Recovery Is Weakest Since World War II

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WASHINGTON — The recession that ended three years ago this summer has been followed by the feeblest economic recovery since the Great Depression.

Since World War II, 10 U.S. recessions have been followed by a recovery that lasted at least three years. An Associated Press analysis shows that by just about any measure, the one that began in June 2009 is the weakest.

The ugliness goes well beyond unemployment, which at 8.3 percent is the highest this long after a recession ended.

Economic growth has never been weaker in a postwar recovery. Consumer spending has never been so slack. Only once has job growth been slower.

More than in any other post-World War II recovery, people who have jobs are hurting: Their paychecks have fallen behind inflation.

Many economists say the agonizing recovery from the Great Recession, which began in December 2007 and ended in June 2009, is the predictable consequence of a housing bust and a grave financial crisis.

Credit, the fuel that powers economies, evaporated after Lehman Brothers collapsed in September 2008. And a 30 percent drop in housing prices erased trillions in home equity and brought construction to a near-standstill.

So any recovery was destined to be a slog.

"A housing collapse is very different from a stock market bubble and crash," says Nobel Prize-winning economist Peter Diamond of the Massachusetts Institute of Technology. "It affects so many people. It only corrects very slowly."

The U.S. economy has other problems, too. Europe's troubles have undermined consumer and business confidence on both sides of the Atlantic. And the deeply divided U.S. political system has delivered growth-chilling uncertainty.

The AP compared nine economic recoveries since the end of World War II that lasted at least three years. A 10th recovery that ran from 1945 to 1948 was not included because the statistics from that period aren't comprehensive, although the available data show that hiring was robust. There were two short-lived recoveries — 24 months and 12 months — after the recessions of 1957-58 and 1980.

Here is a closer look at how the comeback from the Great Recession stacks up with the others:

FEEBLE GROWTH

America's gross domestic product — the broadest measure of economic output — grew 6.8 percent from the April-June quarter of 2009 through the same quarter this year, the slowest in the first three years of a postwar recovery. GDP grew an average of 15.5 percent in the first three years of the eight other comebacks analyzed.

The engines that usually drive recoveries aren't firing this time.

Investment in housing, which grew an average of nearly 34 percent this far into previous postwar recoveries, is up just 8 percent since the April-June quarter of 2009.

That's because the overbuilding of the mid-2000s left a glut of houses. Prices fell and remain depressed. The housing market has yet to return to anything close to full health even as mortgage rates have plunged to record lows.

Government spending and investment at the federal, state and local levels was 4.5 percent lower in the second quarter than three years earlier.

Three years into previous postwar recoveries, government spending had risen an average of 12.5 percent. In the first three years after the 1981-82 recession, during President Ronald Reagan's first term, the economy got a jolt from a 15 percent increase in government spending and investment.

This time, state and local governments have been slashing spending — and jobs. And since passing President Barack Obama's $862 billion stimulus package in 2009, a divided Congress has been reluctant to try to help the economy with federal spending programs. Trying to contain the $11.1 trillion federal debt has been a higher priority.

Since June 2009, governments at all levels have slashed 642,000 jobs, the only time government employment has fallen in the three years after a recession. This long after the 1973-74 recession, by contrast, governments had added more than 1 million jobs.

EXHAUSTED CONSUMERS

Consumer spending has grown just 6.5 percent since the recession ended, feeblest in a postwar recovery. In the first three years of previous recoveries, spending rose an average of nearly 14 percent.

It's no mystery why consumers are being frugal. Many have lost access to credit, which fueled their spending in the 2000s. Home equity has evaporated and credit cards have been canceled. Falling home prices have slashed home equity 49 percent, from $13.2 trillion in 2005 to $6.7 trillion early this year.

Others are spending less because they're paying down debt or saving more. Household debt peaked at 126 percent of after-tax income in mid-2007 and has fallen to 107 percent, according to Haver Analytics. The savings rate has risen from 1.1 percent of after-tax income in 2005 to 4.4 percent in June. Consumers have cut credit card debt by 14 percent — to $865 billion — since it peaked at over $1 trillion in December 2007.

"We were in a period in which we borrowed too much," says Carl Weinberg, chief economist at High Frequency Economics. "We are now deleveraging. That's a process that slows us down."

THE JOBS HOLE

The economy shed a staggering 8.8 million jobs during and shortly after the recession. Since employment hit bottom, the economy has created just over 4 million jobs. So the new hiring has replaced 46 percent of the lost jobs, by far the worst performance since World War II. In the previous eight recoveries, the economy had regained more than 350 percent of the jobs lost, on average.

During the 1981-82 recession, the U.S. lost 2.8 million jobs. In the three years and one month after that recession ended, the economy added 9.8 million — replacing the 2.8 million and adding 7 million more.

Never before have so many Americans been unemployed for so long three years into a recovery. Nearly 5.2 million have been out of work for six months or more. The long-term unemployed account for 41 percent of the jobless; the highest mark in the other recoveries was 22 percent.

Gregory Mann, 58, lost his job as a real estate appraiser three years ago. "Basically, I am looking for anything," he says. He has applied to McDonald's, Target and Nordstrom's.

"Nothing, not even a rejection letter," he says.

His wife, a registered nurse, has lost two jobs in the interim — and just received an offer to work reviewing medical records near Atlanta.

"We are broke and nearly homeless," he says. "If this job for my wife hadn't come through, we would be out on the street come Sept. 1 or would have had to move in with relatives."

Federal Reserve Chairman Ben Bernanke has called long-term unemployment a "national crisis." The longer people remain unemployed, the harder it is to find work, Bernanke has said. Skills erode, and people lose contact with former colleagues who could help with the job search.

SHRINKING PAYCHECKS

Usually, workers' pay rises as the economy picks up momentum after a recession. Not this time. Employers don't have to be generous in a weak job market because most workers don't have anywhere to go.

As a result, pay raises haven't kept up with even modest levels of inflation. Earnings for production and nonsupervisory workers — a category that covers about 80 percent of the private, nonfarm workforce — have risen just over 6.2 percent since June 2009. Consumer prices have risen nearly 7.2 percent. Adjusted for inflation, wages have fallen 0.8 percent. In the previous five recoveries —the records go back only to 1964 — real wages had gone up an average 1.5 percent at this point.

Falling wages haven't hurt everyone. Lower labor costs helped push corporate profits to a record 10.6 percent of U.S. GDP in the first three months of 2012, according to the Federal Reserve Bank of St. Louis. And those surging profits helped lift the Dow Jones industrials 54 percent from the end of June 2009 to the end of last month. Only after the recessions of 1948-49 and 1953-54 did stocks rise more.

Stock investments may be coming back, but savings are still getting squeezed by the rock-bottom interest rates the Fed has engineered to boost the economy. The money Americans earn from interest payments fell from nearly $1.4 trillion in 2008 to barely $1 trillion last year — a drop of more than $370 billion, or 27 percent. That amounts to shrinking income for many retirees.

Washington isn't doing much to help the economy. An impasse between Obama and congressional Republicans brought the U.S. to the brink of default on the federal debt last year —a confrontation that rattled financial markets and sapped consumer and business confidence.

Given the political divide, businesses and consumers don't know what's going to happen to taxes, government spending or regulation. Sharp tax increases and spending cuts are scheduled to kick in at year's end unless Congress and the White House reach a budget deal.

In the meantime, it's difficult for consumers to summon the confidence to spend and businesses the confidence to hire and expand. Never in the postwar period has there been so much uncertainty about what policymakers will do, says Steven Davis, an economist at the University of Chicago Booth School of Business: "No one is sure what will actually happen."

As weak as this recovery is, it's nothing like what the U.S. went through in the 1930s. The period known as the Great Depression actually included two severe recessions separated by a recovery that lasted from March 1933 until May 1937.

It's tough to compare the current recovery with the 1933-37 version. Economic figures comparable to today's go back only to the late 1940s. But calculations by economist Robert Coen, professor emeritus at Northwestern University, suggest that things were far bleaker during the recovery three-quarters of a century ago: Coen found that unemployment remained well above 10 percent — and usually above 15 percent — throughout the 1930s.

Only the approach and outbreak of World War II — the ultimate government stimulus program — restored the economy and the job market to full health.

Syrian Warplanes Bomb Town, Kill At Least 20

AZAZ, Syria (AP) — Syrian fighter jets screamed through the sky Wednesday over this rebel-held town, dropping bombs that leveled the better part of a poor neighborhood and wounded scores of people, many of them women and children buried under piles of rubble. Activists said more than 20 people were killed.

The Britain-based Syrian Observatory for Human Rights said 23 people died in the double airstrike and more than 200 were wounded. Mohammed Nour, a local activist reached by phone, put the death toll at 25. Neither figure could be independently confirmed.

Reporters from The Associated Press saw nine dead bodies in the bombings' immediate aftermath, including a baby.

The bombings sent panicked civilians fleeing for cover. So many were wounded that the local hospital locked its doors, directing residents to drive to the nearby Turkish border so the injured could be treated on the other side. One person's remains were bundled into a small satchel.

A group of young men found a man buried in the wreckage of destroyed homes, his clothes torn and his limbs dirty, but still alive.

Army General Faces Demotion For Spending

WASHINGTON (AP) — A four-star Army general who was the first head of the new U.S. Africa Command is under investigation and facing possible demotion for allegedly spending hundreds of thousands of dollars improperly on lavish travel, hotels and other items, The Associated Press has learned.

Gen. William "Kip" Ward has been under investigation for about 17 months, and Defense Secretary Leon Panetta is expected to make a final decision on the matter before the end of the month, according to several defense officials.

The defense officials said Ward is facing numerous allegations that he spent several hundred thousand dollars allowing unauthorized people, including family members, to fly on government planes, and spent excessive amounts of money on hotel rooms, transportation and other expenses when he traveled as head of Africa Command.

A four-star general is the highest rank in the Army.

While the exact amount of alleged misspending was not disclosed, the estimated total raises comparisons with the $823,000 allegedly spent by dozens of employees of the General Services Administration, who were accused of lavish spending during an October 2010 conference at a Las Vegas resort.

Romney Tries To Portray A Divisive President

CHARLOTTE, N.C. (AP) — Mitt Romney is portraying the outwardly calm President Barack Obama as a man seething with animosity and power lust as the Republicans seek to undermine one of the Democrat's greatest campaign strengths — his personal likability.

The president's re-election effort, Romney said Wednesday, "is all about division and attack and hatred." Obama, Romney added later while campaigning in Charlotte, is an angry man who "will do or say anything to get elected."

Whether by calculation or not, Obama highlighted his most genial side as he campaigned in Iowa, joking with voters about the pleasures of state fair junk food, and joshing with his wife, who made a rare campaign appearance with him.

"It all boils down to who you are and what you stand for," Michelle Obama told Iowans in Dubuque, on the final leg of the president's three-day bus tour of that toss-up state. "We all know who my husband is, don't we? And we all know what he stands for."

With polls showing Obama with a slight lead, Romney is focused on the "likability gap" that is evident in surveys that consistently show Obama ranking higher on general favorability questions than on handling the economy, which until now has been the Republican's chief focus. Romney's approach also comes as he and his running mate, congressional budget writer Paul Ryan, face increasing questions on a touchy economic issue for many Americans" their stance on Medicare.