What's Trending in 2014: The New Normal

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Introduction

June 2014 marked the fifth anniversary of the end of the Great Recession. Signs of recovery, or a return to a more robust economy, remain tenuous. After five years, is it still "recovery" or just a reality check? Comparing current change in the economy to our 2013 summary, the differences are minor. Gains in some indicators are offset by losses in others.

Plus	***Minus***
■ Employment increased by 1.9 million—compared to 800,000 last year, 2012–13.	■ Labor force participation rates decreased again, from 62.6 percent in 2013 to 62.2 percent in 2014.
■ Unemployment decreased by 1.6 million—compared to -1.5 million, 2012–13.	■ Consumer confidence slipped in May to 81.9—compared to 84.5 in 2013.[1]
■ Median home value continues to increase, 7.6 percent in 2014—compared to 5.7 percent last year.	■ Home ownership is (still) declining: 63.6 to 63.3 percent, 2013–2014.
■ Financial markets are still setting records—the Dow Jones Industrial Average has cleared 17,000, compared to an "all-time high" last year, over 15,000.	■ Gross domestic product (GDP) decreased in the first quarter by 2.9 percent—compared to the gain of 1.8 percent in the first quarter of 2013.
■ Interest rates remain at historic lows.	■ Inflation is increasing, 2 percent (April 2013–14), compared to 1.1 percent last year (April 2012–13).

Most of the changes are heading in the right direction. Employment totals finally exceed prerecession levels. The number of unemployed workers continues to decrease. Home value is appreciating; residential construction is improving. Interest rates remain low. The stock market continues to set new records: Stock losses from the Great Recession have been offset and replaced by profits. By some accounts, economic growth appears to be gaining some momentum. But overall progress remains elusive. The most encouraging changes to date are limited, either in scope or impact.

New job estimates include both full-time and part-time work. The fastest growing occupations are either in STEM (science, technology, engineering, and mathematics) or food service. STEM jobs offer better wages but usually require college or postsecondary education. Jobs in food preparation and service are commonly part-time and minimum wage. By industry, the fastest growth is in mining or construction. Mining jobs are geographically restricted to oil/gas fields or coal deposits and are a magnet for temporary workers. New construction is also geographically limited. Since 2010, residential construction in the South has exceeded the West, Northeast, and Midwest, combined. Constrained by industry or geography, job growth has not benefitted all workers.

[1] Consumer Confidence Index reported by Thomson Reuters/University of Michigan.

Unemployment has improved, from 8.6 percent to 7.6 percent in the past year.[2] Although the unemployment rate is still not comparable to the 5.4 percent rate in 2000, the number of unemployed workers is decreasing by almost 8 percent annually.[3] But the decline in unemployment cannot be attributed wholly to job growth. It also reflects an outmigration from the labor force by workers that have quit looking for a job or opted for early retirement.

Labor force participation rates continue to drop. Some of the current decline is due to demographic change: The Baby Boom generation, currently aged 50 to 68 years, is starting to retire from the labor force. However, the civilian labor force participation rate was decreasing 20 years ago, from 64.4 percent in 1990 to 63.2 percent in 2000. The decade from 1990 to 2000 included a modest increase in unemployment (only 155,000) and employment growth of 14 million. However, the labor force base (population aged 16 years and older) increased by 25 million, and the participation rate dropped. The population increase exceeded job growth by almost 2:1. Fortunately, the newest members of the labor force then were Gen X, a smaller cohort.

The discrepancy between population growth and employment change increased to more than 4:1 from 2000 to 2010. Exacerbated by two recessions, employment change could not offset the layoffs caused by the Great Recession, let alone keep pace with the Millennials joining the labor force. From 2000 to 2010, the labor force participation rate dropped from 63.2 to 62.4 percent. Since 2010, the deteriorating ratio of population to employment change has reversed. From 2010 to 2014, employment growth, 8.7 million jobs, has exceeded the increase of 7 million in the population aged 16 years and older. Of course, employment in 2010 was at its lowest level since the beginning of the Great Recession, and population growth remains slow. Employment growth must accelerate to match the newest generation joining the labor force, Gen Z. This cohort is considerably larger than the Millennials—and just beginning to look for work.

Growth in the housing market also appears to be gaining momentum. Home value is up; residential construction is increasing. Home value continues to appreciate, almost 8 percent in the past year, to $190,800. In 2014, median home value is still below its peak value in 2007, $192,300, but the difference is slight. Residential construction is also increasing, resulting in a gain of almost 1.4 million homes in the past year, compared to an average increase of 770,000 units per year from 2010 through 2013. But the rate of home ownership is still decreasing, from 65 percent in 2010 to 63 percent in 2014. What's driving the growth in housing?

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[2] Esri's unemployment estimates are not seasonally adjusted.

[3] The unemployment rate in 2000 is adjusted. In July 2002, the Census Bureau reported a processing error affecting their 2000 labor force estimates for areas surrounding college towns. The error apparently overstated the number of unemployed persons and the unemployment rate, while underestimating the employed population and persons classified as not in the labor force. Further research by the Census Bureau uncovered a response pattern to the employment questions that extends beyond the population living in college towns. The Census Bureau estimates employment responses for roughly 15 percent (or 500,000 people) of the working-age, civilian noninstitutional group quarters' population was affected. Furthermore, they surmise the positive bias in the number of unemployed appeared to artificially increase the 2000 US unemployment rate of 5.8 percent by 0.4 percentage points. Esri addressed the apparent bias at the block group level and realigned the affected Census 2000 labor force estimates before any forecasts were calculated. For more information, refer to appendix 3 in *U.S. Census Bureau, Housing and Household Economic Statistics Division*. "Comparing Employment, Income, and Poverty: Census 2000 and the Current Population Survey." September 2003. census.gov/hhes/www/laborfor/final2_b8_nov6.pdf.

The effect of home value on housing demand is limited: The appreciation of home value is localized, limited in scope to select areas. Metropolitan areas experienced the largest increase in home value from 2013 to 2014, an average of 9 percent. But the overall rate of appreciation in metropolitan home value is driven by fewer than 100 areas—with double-digit increases. Many of these areas were overwhelmed by the collapse of the housing market and left with a substantial inventory of foreclosed homes. Investors with cash saw an opportunity. Cash purchases by real estate investors or homeowners looking to downsize fueled the demand that is pushing up home prices. More than 40 percent of home sales in the first quarter of 2014 were all cash purchases.[4] Home ownership is still decreasing in three out of four metropolitan markets.

This is not the same housing bubble that sparked the Great Recession. Creative financing encouraged individual home buyers before. Qualifying for a mortgage is more difficult now. The newest householders are opting for rentals—and flexibility. New housing construction reflects this shift. The share of building permits for multiunit structures has doubled in the past 10 years. Millennials are still the newest householders. But the next wave, Gen Z, is even larger, and already 18 years old.

The momentum in the stock markets is obvious. The real question is why the markets are soaring, but the economy is not. The Dow hit a record high of 17,000, but estimates of GDP in the first quarter of 2014 were revised from -1 percent to -2.9 percent.[5] Investors are certainly profiting; the advantage to consumers is less apparent. Only 23 percent of households receive income from interest or dividends. Median household income is up by 1.5 percent in the past year, but the rate of inflation is also increasing. Estimated at $52,100, the 2014 median remains lower than median household income at the close of the recession, $54,400. Consumers' reaction to the nominal change in their income is predictable. Consumer confidence has slipped.

Change

National population change varies from slow to slower rates of growth—reflecting a maturing population and declining fertility rates. Similarly, local change reflects attenuated growth in most (but not all) areas. Table 1 provides a perspective on population change by metropolitan status:

Table 1
Population Change by Metropolitan Status, 1990–2014

Metropolitan Status	Annual Population Change			
	1990–2000	2000–2010	2010–2014	2013–2014
Metropolitan	1.3%	1.0%	0.6%	0.7%
Micropolitan	0.9%	0.5%	0.3%	0.2%
Nonmetropolitan	0.7%	0.1%	0.2%	0.1%
United States	1.2%	0.9%	0.6%	0.6%

[4] Estimated by RealtyTrac: http://www.realtytrac.com/content/foreclosure-market-report/q1-2014-us-institutional-investor-and-cash-sales-report-8052.

[5] Bureau of Economic Analysis, June 25, 2014: http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm.

Growth among metropolitan areas has increased in the past year, although the rates are persistently lower than the previous decade. From 2000 to 2010, the 10 fastest-growing metros had an average growth rate of 3.7 percent annually; since 2010, the average increase among the top 10 metros has barely exceeded 2 percent annually. The fastest growing metro areas (over 50,000 population in the urban core) in the country are characterized by retirement lifestyles (The Villages, FL; Kennewick-Richland, WA), military growth (Jacksonville, NC; Clarksville, TN-KY), oil and natural gas extraction (Midland, TX; Bismarck, ND), and healthy economies (Austin-Round Rock, TX; Raleigh, NC).

Micropolitan areas (urban core of 10,000 to 50,000) follow suit with many of the fastest spurred by oil and gas extraction. Oil and natural gas extraction from the Bakken Oil Shale in North Dakota continues to push the state's population and economy into unknown territory. The state has grown by nearly 8 percent from 2010 to 2014, and the majority of those population gains are concentrated in a few small cities. City and town populations and home prices have exploded as people race to the area to fill vacant, high-paying jobs. The state has even started a marketing campaign to actively recruit over 20,000 workers. The town of Williston, North Dakota, in Williams County has nearly doubled since 2010, and many of the small towns in North Dakota are among the faster growing in the country.

Rural areas continue to suffer as small-town America experiences an unprecedented period of population loss. Outmigration slowed after the recession, which temporarily stabilized population loss, but lower birth rates are reversing any gains from natural increase (births minus deaths). Almost half of rural counties are experiencing natural decrease now. Whether by natural decrease and/or outmigration, nearly 40 percent of all rural counties lost population from 2010 to 2014. Among the counties losing population, half are in the Midwest; another 35 percent are in the South.

Housing

Signs of growth are equally mixed in local housing markets. Construction is slowly ramping up from the housing crash. Housing starts are still well below the average for the last 50 years[6], but builders are putting carpenters back to work, mainly for the construction of multifamily housing to serve the booming rental market.[7] Ownership continues to decline, by nearly 2 points from 65 percent of occupied housing in 2010 to 63 percent in 2014. Many factors are contributing to the decline in home ownership, including tight lending practices and higher mortgage rates.

Ownership is down, but median home value is up—increasing by 7.6 percent nationally and by 9 percent in metropolitan areas in the past year. Among micropolitan areas, median home value increased by less than 2 percent, while values in nonmetropolitan areas remained steady around $106,500 between 2013 and 2014. The appreciation in home value was not widespread, even among metropolitan areas. Double-digit increases in select markets drove the growth (figure 1).

[6] US Census Bureau, building starts.

[7] BLS analysis http://www.reuters.com/article/2014/05/03/us-usa-economy-construction-idUSBREA4204G20140503.

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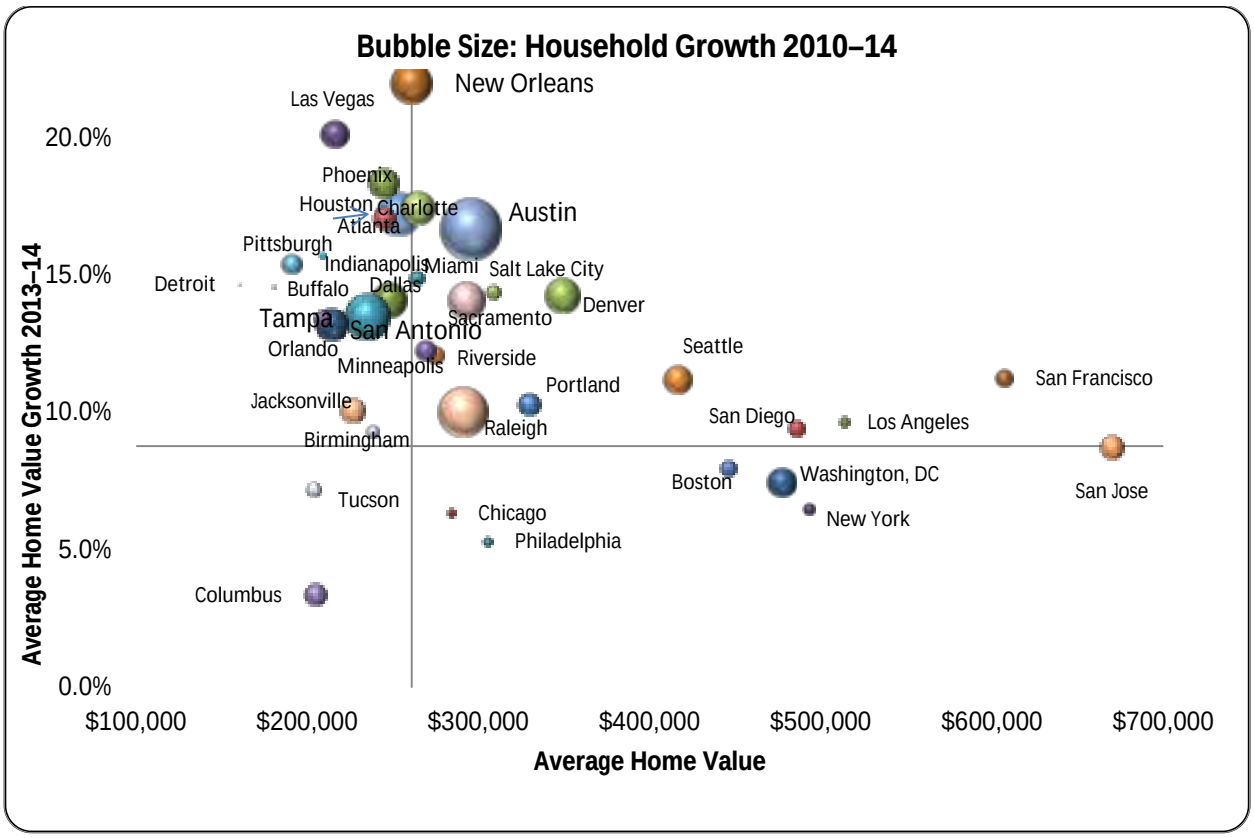
Figure 1
2014 Average Home Value by Change in Home Value, 2013–2014



This growth differential has been fueled by the rebound in major metropolitan areas that were heavily impacted by the housing crash—markets with large inventories of foreclosed or distressed properties that attracted investors with cash. Home prices surged at more than twice the national rate in the Phoenix and Las Vegas metropolitan areas; while home prices in the Sacramento and Riverside-San Bernardino-Ontario, California, metropolitan areas appreciated 50 percent more than the national growth of 7.6 percent.

Double-digit appreciation is also evident in select demand-driven markets—such as Austin or San Antonio in Texas, Raleigh and Charlotte in North Carolina, or Orlando, Florida—that lead the country in both household growth and home price appreciation. Incomes in these markets are moderate, but so are average home prices.

More expensive housing markets along the East Coast are neither growing nor appreciating as rapidly. On the East Coast, New York; Washington, DC; and Boston have average home values between $450,000 and $500,000. These are the oldest metropolitan areas in the country, boasting low vacancy rates and little room for housing growth. Despite the high cost of living, the unique cultural appeal of these cities, plus job opportunities, continue to fuel the demand for accommodation. Many of these cities are also built out, located on the coast and restricted by the availability of land.

Major metropolitan areas on the West Coast, including San Jose, San Francisco, Los Angeles, and San Diego, are also expensive markets. San Jose, central to the Silicon Valley, is small but off the charts with a median household income above $90,000. Even dual income professional families must commute long distances to afford a home in these areas. Attractive jobs and strong rental markets keep vacancy rates below average. Although the housing crisis hit California hard, the combination of investor capital and demand-driven growth drives the appreciation in home value, despite the high cost of housing.

Home prices have seen strong growth since 2012, but that increase is expected to slow, led primarily by a steady decline in foreclosed properties, as well as real estate investors. Foreclosure completions are at their lowest level since 2007. With fewer bargains on the market, a weaker demand for housing is more evident. These factors, along with a reduced inventory, have slowed the year-over-year sales of existing homes throughout much of the country. Despite recent increases, existing home sales are below 2013 sales and expected to remain weaker through 2014, according to the National Association of Realtors. Lack of wage growth discourages the number of first-time buyers, still at a historically low level, only 28 percent of all sales.[8]

The Economy

Stocks are up, but the GDP is down. Real GDP is the indicator to watch closely because it measures the economy's progress. Produced quarterly and annually, GDP tracks the final inflation-adjusted value of all goods and services produced in the US economy. Initial estimates are subject to two additional revisions when new or revised input data become available.

The second estimate of first quarter GDP unexpectedly declined by 1.0 percent, annualized. The third estimate dropped the change to -2.9 percent for the first quarter of 2014. The change is attributed to decreases in consumer spending, especially on health care, and exports.[9] Figure 2 charts the quarterly performance since the first quarter of the last recession.

[8] National Association of Realtors, July 22, 2014: http://www.realtor.org/news-releases/2014/07/existing-home-sales-up-in-june-unsold-inventory-shows-continued-progress.

[9] Bureau of Economic Analysis, June 25, 2014: http://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm.

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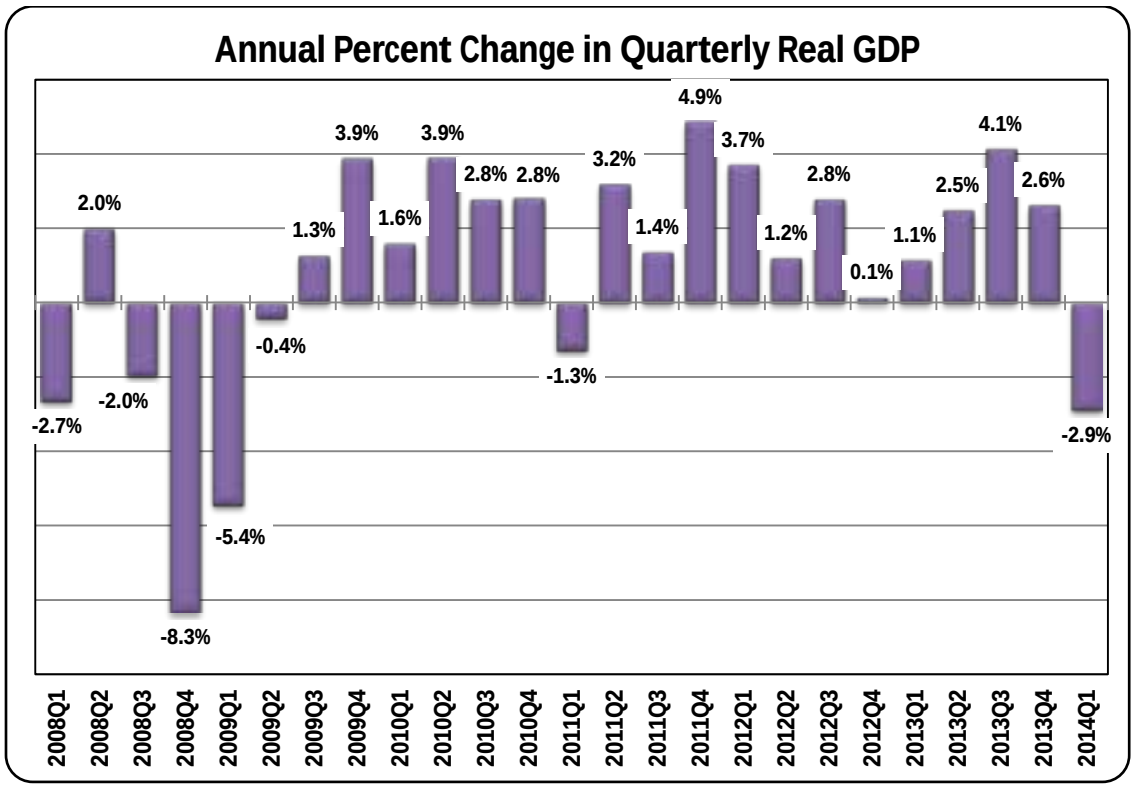
Figure 2
Change in Quarterly Real GDP, 2008–2014



Prolonged low inflation and the absence of a substantial resurgence in labor market activity are the primary concerns. Until conditions improve, the Federal Reserve Board will continue to "maintain the appropriate degree of accommodation to support the recovery," according to the new chair, Janet Yellen.[10] For now, expect short-term interest rates to remain low and a monetary policy that will "evolve" as conditions warrant. One concern not mentioned by the chair is how the Federal Reserve Board will address the unprecedented growth in excess reserves held by commercial banks. Excess reserves are deposits held in addition to the reserves banks are required by law to hold to back deposit accounts. One of the many actions taken by the Federal Reserve Board to stabilize the financial system after the 2008 crash was to begin paying interest on these reserves. Prior to the crash, the Federal Reserve Board's balance sheet averaged less than $2 billion. Today, reserves have skyrocketed to $2.6 trillion. As the economy improves, commercial banks will eventually begin to lend this money. However, if it is not managed appropriately by the Federal Reserve Board, this has the potential to create higher inflation. Charles Plosser, the president of the Philadelphia Federal Reserve Bank characterized it as a "ticking time bomb."[11]

[10] Note: Janet L. Yellen became the Chair of the Board of Governors of the Federal Reserve System in early February 2014. http://www.federalreserve.gov/newsevents/speech/yellen20140416a.htm.

[11] http://blogs.marketwatch.com/capitolreport/2014/05/20/charles-plosser-thinks-theres-a-ticking-time-bomb-at-the-fed/.

To stay even with inflation, workers need a steady job with regular pay raises. Esri's 2014 income estimates show a deceleration in household income growth.[12] The rate of increase in median income fell from 2.3 percent to 1.5 percent, largely attributable to the end of the "payroll tax holiday" that was in effect in 2011 and 2012. The expiration of this two percentage point break on Social Security taxes in early 2013 encouraged individuals and businesses to front-load dividends and bonuses to the 2012 calendar year. Since Esri's income data reflects household income received in the previous calendar year, the impact of this accounting measure is captured in the 2014 update.

Esri's average household income figures show a sharper slowdown in growth than the median. Average household income grew 5.4 percent between calendar years 2011 and 2012 but barely kept up with inflation at a rate of only 1.5 percent between 2012 and 2013. By definition, average household income is strongly influenced by the disproportionate income of wealthier households. Higher income households are the driving force behind recent changes in household income, benefitting from investments and salary bonuses (and knowledgeable tax accountants).

The Outlook

Housing prices are expected to increase but not as quickly as the past two years. Esri forecasts an increase of 3.8 percent in median home value over the next five years. Economists contributing to the Pulsenomics Home Price Expectation Survey predict a moderate home price appreciation of 3.7 percent a year for the next five years.[13] Real estate investors have depleted many of the bargain properties, and the housing inventory is increasing more rapidly. However, Federal Reserve Board Chair Yellen has called current activity in the market "disappointing."[14]

Changes in the housing market are not due solely to economic factors. Lifestyle changes also affect home ownership. The Millennial generation, currently aged 15 to 35 years, will shape the immediate future of the housing market. Millennials are navigating a lethargic job market and carrying a substantial debt burden from student loans. They are delaying marriage and postponing childbearing until much later in life, trends that favor renting. This cohort's housing preferences favor dense walkable cities, not the suburbs. This is driving up rental prices. In many markets, rents are no longer affordable as a percentage of median incomes. As Millennials age, will their housing preferences change? Since home ownership is still decreasing, perhaps the question is whether housing is affordable to the next generation.

According to Yellen, "The path of the economy is uncertain, and effective policy must respond to significant unexpected twists and turns the economy may take."[15] Currently, the Federal Reserve Board is still planning to taper off its stimulus spending. GDP is expected to increase in the second quarter and to average 2.1 to 2.3 percent in 2014; however, that estimate is down from the initial forecast of 2.9 percent.[16]

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[12] Esri's estimates of household income represent the previous calendar year (2013).

[13] https://www.pulsenomics.com/Q4_2013_HPE_Survey.php.

[14] USA Today, July 22, 2014: http://www.usatoday.com/story/money/business/2014/07/22/june-existing-home-sales/12973181/.

[15] http://www.federalreserve.gov/newsevents/speech/yellen20140416a.htm.

[16] http://www.nbcnews.com/business/economy/fed-cuts-outlook-economic-growth-2014-n134751.

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The economy is still sending mixed signals and exhibiting uneven growth, which is feeding the uncertainty. The first quarter drop in the GDP has been attributed to unexpectedly low exports and the severe winter, although a steep dip in health care spending also contributed. Consumer spending accounts for about two-thirds of the GDP. Until household income improves, or at least exceeds the rising inflation, consumer spending is unlikely to subsidize more robust growth. Income growth remains unequal, primarily benefitting the top 20 percent of households. Jobs, better wages, and access to the housing market all encourage consumers to spend.

After five years, debating the strength of recovery since the Great Recession seems almost passé. There are more questions than answers. Are there enough jobs to hire the next generation of workers? Or will it be necessary for the Baby Boom generation to retire first? Prospects for employment seem to be predicated on the imminent retirement of Baby Boomers. If job opportunities are based on replacement, is it growth or just maintenance? Rather than assess change wholly by the past, or just the prerecession economy, perhaps progress should be evaluated by the consistency between current demographic and economic change. Do current trends represent cyclical change—or the new normal?

Esri's Data Development Team

Led by chief demographer Lynn Wombold, Esri's data development team has a 35-year history of excellence in market intelligence. The combined expertise of the team's economists, statisticians, demographers, geographers, and analysts totals nearly a century of data and segmentation development experience. The team develops datasets, including annual demographic updates, Tapestry™ Segmentation, Consumer Spending, Market Potential, and Retail MarketPlace, which are now industry benchmarks.

Esri inspires and enables people to positively impact their future through a deeper, geographic understanding of the changing world around them.

Governments, industry leaders, academics, and nongovernmental organizations trust us to connect them with the analytic knowledge they need to make the critical decisions that shape the planet. For more than 40 years, Esri has cultivated collaborative relationships with partners who share our commitment to solving earth's most pressing challenges with geographic expertise and rational resolve. Today, we believe that geography is at the heart of a more resilient and sustainable future. Creating responsible products and solutions drives our passion for improving quality of life everywhere.

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