Most Texans take long road trips to visit family members who live within the state. The trips are even longer when we visit out-of-state relatives or go on summer vacations. All of us can relate to the long trips during which we set the cruise control and drive toward our final destination. Often we travel at the same pace as the cars around us and, given the speed limit, we may be in the company of the same cars for a couple of hours at a time. However, if a Starbucks’ billboard lures us off the road, or we take a pit stop, we drop off the pace of our traveling companions and never catch up unless they stop or we pick up the pace.

The US economy took a long figurative pit stop with the great recession of 2008 and 2009. Typically, once the economy bottoms out, as the US economy did in June of 2009, faster than average growth during the recovery phase gets the economy back to where it should have been had it kept growing at the pre-recession rate. By the third quarter of 2011 GDP had recovered to its prerecession peak, but as Figure 1 illustrates, actual gross domestic product (GDP), has not caught up with potential GDP.

Potential GDP measures the long-run trend in GDP, assuming the economy is operating close to its normal capacity. Since June of 2009 the economy has grown at about the same pace as the pre-recession rate, but not much faster. The economy has not regained its potential—it has not caught up to where it could be. As of the first quarter of the year, actual GDP was 5.6 percent lower than potential.

Because potential GDP is updated using past data, the most recent estimates from February 2013 take into account the slower growth during the current recovery. Consequently, the February 2013 estimates are lower than previous estimates and if the sluggish recovery continues the next time the series is re-estimated, the potential will be lower.

So is declining potential GDP the new norm as some bothersome...
The labor market has not yet regained its potential as Figure 2 illustrates. Three series are presented: all non-farm employment, health care employment, and all non-farm employment with health care excluded. Each series is indexed to its respective employment levels at the December 2007 business cycle peak.

The preliminary estimate of total non-farm employment for August 2013 is just over 136 million employees or 98.6 percent of the December 2007 employment level. The current employment is only 3 percent higher than employment at the peak of the last business cycle more than a dozen years ago. The series based on non-farm employment excluding the health care sector indicates that its level today and at the peak of the previous business cycle is essentially the same.

In general, then, employment has not recovered to its previous peak and absent the growth in the health care sector, employment is about at the same level as the peak of the last business cycle of more than a decade ago. Moreover, expressed as a percent of the working population the picture is even worse.

Health care sector employment tells an entirely different story. Here it is worth focusing on how this sector has fared over the business cycle and through the course of the substantial legislative changes associated with the Affordable Care Act (ACA). Health care employment growth has been unaffected by the last two business cycles as illustrated in the figure. Since the beginning of the this recession, health care employment has grown more than 11 percent, and the growth was steady, even during the contraction in which all employment fell almost 6 percent.

Figure 3 provides an additional perspective on the employment changes since December 2007. It depicts the changes in industry employment between the previous business cycle peak and the trough and between the peak and the present. For each industry, employment changes between the previous peak and the present are identified by the blue bars. The health care sector experienced the greatest positive employment change with the addition of 1.5 million employees. At the other end of the spectrum, manufacturing employment declined by 1.8 million and construction employment declined by 1.7 million. Overall, six industries added employees while seven lost employees.

The employment changes between the peak and the trough identified by the red bars are also of interest. Only four sectors added jobs as the economy contracted with the health care sector experiencing the largest gain, followed by government, educational services and so-

**Figure 3. Change in Industry Employment**

- Health care
- Leisure and hospitality
- Professional and business services
- Educational services
- Social assistance
- Mining and logging
- Other services
- Information
- Financial activities
- Government
- Trade, transportation, and utilities
- Construction
- Manufacturing

Altogether the evidence from the labor market suggests that the health care sector was largely unaffected by the recession. Health care grew before, during and after the recession. This stable growth in the health care sector is also seen in per capita consumption expenditure data.

As of the second quarter of this year, real per capita expenditures on health care services were 7 percent higher than they were at the previous business cycle peak. At the trough of the business cycle, they were actually 2 percent higher than at the previous peak. Essentially, the growth in the health care component of consumption was unaffected by the economic downturn, which is consistent with what we saw in the labor market.

In contrast, real per capita expenditures on services other than health care were 3 percent lower at the trough than at the peak and expenditures on goods were 8 percent lower. By the second quarter of 2013 expenditures on services other than health care were 1 percent lower than at the peak, and expenditures on goods had recovered and were 3 percent higher.

A final set of indicators of how the health care sector performed over the business cycle and during the legislative process associated with the passage of the ACA is presented in Figure 4. The figure shows the total return on the S&P 500 and on the total return on the Health Sector index.

From the trough of the recession to the present, the total return in the stock market has been 100 percent including dividend reinvestment. The health care sector is now 125 percent higher than at the trough. Since the ACA was signed into law on March 3, 2010 the rise in the total return in the health care sector has outpaced the market, rising 69 percent compared to the 55 percent for the S&P 500. Further, since the Supreme Court ruling upholding the individual mandate, the health care sector continued to rise more rapidly than the market in general.

Both the labor market and consumption expenditures indicate that the health care sector grew unabated during the most serious economic downturn since the Great Depression. Further, the stock market data suggests that during the recovery, the health care sector has outpaced the broader market. The passage of the ACA does not appear to have adversely affected the market’s expectations about the health care sector’s future prospects.

What can draw from these observations concerning the performance of the health care component of the economy? The fact that health care employment and real per capita consumption grew throughout the business cycle at their prerecession rates are indicative of the fact that health care consumption is largely paid for by third parties. Payment by government and private insurance allows for continued consumption growth even during a severe recession. The health sector’s stock market performance suggests a positive future.

One probably should not conclude that the health sector is a model for the rest of the economy. Its relatively better performance and stable growth are more indicative of how other resources are reallocated through government programs and tax incentives that ultimately ensure the sector’s growth.

Some final food for thought: Does the health care sector’s performance help explain why the economy has not reached its potential?
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