10 million, and b) who employ other individuals. See Knittel et al, [“Methodology to Identify Small Businesses and Their Owners”](#), Office of Tax Analysis Technical Paper 4, August 2011.

4 “New revenue” includes revenues raised in Fiscal Year 2013 by reversing the EGTRAA/JGTRAA rate cuts on the top two individual income tax brackets to small business income of high-income filers who own small businesses with employees.

U.S. Department of the Treasury, Office of Tax Analysis calculations. Revenue estimate excludes increased revenue that would come from the expiration of other upper-income EGTRAA/JGTRAA tax cut provisions such as those affecting itemized deductions, personal exemptions, qualified dividends, and capital gains.

The calculation of the additional revenue from small business employers takes into account the variation among taxpayers in the importance of small business income. Since the highest income classes pay most of the added tax but are less dependent on small employer income, the small employer share of the total tax increase is lower than the small business share of total income.