March 31, 2014

# Economics Group

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# Patterns at the Mid-Cycle of the Expansion

***Recently, three patterns have emerged which are reminiscent of the mid-cycle of a classic economic expansion. These patterns do not suggest an end to the expansion but they do indicate change in its character.***

## Aggregate Hours: Signal for Production Slowdown

While businesses looked through the temporary challenges caused by the recent harsh winter, the general slowdown in aggregate hours worked follows the patterns of the prior two economic recoveries. Although full-time job growth has been positive during the current recovery, the share of part-time jobs remains elevated, which has kept average weekly hours below their prerecession peak. Recent weakness in aggregate hours worked in the economy (top graph) signal a weaker reading for total output and GDP going forward. Until further confidence in the strength of the economy is seen by business leaders, limited gains in full-time employment will be a headwind for stronger economic growth. Our outlook remains for trend-like growth of 2.5-2.75 percent in 2014, which remains an improvement over 2013.

However, the flat trend in the employment-population ratio and modest gains in hiring hint that there is only a limited case for acceleration in the overall economy, which is consistent with the possibility that we are at the mid-point of the economic cycle and that growth may slow beyond the 2014-2015 period. Yet, the continued gains in jobs and output will not likely significantly address the challenge of the long-term unemployed, who continue to account for an elevated share of the unemployed. Nor does the lack of growth acceleration address the fiscal budget shortfalls facing the federal government and several state and local governments.

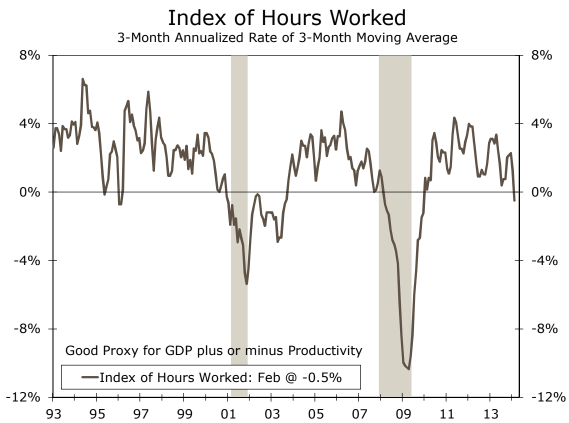
## Wages Seeing Some Improvement: Plus for Consumer Spending

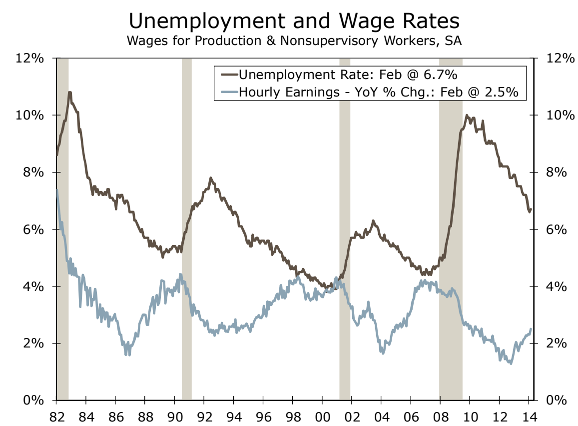
One plus for the consumer and the economy has been a pickup in average hourly earnings to 2.5 percent year-over-year (middle graph). This gain, along with a rise in jobs, supports our case for better real incomes in 2014 and thereby, a better outlook for consumer spending. But, the rise in wages is also consistent with signs of the mid-cycle of an economic recovery.

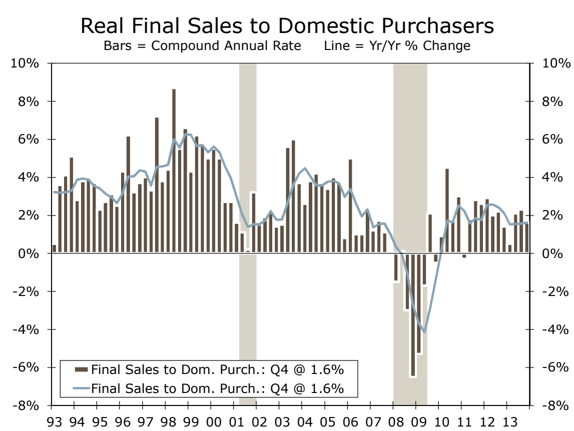
## Real Final Sales: Underlying Slowdown

In contrast to romanticized notions of a "second wind" for the economy, the patterns of growth have clearly been one of recovery peaking a few years into the expansion followed by a slow drift downward (bottom graph). This is apparent in the recoveries of the 1990s and 2000s.

During the current expansion, the strength of the economy has been modest compared to the two earlier periods. This suggests that any excesses that may be building up may not be so sharp as to stymie the expansion. This current expansion also benefits from the modest housing gains so far and as such housing may add more strength going forward. Therefore, we are more likely to see length, not amplitude, as the dominant character of the current recovery.




Source: U.S. Dept. of Labor, U.S. Dept. of Commerce and Wells Fargo Securities, LLC

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