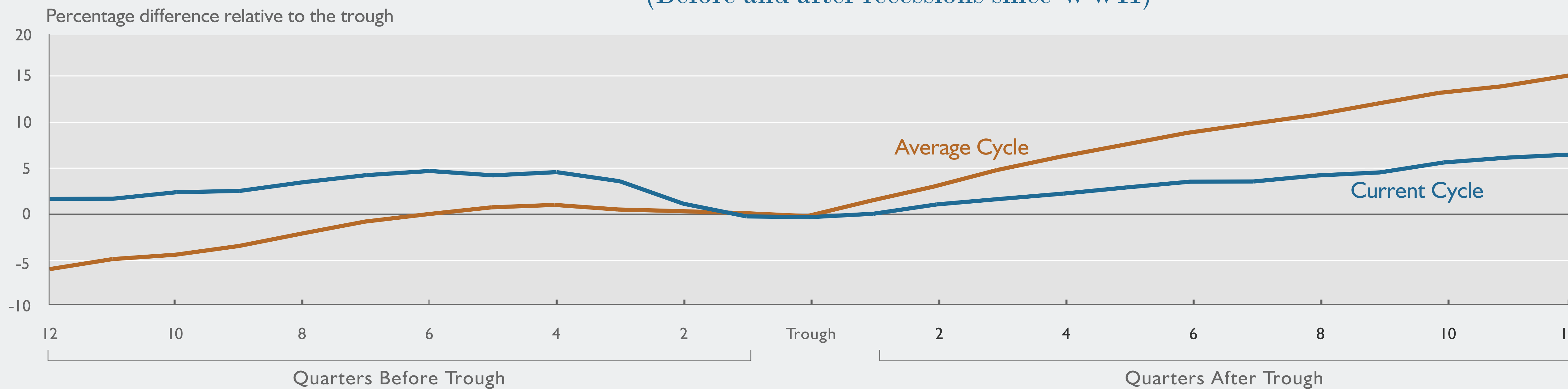
SLOW RECOVERY

What Accounts for the Slow Growth of the Economy After the Recent Recession?

The U.S. economy has grown slowly since the deep recession in 2008 and 2009. In the three years following the recession, the cumulative growth of the nation's output—real (inflation-adjusted) gross domestic product (GDP)—was nearly 9 percentage points below the average seen in previous economic recoveries since the end of World War II, or less than half the average growth during those other recoveries.

REAL GDP

(Before and after recessions since WWII)



9% Difference in growth after 3 years

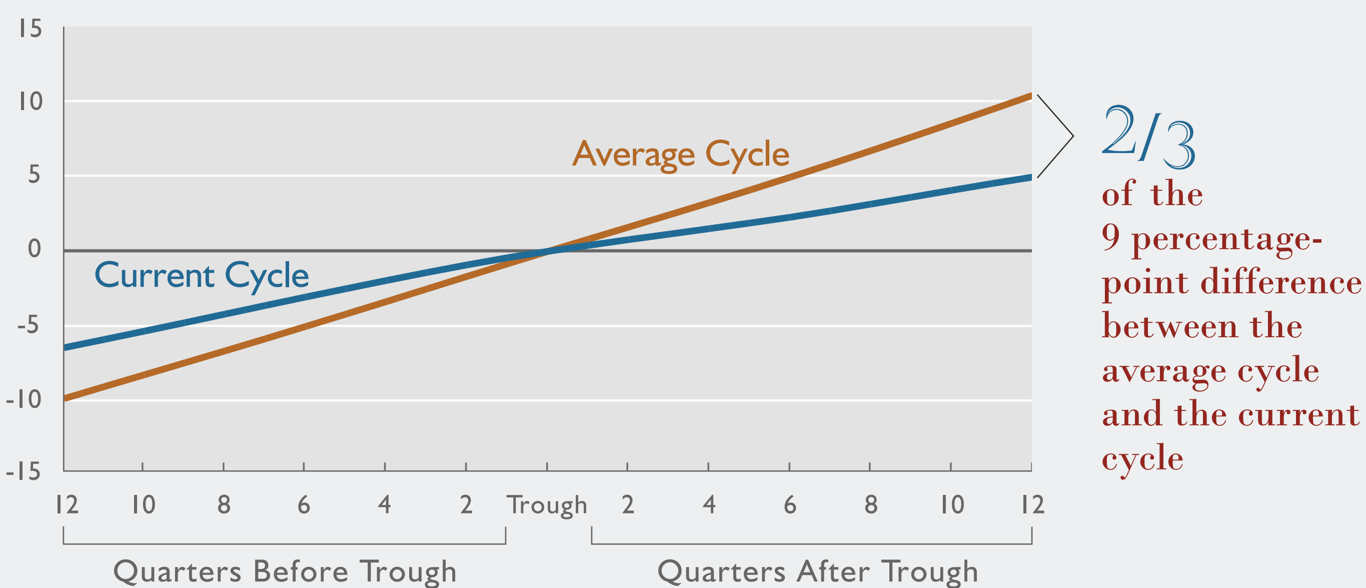
The *average cycle*, or the pattern of economic growth before and after the end (or trough) of a recession, is the average for cycles since 1945 (except those followed by another recession within 3 years). The *current cycle* is from the 2nd quarter of 2006 to the 2nd quarter of 2012, with the trough in the 2nd quarter of 2009.

What explains the difference in growth of real GDP between the current cycle and the average cycle?

2/3 is from slower growth in the productive capacity of the economy (potential GDP)

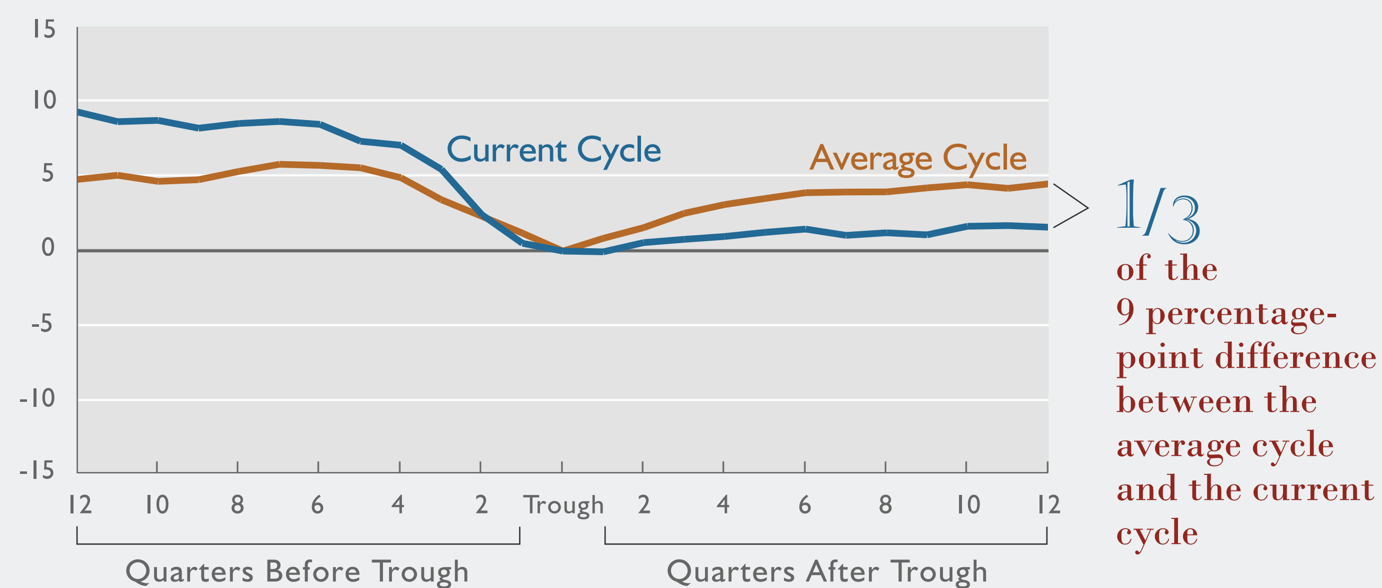
1/3 is from slower growth of output (real GDP) relative to the productive capacity of the economy

POTENTIAL GDP



2/3 of the 9 percentage-point difference between the average cycle and the current cycle

REAL GDP AS A PERCENTAGE OF POTENTIAL GDP



1/3 of the 9 percentage-point difference between the average cycle and the current cycle

Why has potential GDP grown more slowly?

Employment

In part reflecting long-standing trends, the potential number of employed workers (the number of employed workers adjusted for variations caused by the business cycle) grew half as quickly between 2009 and 2012 as it did during eight previous recoveries, because of slower growth in the population of working-age people and other factors.

More than **1/3**

Capital Services

The flow of services available from capital assets—such as equipment, structures, inventories, and land—grew more slowly in the current recovery, because net investment (relative to the existing stock of those assets) was much lower during this recession than in others and because of long-standing trends in potential employment and productivity.

More than **1/3**

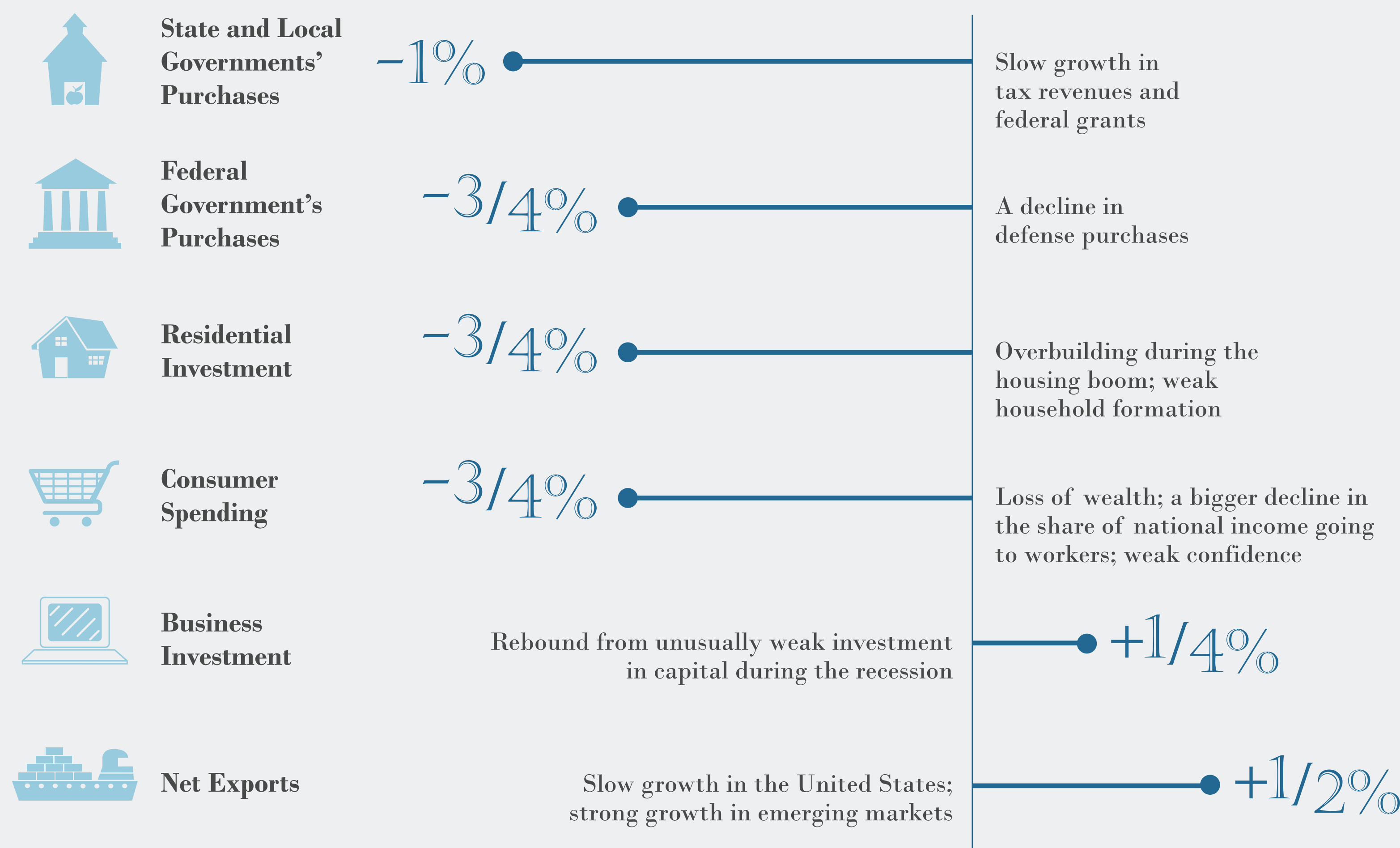
TFP Total Factor Productivity

In part reflecting long-standing trends, efficiency in producing goods and services grew more slowly in the current recovery than it did in past recoveries. (That level of efficiency, or potential "total factor productivity," is the average real output per unit of input from labor and capital services combined, adjusted for variations caused by the business cycle.)

About **1/5**

Shares indicate the contribution to the slowed pace of growth of potential GDP since the end of the recession.

How have the components of real GDP differed from their usual pattern relative to potential GDP?



Numbers show how much each component of GDP affected the growth of the ratio of real GDP to potential GDP compared with the average for previous recoveries.

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For details, see *What Accounts for the Slow Growth of the Economy After the Recession?* (www.cbo.gov/publication/43712)