Business Bullet ~

Looking Back and Looking Forward

Calendar year 2010 was quite an emotional ride, with numerous unprecedented events taking place. We hope that 2011 will be a little tamer, even as U.S. economic performance is likely to improve.

2010's list included mind-boggling government stimulus and associated budget deficits around the globe...enormous financial pressure on Southern European nations to get a handle on government spending and national debt...a devastating oil spill in the Gulf of Mexico...solid gains in U.S. stocks...volatile and extremely low long-term interest rates, even as short-term interest rates remained at historic lows...a "flash crash" in May that saw the Dow nosedive by nearly 1000 points in a matter of a few minutes (scaring investors to death)...a major Republican surge in November to gain control of the House of Representatives...and an agreement to extend the 2001 and 2003 tax cuts for all taxpayers for the next two years…whew!

Despite all of these shocks and boosts to the U.S. economy, the consensus view of forecasting economists a year ago was, for a change, quite close to the mark.

The consensus view never called for the traditional strong surge of U.S. economic growth following the Great Recession, noting numerous obstacles to growth including weak residential and commercial real estate markets, high unemployment, weak consumer and corporate confidence, and anxiety about massive government spending and projected $1 trillion annual budget deficits for as far as the eye can see. The consensus view also never shifted to the 'double dip' recession view of some forecasters.

2011?

The American economy is improving. Political shift in Washington DC and an extension of the Bush tax cuts helped reduce corporate and investor anxiety about what tomorrow holds.

There is clearly, and hopefully, a greater willingness to lessen or reverse the enormous expansion of U.S. government spending of the past two years. There is a greater willingness to slow the growth in future government spending...including slowing the growth rate of entitlement spending...in order to restore financial sanity in the nation's capital.

The American economy is showing more signs of reasonable vibrancy, with stronger-than-expected economic reports becoming the norm. Consensus growth forecasts for 2011 are at a 3.0%-3.3% real growth rate, versus the likely 2.6% or so growth pace last year. More optimistic forecasts exceed a 3.5% pace.

A major theme in 2011 will be to what extent job gains in the private sector can offset expected job declines at the state and local government level, where budget pressures will remain front page news. Another theme will be any type of resolution of the European debt crisis and to what extent economic growth might slow in China.

Jobs solid?

The missing piece of the American economic puzzle finally emerged during February, with solid gains in new job creation. Gains of the two prior months also saw sizable upward revisions.

Economic data of the past six months including resurgence in U.S. manufacturing, rising confidence levels, improving retail and auto sales, declining claims for unemployment insurance, and more impressive performance of the nation's service-providing sector have been met with substandard job gains. Not so this time around the economic cycle.

The American economy added 192,000 net new jobs during February, matching economists' forecasts. In addition, previously reported job gains during December and January were revised to show 58,000 more people at work. Just over 2/3 of the industries measured by the U.S. Labor Department added jobs in February, the most widespread gain in 13 years.

Trends

Two trend continued in February, with the likelihood that such trends will be noteworthy during much of 2011 and perhaps 2012. The nation's private sector employers added 222,000 net new jobs during February, while state and local government employment fell by another 30,000 positions.

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Private companies will very likely continue adding to payrolls at more impressive rates than has been the case over the past two years. Corporate profit levels have risen significantly, while productivity gains tied to solid investments into technology have largely run their course. In summary, more bodies are simply needed.

The second is that employment within the state and local government sector will continue to decline, a result of severe weakness in state and local tax revenues of the past three years. State and local governments have now eliminated 377,000 jobs since peaking in September 2008 (NYTimes.com). Payments to state and local governments as part of the massive $850,000,000,000 stimulus program of roughly two years ago are now gone. Funds to maintain employment levels are nowhere to be found.

An expected offset to state and local employment weakness later this year and in 2012 and (hopefully) beyond should be a modest resurgence in residential and commercial real estate construction employment. Widespread weakness of the past four years in both sectors should finally give way to rising new construction activity.

Such gains will be most welcome as the unemployment rate in the construction sector is estimated at 21.8%, the highest of any industry. The construction sector actually added 33,000 net new jobs during February, the largest one-month gain in nearly four years.

More numbers

13.7 million people are now counted as unemployed, down 1.2 million from one year ago.

The average duration of unemployment has risen to an all-time high of 37 weeks. Many of these are older workers who may at some point throw in the towel and leave the labor market all together.

Men bore the brunt of millions of job losses, primarily in construction and manufacturing, during 2008 and 2009. However, the share of men with jobs has risen during the past year while the share of women with jobs declined. The share of women who were working declined to 53.2% of all women in February, the lowest in 23 years.

One good month does not a trend make. However, there is reason to believe that more solid job gains should become the norm—rather than the exception—in coming months. Now if little things like Middle Eastern and Northern Africa political instability, oil prices, European debt issues, the U.S. fiscal challenge, and any other yet unknown shocks to the economy would just behave themselves…

Taken from the Tea Leaf by Jeff Thredgold (January through March, 2011). You can read more of his economic insight at www.thredgold.com.

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