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The Recession May Be Over

Today's news that unemployment dropped from 10.2% to 10% indicates that the deepest recession since the 1930s may be over, says the head of the government agency responsible for officially calling recessions. "Today's report makes it seem that the trough in employment will be around this month," said Robert Hall, head of the National Bureau of Economic Research's Business Cycle Dating Committee. "The trough in output was probably sometime in the summer. The committee will need to balance the midyear date for output against the end-of-year date for employment."

Employment is one of the chief components reviewed by the committee. The economy is already in expansion as demonstrated by third quarter GDP report of 2.8%. The recession began in December 2007, the group announced in December 2008. It usually takes six to 18 months to confirm a contraction's start or finish, according to the panel. Declaring an end to the 2001 downturn took 20 months to call due to complications over ongoing job losses similar to this one.

The Labor Department reported today that the unemployment rate fell to 10% surprising economists who expected it to remain at 10.2%. The 'underemployment rate' fell to 17.2% from 17.5%. This measure includes part-time workers seeking full-time employment and people who want work, but have given up looking.

However, is the reduction in unemployment sustainable? Jobs created by short-term government stimulus may not be long-lived. Bloomberg reports that highway-construction companies around the country, having completed the mostly small projects paid for by the federal economic-stimulus package, are starting to see their business run out. Projects up for bids are becoming harder to find with little hope of improvement.

This week at a White House forum of economists, union leaders, and business executives the President said it was up to private employers to create the needed jobs. "We cannot hang back and hope for the best when we've seen the kinds of job losses that we've seen over the last year," Obama said. "What I'm interested in is taking action right now to help businesses create jobs right now, in the near term." According to the WSJ the forum will concentrate its discussions on creating jobs through developing alternative energy sources, rebuilding US infrastructure, and boosting exports.

Republican lawmakers held their own economic roundtable at the Capitol on Tuesday, where House Minority Leader John Boehner of Ohio said "all the job-killing policies that are being offered by this administration and this Congress" are creating uncertainty for business. As a result, he said, companies aren't hiring.

Both the President and the House Minority Leader correctly recognize Unemployment as a political problem, but only hint at constructive strategies to reduce it. Businesses will only hire new workers when it is in their interest to do so. Said another way, business managers will hire when they see significantly improved potential that adding the expense of more workers will produce significantly greater returns than their cost.

In the absence of a vibrant economy to stimulate such activities, the government can fill some of the void through tax incentives and contracts of sufficient duration to support meaningful investment employment. Talk of jobs creation through developing alternative energy sources, rebuilding US infrastructure, and boosting exports is encouraging, but hiring decisions will not be based on rhetoric.

Manufacturing activity continues to send mixed signals as the Institute for Supply Management said Tuesday that its index of manufacturing activity fell to 53.6 in November from 55.7 the prior month, although it remained above the key 50 level that indicates expansion. While employment and production components within the index slipped, new orders rebounded from an October decline and rose nearly two points to a level of 60.3 according to Bloomberg.

Third quarter productivity was revised downward to an annualized 8.1% surge from the initial estimate of 9.5%. The downward revision was primarily due to an overly optimistic estimate of business output. Labor costs, while still subdued, are proving less weak than previously believed; a warning signal for inflation and may push the Fed to increase rates sooner.

Existing home sales got a boost in October from the pending expiration of the first round of buyer credits. Tuesday's pending home sales report indicates the strength will continue. Pending home sales jumped 3.7% in October, adding to September's impressive 6.0% gain. Year-on-year pending home sales are up 31.8%. The housing sector appears to be moving off the bottom.

The news of improving strength in the US economy today sent the dollar on its largest rally since June and gold down the most in a year. The presumption that the Fed will raise rates improves the dollar's value internationally.

In response to the news on unemployment the President said "good trends don't pay the rent, today's report is another hopeful sign" that the steps taken by the government has "helped turn the tide." We agree. Unemployment of 10% weighs too heavily on an economy to allow for sufficient growth, according to many economists. Unless improved economic growth, targeted government incentives, or both are apparent in the coming weeks, the case for lasting recovery diminishes with time.

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