

ECONOMIC REPORT

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Markers

In one's journey through life, there are milestones such as high school and college graduations, marriage, children, employment, loss of parents, and arrival of grandchildren that are significant events. I experienced one of these events earlier this month with the submission of my online application for Social Security Benefits as my 66th birthday draws nigh. It was a thought provoking and somewhat troubling event at a time of national angst over the economy and looming structural deficits (they will not go away with the recovery). The intellectual notion of unfunded liabilities becomes tangible. This is an intergenerational scheme that taxes today's workers to pay benefits to today's retirees. Previous contributions (taxes) in excess of benefits have been used for other government spending with Treasury securities placed in the trust fund.

The application process itself was very user friendly with a call back in less than one day. The agency is ramped up for the 10,000 people per day who become eligible over the next couple of decades. It makes one worry about the state of the labor market and the time it might take to get back to 4 - 5 percent unemployment rates, and thus generate the revenue to help fund the presently unfunded promises. In May, the unemployment rate for 16 - 19 year olds was 26.4 percent and 14.7 percent for 20 - 24 year olds. The weak labor market will dampen their income growth for an extended period. In addition, recently passed Medical Plan limits the differential in insurance rates for old and young, raising the relative rates for young people and thereby increasing their burden. As a soon to be transfer recipient, I fervently hope that the

young have more success in the labor market and soon.

The evidence of upturns and downturns does not always point in one direction; there are things like bear market rallies, dead cat bounces and corrections. The late spring of 2010 brought disappointment as a temporary surge in Census employment accounted for the vast bulk of job gains in May. Retail sales fell in May and there was a not surprising downshift in housing after the tax gimmicks expired. Questions rose as to whether or not the housing upswing would continue in the face of a full foreclosure pipeline and millions of underwater homeowners. Net worth rose by more than one trillion dollars in the first quarter, but the flash crash and increased volatility cast a pall over investors. At the same time, there are markers of progress in the recovery. Employment has been rising for five months, industrial production increased by 7.6 percent over the year and both real incomes and real retail sales have increased from cyclical lows. These are all indicators used by the dating committee of the National Bureau of Economic Research to track cyclical performance. The Great Recession is fading, but it is slipping away slowly and threats remain. State and local fiscal environments are forcing difficult choices; Governor Kulongoski in Oregon talks of a reset. The commercial real estate market remains weak and events in far off places are impacting currency values, possibly weakening the hoped for trade growth. Although at the same time driving down interest rates. (Even the Iranians are shifting reserves to dollars.)

The region has, like the nation seen, stabilization in labor markets and incipient signs of a rebound in the seasonally adjusted monthly data. Residential activity jumped prior to the end of the tax credits only to fall in May. In the Portland area the Regional Multiple Listing Service indicated that pending sales dropped 50.1 percent in May, and in Western Washington the decline was 44 percent according to the Northwest Multiple Listing Service. Now, as in the case of post cash-for-clunkers world, we will see what the new "normal" is going to be. Mortgage rates are at record lows (if one can qualify) but employment, motivation and income must all fall into place. It will be a long climb out.