

# ECONOMIC REPORT

**John W. Mitchell, Ph.D. • Economist**

**October 2009**

## **Wishing and Hoping**

As the fall of 2009 evolves, the words of an old song by Dusty Springfield (Not someone you have thought about recently!) come to mind "wishing and hoping." The recession in the technical sense is likely over with GDP having increased in the third quarter, an uptick in retail sales and three consecutive months of rising industrial production. The official ruling will come in one to two years from the National Bureau of Economic Research. Whatever the numbers may say, people are anxious with very weak labor markets, a ten trillion dollar wealth decline since the end of 2007, and for aging boomers looming retirement. The US government is borrowing 40 cents of every dollar it is spending, and TV channels are filled with ads to buy gold even as current (September) inflation is a negative 1.3 percent. The 9.8 percent unemployment rate, while dwarfed by the early 1980s or the 1930s, is the highest that many have ever experienced and high profile closures and cutbacks have been daily media fodder.

As of mid October leading indicators continue to rise, housing activity has moved off the bottom and there are some signs of price stabilization from the Case Shiller Index and the Federal Housing Finance Agency. The global economy has picked up export activity. Initial unemployment claims are continuing to fall and the Beige Book indicates a boost in temp agency activity. These are positive signs but there is a lot of "wishing and hoping "for more. It will come, but the pace is likely to be disappointing. The social safety net will continue to be

stretched. Orders pick up, but initially people working reduced hours will have hours increased or overtime, before decisions are made to add employees. The jobless recovery is already making its way back into the lexicon. The labor market continues to show broad based declines with education and health services being the only category in the national supersectors showing year over year gains. In August, 45 states saw year over year gains in this sector.

The process of job creation in the private sector involves firm's expectations that the product that can be obtained by adding people, equipment and other materials will produce enough revenue to cover the anticipated costs including profit. Employment means income and for most, medical insurance and other benefits, but jobs are tied to the fate of the products and the enterprise. Right now tumultuous changes are coursing through the economy. Hundreds of thousands of jobs from the previous upturn in construction, real estate and the supporting sectors are gone- probably forever. The motor vehicle industry with its excess capacity and lifetime employment and benefits is gone with two firms wards of the state. In the past new firms and industries have arisen-the "creative destruction" of Joseph Schumpeter and the long term trend of employment has been up. Clean energy sectors are the political favorites at the moment. Medical services will grow with the aging population, but the framer to nurse or physician's assistant transition is not an easy one. Entrepreneurs and innovators at both large and small and unborn firms will be the drivers of the process as they have in the past. Finding new products or new ways of accomplishing older tasks that create value are the heart of the process. The headwinds in this cycle are substantial with weakened financial institutions, wealth declines and policy uncertainty-What is the medical system going to look like? The rules? And will a cap and trade system be imposed in some form? These uncertainties may delay, but not stop, the job upturn that we are all wishing and hoping for.