

ECONOMIC REPORT

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In the heavily populated portions of the Northwest, sun deprived and nearly mildewed, residents wait for the first glorious warm days. Often they leap to the conclusion that summer is here. Disappointment soon follows with the usually damp and cool Memorial Day. Such is the uneasy transition to summer.

This year the economic data has turned mixed, payroll employment fell by "only" 539,000 in April down from a revised 699,000 decline in March, and rates of decline seem to be diminishing in a number of indicators. Housing appears to be bouncing along the bottom. Retail sales fell in March and April, suggesting that while more confident, the consumer is still cautious and constrained. Falling at a slower rate may not be justification for a parade, but it is a precondition for the downturn to end. The first quarter saw output decline at a 6.1 percent annual rate-very close to the previous quarter's 6.3 percent annualized decline. The decline in business investment, structures and equipment, was breathtaking as was the drop in housing which fell for the 13th consecutive quarter. But in the data were some hopeful signs- the uptick consumer spending and a massive inventory drawdown which subtracted just shy of 3 percentage points from the growth rate. This bodes well for the future as low inventories will mean new production when orders increase.

The absolute annual decline in the March and April consumer price data brought a frantic search for "I Like Ike" buttons, as the last time this happened was in 1955. For generations that have lived with inflation fears, the notion of nominal incomes going down while real incomes rise, as happened in March, is a mind blower. Inflationary pressures have evaporated for the moment with excess capacity, weakness in commodity prices, diminished wage increases and weakness in demand. Those with indexed contracts might now be wondering "What happens if the index goes down? It is not often that one can simultaneously find thoughtful people worried about deflation while, just as earnestly, others fret about inflation.

May brought an increase in longer term interest rates due in part to the massive avalanche of Treasury securities to fund the deficit which will approach \$2 trillion. There are probably other factors as well such as the rebounding stock market and perhaps some diminution of the flight to safety as capital market functioning improved. One can lose sight of the fact that all the stuff has to be paid for-there is no stimulus tooth fairy.

The recession continues, albeit with diminished strength, but it is not over. There will be more hits to come including the closure of hundreds of auto dealerships, and more financial institutions. The Northwest States face ongoing employment declines and painful budget realities. Oregon's 12.1 percent unemployment is the highest it has been in the history of the data while the rates in the other states continue to edge up. In March only three states had year over year job gains - Alaska, Louisiana and North Dakota, according to Job Growth Update.

As we unsteadily approach the bottom, we should contain the euphoria and recall the words of Sir Winston Churchill on November 10, 1942 after the German advance had been stopped in North Africa and the Caucasus. "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

Annualized Growth Rates of Real GDP

	Q1	Q2
GDP	-6.3%	-6.1%
Consumption	-4.3%	2.2%
Equipment & Software	-28.1%	-33.8%
Non Residential Structures	-9.4%	-44.2%
Residential	-22.8%	-38%
Federal	7%	-4%
State and Local	-2%	-3.9%
Exports	-23.6%	-30%
Imports	-17.5%	-34.1%

Source: BEA