**Economy Updates**

**Economy on brink of double-dip now.**

Silver 10 [Nate Silver, 8/4/11, New York Times, “Double Dip or Not, Economy Is Falling Further Behind”, http://fivethirtyeight.blogs.nytimes.com/2011/08/04/double-dip-or-not-economy-is-falling-farther-behind/]

While Washington was busy debating whether or not to sabotage the recovery by failing to raise the federal debt ceiling, the economy seemed to be doing everything in its power to demonstrate that it’s in feeble health to begin with. Leading indicators, like an index of manufacturing activity, have [printed poorly](http://blogs.forbes.com/afontevecchia/2011/08/03/economy-moving-at-snail-speed-ism-jobs-report-show/), about at the levels that suggest the economy is on the brink of another recession. Although bearish economists [have been warning about recession risk](http://www.hussman.net/wmc/wmc110801.htm) for some time now — and looking the wiser for it — concerns about a double-dip have crossed into the mainstream. The Harvard economist Martin Feldstein thinks there is a [50-50 chance of another recession](http://www.bloomberg.com/news/2011-08-02/feldstein-sees-50-chance-of-u-s-sliding-back-into-a-recession-tom-keene.html). We [may even be in a recession right now](http://twitter.com/#!/JustinWolfers/status/98837376205455361). In some sense, however, this is beside the point. The American economy lost a ton of ground during the global financial crisis. Slipping back into a recession — meaning negative growth — obviously wouldn’t help matters at all. But neither, really, would slow growth of the sort we’ve experienced during the first half of the year. In the chart below, I’ve plotted the United States’s gross domestic product, adjusted for inflation, dating back to 1877. The data incorporates the [recent substantial downward revisions](http://www.nytimes.com/2011/07/30/business/daily-stock-market-activity.html) to G.D.P., which suggested both that the economic crash was even worse than economists had previously believed — at one point, G.D.P. was [declining at an annualized rate of nearly 9 percent](http://www.economist.com/blogs/freeexchange/2011/08/fiscal-policy) — and that the recovery has been even more timid. G.D.P. is plotted on a logarithmic scale in the chart, which reflects the fact that, over the long-run, the American economy has been growing exponentially. The rate of growth has in fact been quite steady over the long run: since 1877, the annual rate of G.D.P. growth has averaged about 3.5 percent after inflation. There has also been strong a tendency for these numbers to revert to the mean: periods of above-average growth have generally been followed by periods of below-average (or negative) growth, and vice versa. So far, however, there hasn’t been much of a rebound from the Great Recession. In the next chart, I’ve plotted how far ahead or below of the long-term trend that the economy is at any given time. Basically, instead of thinking about the economy in terms of the *rate* of growth, we’re instead thinking about how strong or weak it is in an absolute sense.

No risk of double dip recession now.

**Kudlow 8/4/11** (Lawrence Kudlow is host of CNBC's The Kudlow Report and co-host of The Call. He is also a former Reagan economic advisor and a syndicated columnist. “Strong Profits Suggest No Double Dip” http://www.realclearmarkets.com/articles/2011/08/04/strong\_profits\_suggest\_no\_double\_dip\_99163.html)

Stocks and bond yields are sinking as Wall Street disses the debt deal and instead focuses on a likely double-dip recession. Everyone is gloomy. But is this pessimism getting a little overbaked? Granted, the economy is sputtering, with less than 1 percent growth in the first half of the year. But if there is a recession in the cards, it will be the first time one occurs when the yield curve is steeply positive (an ultra-easy Fed) and corporate profits are strong. And since we do have ultra-easy money and strong profits, I don't believe we're heading into a recession. Nor do I believe stocks will continue to swoon. The principal reason for the sub-par first-half economy is the rise of inflation, which severely damaged real incomes and consumer spending. We experienced a mini oil shock, which has dampened the whole economy. Actually, it's worth remembering that oil shocks and inverted yield curves, along with falling profits, are the most important leading indicators of recessions. We don't have this right now. Fortunately, oil and gasoline prices have come down well below their highs. That's going to take pressure off the economy. Of course, QE2 backfired as the dollar sank and the inflation rate temporarily jumped 5 or 6 percent. However, as energy prices have eased back down, the inflation rate as measured by the consumer deflator has fallen, and is up only 1.3 percent annually for the past three months. If the dollar can hold its current level and energy prices remain quiescent, the economy will be okay. Not great. The second-half economy could grow by 2.5 to 3 percent. There are so many tax-and-regulatory threats out there that it's hard to expect much more growth. But at least it's not recession. Recent reports from the ISM purchasing managers for manufacturing and services are not signaling recession. Car sales have actually bumped up. And at least employment is rising, although slowly. It's all sub-optimal, but it's not recession. Meanwhile, profits are at record highs as a share of GDP. Second-quarter earnings are coming in much stronger than expected. For some reason investors have chosen to ignore profits. But they're still the mother's milk of stocks and the economy. Stocks may well be undervalued right now. At roughly $95 a share profits for 2011, stocks are running near a 13-times price-earnings multiple, which calculates to a near 8 percent forward-earnings yield. Compare that to a 2.6 percent 10-year Treasury bond or a 5.5 percent Baa investment-grade corporate bond, and you can see that stocks have good value. The equity-risk premium is very high. At the same time, corporate credit-risk spreads are relatively narrow while financial conditions in general are vastly less stressful than they were a couple of years ago. This is not the stuff of recessions. Regarding the debt-ceiling deal, no one is thrilled about it. But it is a step in the right direction: no tax hikes and at least some spending cuts. The level of discretionary spending will come down $72 billion over the next two years. Even if the budget caps don't hold beyond that, it's still a budget cut without a tax increase. Some of the Paul Krugman left-wing Keynesian types think small budget cuts will throw us into recession. Not a chance. The GDP is roughly $14 trillion, and total budget spending is moving toward $4 trillion. So these are relatively modest cuts. Plus, if government spending more works to grow the economy, why hasn't massive government spending already worked to grow the economy? Here's the dirty secret: Smaller government is good for growth. We will see what phase two of the debt deal brings. It will be an uphill climb. But at least the strong possibility exists that another $1.5 trillion will be taken out of the spending baseline. That's not nothing. And of course, Treasury-debt default was avoided. Slowly but surely the Tea Party Republican coalition is turning the tide on spending. Too bad President Obama was out once again this week attacking millionaires, billionaires, businesses, and oil and gas with his usual soak-the-rich class-warfare redistributionism. This kind of politics has helped generate a capital strike by profitable and cash-rich businesses. It's pure folly, and it's holding back the animal spirits. Stocks dropped 100 points after Obama's press conference on Tuesday, when he once again blasted free-enterprise incentives. Which brings me to a final point: What's missing from the whole budget debate is a true pro-growth tax reform that would flatten rates and broaden the base for individuals and companies. A fresh round of incentives would do wonders for our ailing economy. Unfortunately, we're going to have to wait until the 2012 election before we see any of that. In the meantime, despite an anti-growth administration, the free-market economy will continue to muddle through.

Double dip recession likely to happen.

**Norris 8/4/11** (Floyd Norris is the chief financial correspondent of The New York Times and writes a weekly column for the financial section. The New York Times “Time to Say It: Double Dip Recession May Be Happening”)

Double dip may be back. It has been three decades since the United States suffered a [recession](http://topics.nytimes.com/top/reference/timestopics/subjects/r/recession_and_depression/index.html?inline=nyt-classifier) that followed on the heels of the previous one. But it could be happening again. The unrelenting negative economic news of the past two weeks has painted a picture of a United States economy that fell further and recovered less than we had thought. When what may eventually be known as Great Recession I hit the country, there was general political agreement that it was incumbent on the government to fight back by stimulating the economy. It did, and the recession ended. But Great Recession II, if that is what we are entering, has provoked a completely different response. Now the politicians are squabbling over how much to cut spending. After months of wrangling, they passed a bill aimed at forcing more reductions in spending over the next decade. If this is the beginning of a new double dip, it will have two significant things in common with the dual recessions of 1980 and 1981-82. In each case the first recession was caused in large part by a sudden withdrawal of credit from the economy. The recovery came when credit conditions recovered. And in each case the second recession began at a time when the usual government policies to fight economic weakness were deemed unavailable. Then, the need to fight inflation ruled out an easier monetary policy. Now, the perceived need to reduce government spending rules out a more accommodating fiscal policy. The American economy fell into what was at first a fairly mild recession at the end of 2007. But the downturn turned into a worldwide plunge after the failure of Lehman Brothers in September 2008 led to the vanishing of credit for nearly all borrowers not deemed super-safe. Banks in the United States and other countries needed bailouts to survive. The unavailability of credit caused a decline in world trade volumes of a magnitude not seen since [the Great Depression](http://topics.nytimes.com/top/reference/timestopics/subjects/g/great_depression_1930s/index.html?inline=nyt-classifier), and nearly every economy went into recession. But it turned out that businesses overreacted. While sales to customers fell, they did not decline as much as production did. That fact set the stage for an economic rebound that began in mid-2009, with the National Bureau of Economic Research, the arbiter of such things, determining that the recession ended in June of that year. Manufacturers around the world reported rapidly rising orders. Until recently, most observers believed the American economy was in a slow recovery, albeit one with very disappointing job growth. The official figures on [gross domestic product](http://topics.nytimes.com/top/reference/timestopics/subjects/u/united_states_economy/gross_domestic_product/index.html?inline=nyt-classifier) showed the United States economy grew to a record size in the final three months of 2010, having erased the loss of 4.1 percent in G.D.P. from top to bottom. Then last week the government announced its annual revision to the numbers for the last several years. New government surveys indicated Americans had spent less than previously estimated in 2009 and 2010 on a wide range of things, including food, clothing and computers. Tax returns showed Americans even cut back on gambling. The recession now appears to have been deeper — a top-to-bottom fall of 5.1 percent — and the recovery even less impressive. The economy is still smaller than it was in 2007. In June, more American manufacturers said new orders fell than rose, according to a survey by the Institute for Supply Management. The margin was small, but the survey had shown rising orders for 24 consecutive months. Manufacturers in most European countries, including Germany and Britain, also reported weaker new orders. Back in 1980, a recession was started when the government — despairing of its failure to bring down surging inflation rates — invoked controls aimed at limiting the expansion of credit and making it more costly for banks to make loans. Those controls proved to be far more effective than anyone expected, and the economy promptly tanked. In July the credit controls were ended, and the economic research bureau later determined that the recession ended that month. By the first quarter of 1981 the economy was larger than it had been at the previous peak. But little had been done about inflation, and the Federal Reserve was determined to slay that dragon. With interest rates high, home sales plunged in late 1981 to the lowest level since the government began collecting the data in 1963. Now they are even lower. There is, of course, no assurance that a new recession has begun or will do so soon, and a positive jobs report on Friday morning could revive some optimism. But concerns have grown that the essential problems that led to the 2007-09 recession were not solved, just as inflation remained high throughout the 1980 downturn. Housing prices have not recovered, and millions of Americans owe more in mortgage debt than their homes are worth. Extremely low interest rates helped to push up corporate profits, but companies have hired relatively few people. In any other cycle, the recent spate of poor economic news would have resulted in politicians vying with one another to propose programs to revive growth. President Obama has called for more spending on infrastructure, but there appears to be little chance Congress will take any action. The focus in Washington is now on deciding where to reduce spending, not increase it. There have been some hints that the Federal Reserve might be willing to resume purchasing government bonds, which it stopped doing in June, despite opposition from conservative members of Congress. But the revised economic data may indicate that the previous program — known as [QE2](http://topics.nytimes.com/top/reference/timestopics/subjects/q/quantitative_easing/index.html?inline=nyt-classifier), for [quantitative easing](http://topics.nytimes.com/top/reference/timestopics/subjects/q/quantitative_easing/index.html?inline=nyt-classifier) — had even less impact than had been thought. With short-term interest rates near zero, the Fed’s monetary policy options are limited. Government stimulus programs historically have often appeared to be accomplishing little until the cumulative effect suddenly helps to power a self-sustaining recovery. This time, the best hope may be that the stimulus we have already had will prove to have been enough.

No recession now- recent job numbers prove.

**Schoen 8/5/11** (John W. Schoen has reported and written about business and financial news for more than 25 years. “No double dip, but economy's stuck in low gear” <http://today.msnbc.msn.com/id/44034316/ns/business-eye_on_the_economy/#.Tj3T6a4p0tU>)

The U.S. may have dodged the double-dip bullet with the latest jobs data, but there is little more the government can do to rev up an economy stuck in first gear. As the impact of trillions of dollars of government stimulus continues to fade, Congress and President Barack Obama have few tools left to revive growth. Federal Reserve policymakers meet next week, but their toolbox may contain little more than bubble gum and wire. The government's monthly job report pointed to a surprise uptick in hiring in July. Payrolls expanded by 117,000, the Labor Department said on Friday, as private employers added 154,000 workers. That offset the continuing shrinkage of federal, state and local government payrolls, which cut 37,000 positions in July, a ninth straight month of government job losses. The gains helped the unemployment rate edge down to 9.1 percent from 9.2 percent in June. Job counts for May and June were revised to show 56,000 more jobs added than previously reported. "This is a fabulous number," said Mark Zandi, chief economist at Moody's Analytics. "We're not out of the woods yet, but this is a good sign that we are going to avoid recession."