Are We Getting Better Or Just Worse At A Slower Pace?

Bob Richards, Economist

Retail sales are up. Industrial production is up. So are housing starts, non-farm employment, exports and business confidence. Even department store sales in the New York area are finally turning around.

At the same time, inflation, interest rates, new jobless claims and personal debt are all, gratifyingly, down.

Is the recession over? Finally, after 19 months, the answer appears to be yes.

But before anyone gets too excited, a dose of reality. The difference between recession and recovery may be little more than a statistical technicality. The economy may not be falling, but neither is it rising very quickly. The outlook is for more of the same: slow, perhaps even glacial, improvement. Unemployment may continue to rise for three to six months, perhaps longer. And there is always the possibility that the recovery will abort. Still, moving up beats moving down.

There is light, if only dim, at the end of the economic tunnel. The U.S. economy has been wallowing in recession for more than a year and a half and stagnating for about three years. Output hasn’t fallen very much — the drop has been only half the size of recent recessions. But it has sent more than a million Americans onto the jobless rolls.

Only last fall did the Federal Reserve Board turn from mouse to tiger — pushing down interest rates in order to jump-start the economy. In February the Fed followed with a cut in reserve requirements, which freed banks to lend more money.

Last spring, the economy also ticked up, only to turn back down again during the summer. There’s no guarantee that a recovery won’t also abort. But that’s unlikely because the Fed’s new policy should keep sectors that depend on low-interest loans — residential housing, consumer durables and corporate investment — healthy. Another optimistic sign: Inventories are low, so as retail sales pick up, stores will have to send orders to factories to speed up production.

Not everything is rosy. Robert Gordon, an economics professor at Northwestern University and a member of the committee that determines the stop and start dates of recessions for the National Bureau of Economic Research, says one-third of the economy will continue to stagnate. Commercial real estate is dead; until vacant office space is filled, there won’t be new construction. And the defense industry is headed down, fast. Even exports — which have been the main source of new jobs during the last few years — will probably slow because the Japanese and German economies are running into trouble.

Mr. Gordon predicts that output will grow by 2 or 3 percent a year. That is about half the rate of a normal recovery and barely enough to keep unemployment steady. Indeed, Mr. Gordon expects unemployment to hover around 7 percent, then fall by the middle of next year to around 6.5 percent — more than one percentage point above the rate that prevailed before the recession.

The best guess is that unemployment will stay steady or edge a bit higher because companies are unlikely to make permanent hires until they’re convinced recovery is for real. When might that be? Perhaps early fall. Just in time to affect the November elections, one way or the other.

As you may have surmised, the preceding was an article depicting the 1990-1991 recession from a March 22, 1992, opinion piece in The New York Times titled "Is the Recession Over?" While the 2007-20?? recession is turning into the fourth longest recession in eighty years, it will pass. One thing the 1992 article is missing to sound somewhat like our current economic conditions is the credit debacle.

So when will we start getting good news about our economy? At the time of this writing, the Dow Jones Industrial Average (DJIA) had seen five out of six days of gains. Both Citigroup and Bank of America announced improving operations in the first two months of 2009. February multi-family housing starts jumped 22 percent from January. Federal Reserve Chairman Ben Bernanke optimistically suggested that the recession would be over in the second half of 2009 and recovery would accelerate through 2010.

“We’re starting to build a base here,” said Douglas Kreps, a managing director at Fort Pitt Capital Group. “We may not be getting better, but we’re getting worse at a slower rate.” Kreps added that each day that goes by without disappointing news can help further strengthen that base. “Being able to go a week or more without bad news” is a good sign, he said. Some economists are predicting the
economy could shrink at an annualized 5.2 percent pace in the first quarter after a 6.2 percent contraction in the previous fourth quarter. Here’s an example of getting worse at a slower rate or what economists call decreasing at a decreasing rate.

When should we say that there is light at the end of the economic tunnel? The Business Cycle Dating Committee of the National Bureau of Economic Research is considered the authority on making these determinations. Remember, it took the committee until December 2008 to declare that we did indeed fall into a recession in December 2007. We need to look at both short-term and long-term indices to be certain of the recovery. The following is a list of indicators to watch for to determine when we finally hit the bottom and start seeing the long-awaited expansion period begin.

* Industrial production
* Quarterly real GDP
* Monthly payroll employment
* Monthly household employment
* Monthly real manufacturing and trade sales
* Initial unemployment claims
* Dow Jones industrial average
* Confidence indices
* Building permits and building starts

We will be following these measures very closely over the coming months and reporting on positive changes we see in the economy. If you have a SWAG as to when we hit bottom, send me an email to robertc.richards@state.nm.us.

Rates are not seasonally adjusted.
Source: NMDWS, Local Area Unemployment Statistics.

Source: http://finance.yahoo.com/q/hp?s=%5EDJI&a=00&b=1&c=2000&d=02&e=11&f=2009&g=m&z=66&y=0.