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TACTICAL INSIGHTS

THREE CHARTS EXPLAINING WHY ECONOMIC GRWOTH IS SO SLOW

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Since the Great Recession in 2008, the economic recovery has been particularly slow, especially when compared to the historical norm. Between 1947 and 2016, the average growth rate during economic expansion periods was 4.19%, but during the current expansion between 2009 and 2016, the GDP growth was merely 2.12%, half of the long term average (see Table 1). Normally, we would expect a V-shape recovery after a deep recession, but this recovery is more like a L-shape. Many economists attributed the slow growth to structural reasons such as aging population or slow productivity growth, but we believe cyclical and policy factors may have more impacts here.

Table 1: The Growth Rates of GDP and Its Components (Q2, 1947-Q4, 2016)

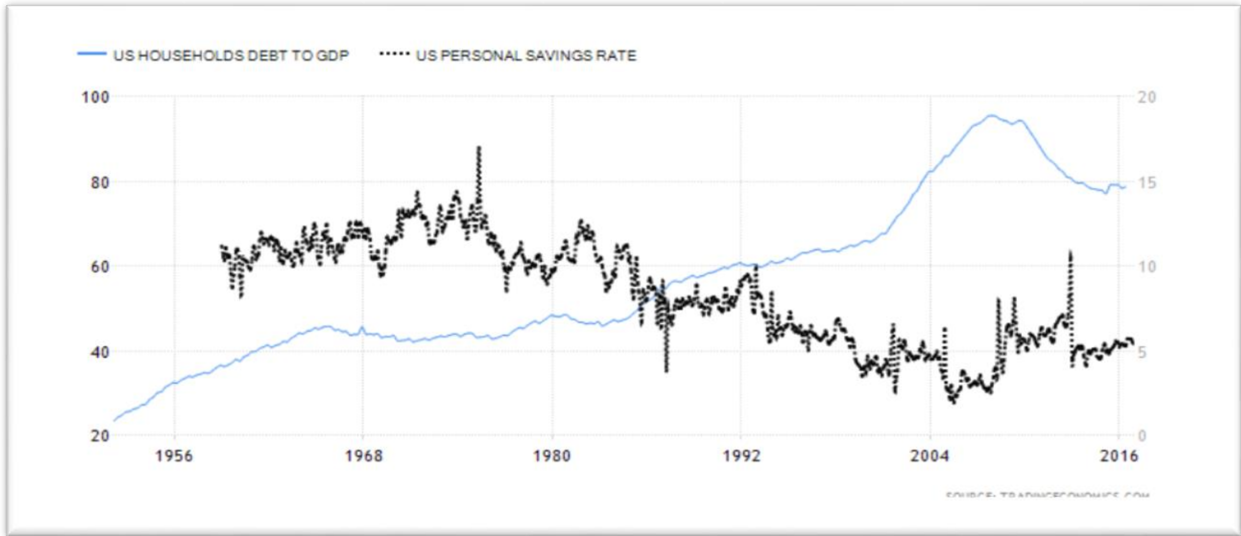
	Total GDP Growth	Consumption	Government Spending	Investments	Net Exports
1947-2016 (Expansions)	4.19	2.38	0.59	1.30	(0.20)
2009-2016	2.12	1.60	(0.16)	0.92	(0.20)

Data Source: Federal Reserve Bank St. Louis

Table 1 shows the comparison of the average growth rates of GDP and its components between the most recent expansion and all the expansion periods after WWII. Consumption, investments and government spending all underperformed the historical averages. Moreover, the government spending had a negative contribution to the GDP growth. We may be able to explain the slow growth of each component and total GDP with the following three charts.

(1) High household leverage hampered consumption as households had to save more in order to reduce debt burden. Figure 1 shows that after reaching its highest level of 95.5%, the household debt-to-GDP ratio declined to 78.8% as saving rates increased.

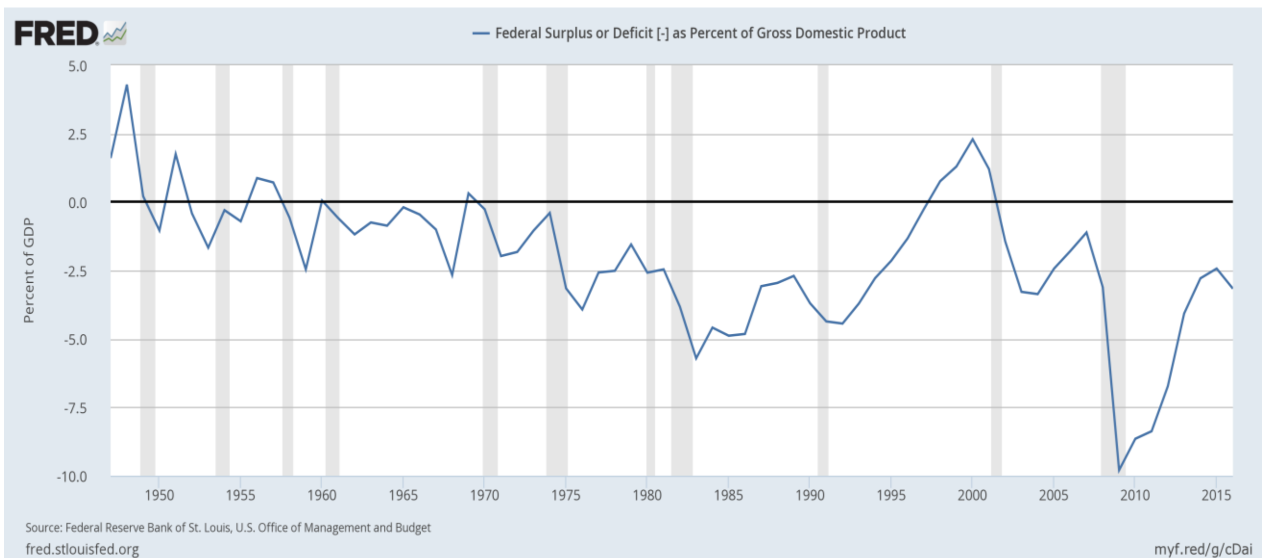
Figure 1: House Debt-to-GDP Ratio and Personal Savings Rate



Source: TradingEconomics.com

(2) The efforts and austerity measures to balance federal budgets worked against economic growth. Figure 2 shows budget deficits as a percentage of GDP reached the highest post-WWII level (-9.8%) after the Great Recession. The US government, especially the Congress rushed to cut spending and balance the budgets. Those efforts may be necessary, but they slowed the economic recovery.

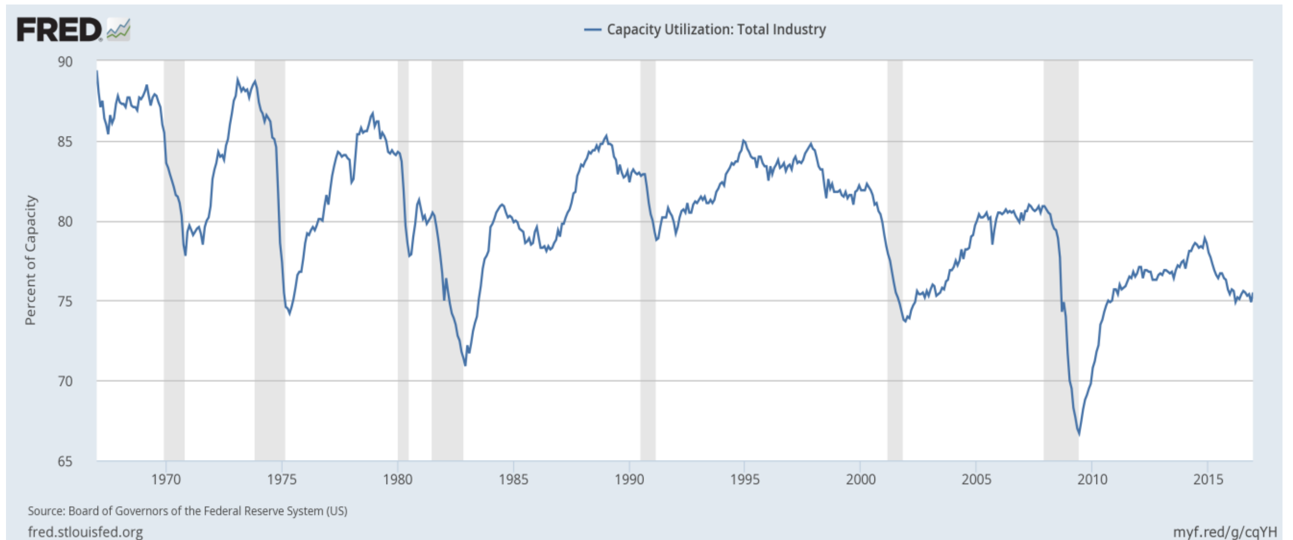
Figure 2: Federal Budget Deficit as a Percentage of GDP



Source: Federal Reserve Bank St. Louis

(3) Excess capacity dis-incentivized business from increasing investment spending. Figure 3 shows the current total industry capacity utilization rate of 75.5% was well below the pre-crisis level.

Figure 3: Total Industry Capacity Utilization Rate



Source: Federal Reserve Bank St. Louis

How can we get out of the low-growth "new normal"? Fiscal policies such as infrastructure spending and tax cuts can definitely help. After eight years of fiscal conservatism, the government balance sheet is in a better shape. The US budget deficits have improved from 9.8% of GDP to 3.2%. It is a better time for us to use fiscal measures to stimulate the economy, especially after we have exhausted other tools like monetary policies.

Julex Capital Management is a SEC-registered quantitative investment management firm specializing in tactical asset allocation strategies. The firm offers a variety of tactical unconstrained investment solutions aiming to provide downside risk management while maximizing the upside potentials using its unique Adaptive Investment Approach.

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