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Economic Outlook: Where We Stand

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Key Observations

Growth going into the second half of 2013 was better than expected given the enormous fiscal drag from the sequester. Fourth quarter 2013 GDP growth was lower but the broad trend for 2014 is growth.

2013 was a much stronger year for employment growth if one removes the government sector and only looks at the private sector.

Housing has been recovering and there's still a lot of upside potential. Housing markets remain affordable even with interest rates rising during 2013.

Declining growth of real per capita national health spending is a positive for the economy. If these costs continue to come down, workers will get more compensation in the form of wages.

Another upside for the economy has been an enormous increase in the domestic production of

oil, which now exceeds imports. That's had an impact on the trade deficit, which is narrower than pre-crisis years.

The biggest challenge is our long-term unemployment rate, which creates a systemic problem for the economy.

The United States labor market has historically been characterized by a lot of churn as people look for jobs that better fit their talents. But this churn has slowed down, creating fewer openings and making it even harder for the long-term unemployed to find jobs.

Divorcing jobs from health insurance is very important to having a healthy labor market, and is probably one of the Affordable Care Act's most important accomplishments. People should choose their job based on where their talents will be best utilized and not on other factors.

The unemployment rate for college graduates remains elevated, largely because older college graduates who are long-term unemployed are having a hard time finding their way back into the labor force.

Real wages have been stagnating for quite some time. Overall U.S. income has grown but it's going to the top. This is not anything new, but we have not made much progress in slowing this increase in wage inequality.