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Clunkers to Cali and Stella

Late July and early August were marked by a surge in auto sales as the Federal government gave up to $4,500 to people who happened to own certain vehicles worth less than $4,500 to trade in for new vehicles that got better mileage. Lo and behold people responded in droves to the passing out of the funds, and auto dealers were thrilled after a long tough spell. To an economist the clunker program shows once again that people will respond to incentives, give me thousands more than my old car is worth for a new one and I will buy. The juxtaposition of visiting granddaughters (Cali and Stella), the clunker program and the announcement that in one week the US government was going to borrow $200 billion proved to be troubling as I tried to sleep in the oven that was Portland in late July and early August. The funds for the wildly popular clunkers program were borrowed from savers around the world with perhaps some sales to the Federal Reserve. This in essence means that the taxpayers of the future will be making payments to bondholders who financed the giveaway. The next generation will not be inheriting long lived infrastructure from the program such as highways, bridges, or aircraft carriers, but rather the bills for long dead vehicles. My road bike is getting a bit long of tooth - I could ride further faster with less energy output with a new one-so I am patiently waiting for the cash for ten speeds program.

While this excitement was taking place on car lots, the economy continued to decline at a slower rate. The early estimates for the second quarter showed an annualized 1 percent rate of decline-far better than the revised 6.4 percent and 5.4 percent of the previous two quarters. Consumer spending fell in the quarter, but the drag from investment and housing diminished as did the pace of inventory reduction. The surge in auto sales will boost industrial production in the third quarter as inventories have been reduced. Initial unemployment claims continue to trend down, while leading indicators are rising. Evidence for a bottom in housing continues to mount with resales, permits and new construction increasing and some prices stabilizing. The July employment data showed a net decline of 247,000 jobs and upward revisions to job counts in May and June. There was also a slight, but heartening, increase in the average workweek. There were seasonally adjusted increases in employment in education and health services, leisure and hospitality and government. The end game of the recession is drawing near, but the obituary is not likely to be written for 1-2 years after the data is collected and revised. Attention is now turning to the nature of the recovery. What will happen to consumer spending amidst the wealth declines and re-discovered frugality-other than incentive induced auto sales? When will business investment rebound amidst lots of policy uncertainty and excess capacity? What is the exit strategy from the stimulus-the part that is not fun for policy makers- raising rates and taxes and cutting spending?

Within the region improvement is evident in some real estate markets. In the Puget Sound Region pending sales have been above last year's levels since April, according to the Northwest Multiple Listing Service. The Case Shiller Index reported an increase in Portland Home prices between April and May and pending sales have increased. As in the nation, the labor markets remain weak and the June data shows that all four states continue to experience annual declines in employment, as do all states other than North Dakota. Between May and June adjusted employment rose in 10 states-including Montana. There will be more of these signs in the months ahead.