

October 2013

TO: Interested Parties

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RE: Economic EKG: What the Last Debt Ceiling Crisis Did to Our Economic Health

The economic heartbeat of America is measured through a number of indicators—from job growth to consumer confidence. During the debt limit crisis of 2011, our nation’s EKG started to falter, triggering a drop in employment, confidence, manufacturing, and markets.

In this memo, we provide a snapshot of how six areas of the economy responded to what was merely a close call on default in 2011. Specifically, we look at our economic health four months before the crisis unfolded (March 2011-June 2011), the four-months during and immediately after the crisis (July 2011-October 2011), and the four months that followed (November 2011-February 2012). While other world events always have an effect on our nation’s economic health, there is little doubt that a simple threat of default was an attack on our recovery.

1. **Monthly job growth** took a 27.9% nosedive as businesses delayed hiring. Based on the four-month average before the default threat, it cost Americans more than 200,000 jobs.¹

Total Nonfarm Employment Growth, Four Month Average

Before	During	After
208,250	150,250	246,500

2. **Part-time employment** due to cut backs in hours, or the inability to find a full-time job rose by an average of 2.3%. This means more people were unable to get full-time jobs as a result of unfavorable business conditions.²

Part-Time Employment, Four Month Average

Before	During	After
8,568,000	8,764,750	8,237,750

3. **Consumer confidence** fell 15.3% mirroring levels not seen since the recession. Consumer concern decreases consumer activity, negatively impacting GDP.³

Index of Consumer Sentiment, Four Month Average

Before	During	After
70.8	60.0	71.0

4. **Small businesses confidence** fell by 2.1% as more businesses worried about the strength of the economy. This means more businesses were concerned about things like earnings, credit, sales, and employment.⁴

Small Business Optimism Index, Four Month Average

Before	During	After
91.2	89.3	93.5

5. **Manufacturing** dropped 7.8%; the Institute for Supply Management (ISM) Manufacturing Index has yet to return to pre-debt crisis levels. This shows that manufacturing expansion slowed, negatively affecting employment, production, and new orders.⁵

ISM Manufacturing Index, Four Month Average

Before	During	After
57.0	52.6	52.7

6. The four-month average of the **S&P 500 Index** lost 7.1% (this includes a 6.7% nosedive on August 8th after our credit was downgraded) costing the nation's investors and 401K holders over \$700 billion.⁶ The market didn't return to pre-debt crisis levels until January 2012.⁷

S&P 500 Closing Price, Four Month Average

Before	During	After
1,314.6	1,220.8	1,279.6

This is the damage that flirting with the debt ceiling inflicted on the economy. Do we really want to do this again? Even worse, do we really want to risk going over?

Endnotes

¹ Job growth measured from the average of four-month periods of total nonfarm employment growth in the U.S. See United States, Department of Labor, Bureau of Labor and Statistics, "Employees on Nonfarm Payrolls by Industry Sector and Selected Industry Detail," Data Retrieval: Employment, Hours, and Earnings. Accessed September 6, 2013. Available at: <http://www.bls.gov/webapps/legacy/cesbtab1.htm>.

² Based on four-month period averages of part-time employment. See United States, Department of Labor, Bureau of Labor and Statistics, "Household Data: Employed Persons by Class of Worker and Part-Time Status," Data Retrieval: Labor Force Statistics. Accessed September 5, 2013. Available at: <http://www.bls.gov/webapps/legacy/cpsatab8.htm>.

³ Based on four-month period averages of the Index of Consumer Sentiment. See "The Index of Consumer Sentiment, Time Series Data," Thomson Reuters & University of Michigan Surveys of Consumers. Accessed September 21, 2013. Available at: <http://www.sca.isr.umich.edu/data-archive/mine.php>.

⁴ Based on four-month period averages of the Small Business Optimism Index. See William C. Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends," National Federation of Independent Businesses, August 2013, page 4. Accessed September 5, 2013. Available at: <http://www.nfib.com/research-foundation/research-foundation-article?cmsid=63547>; see also William C. Dunkelberg and Holly Wade, "NFIB Small Business Economic Trends," National Federation of Independent Businesses, January 2011, page 4. Accessed September 12, 2013. Available at: <http://www.nfib.com/research-foundation/research-foundation-article?cmsid=55633>.

⁵ Based on four-month period averages of the ISM Manufacturing Index. See "ISM Manufacturing Report on Business PMI History," Institute for Supply Management. Accessed September 5, 2013. Available at: <http://www.ism.ws/ISMReport/content.cfm?ItemNumber=10752>.

⁶ The S&P 500 alone on August 8, 2011 lost \$729.3bn in value. See Ryan Vlastelica, "Wall Street Plummets as Fear Jumps on Historic Downgrade," Reuters, August 8, 2011, online ed. Accessed September 24, 2013. Available at: <http://mobile.reuters.com/article/topNews/idUSTRE7771O020110808?i=8>.

⁷ Based on four-month period averages of the S&P 500's closing price. See United States, Federal Reserve Bank of St. Louis, Economic Research, "S&P 500 Stock Price Index," Stock Market Indexes. Accessed September 18, 2013. Available at: <http://research.stlouisfed.org/fred2/series/SP500/downloaddata>.