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More Modest, Quasi Recession, Pause, Recovery

Midsummer saw revisions to the gross domestic product (GDP) data, showing a more serious downturn with the weakest quarter being the closing months of 2008. The opening of 2010 was stronger than earlier estimates at 3.7 percent growth with output now having risen for a year. Growth moderated during the second quarter this year to 2.4 percent and is likely to be revised lower in light of recent trade numbers. Output is not what most people (other than economists) think about; very understandably the focus is jobs and income, which of course are generated during the process of production. Output is up, but the July unemployment rate is still at 9.5 percent and payroll employment is still 7.7 million below where it was when the economy peaked in December of 2007. The disappointment and despair revolve around the pace of the upturn. Behind the numbers are people whose plans and livelihoods have been dashed. The Pew Research Center reported that 55 percent of adults in the labor force suffered unemployment, a pay reduction, a decrease in hours or became part timers. The second quarter growth rate slowdown was driven by decelerating consumer spending, slower inventory accumulation and a drag from trade. Recent employment data has been distorted by the Census ramp up and wind down. Wage and salary jobs rose by a net 432,000 in May and fell by 221,000 and 131,000 in the following two months. Private sector employment increased every month this year with gains of 51,000 jobs in May, 31,000 in June and 71,000 in July. The magnitude is disappointing, but the direction remains up.

Headlines have focused on the Fed's downward revision to their forecast, and use of the phrase "more modest" in the statement from the August meeting. The below-expectation increases in employment and GDP growth and weakness in the Economic Cycle Research Institute's leading index have some worried about a double dip a la the early 1980s. Former chairman, Greenspan, talked of a quasi recession. So far we are still growing, consumers are spending even as they reduce debt levels and business investment is holding up. Housing is seeking normalcy in the aftermath of tax credits while bouncing along what is hopefully the bottom. Policy makers at the Fed announced that they would maintain the size of their balance sheet by purchasing additional securities as those purchased last year and earlier this year mature and mortgages are paid down. It unwinds a slight tightening that would otherwise have taken place, but signals that more could be done if the weakness persists. Fiscal policy will be front and center over the next few months, as the expiration date of the Bush tax cuts approaches amidst concerns about the pace of the upturn, and the Obama stimulus starts to fade. A temporary extension, an extension for people with incomes less than $250,000 or no extension are amongs the myriad of options confronting policy makers. All this as mid-term elections draw near, and the Deficit Commission moves towards its early December report. Assuming employment and income continue to increase, business investment holds up, and policy makers do not blow it in an orgy of partisanship, we will continue to recover.

In the region, June data showed all four states continued to have year over year employment declines, but the magnitudes are diminishing as the monthly changes irregularly move upward. All the regional states, except Oregon, had an increase in residential building permits to June, trade volumes are rising, and there are indications that the travel and tourist activity has picked up in 2010. Wheat farmers saw a price uptick as the Russian crop wilted and an export ban was imposed. It even looks like the region might get a taste of summer weather before fall arrives.