# It may be worse than we thought

The recession ended, officially, in June 2009. However, not everyone agrees with the official dating. The economic news at the end of July was notably grim, reinforcing the views of the pessimists:

• Growth in the gross domestic product (GDP) in the second quarter of the year was a scant 1.3%.

• GDP growth for the first quarter of 2011 was revised downward, to a barely perceptible 0.4%, so that in the first half of the year the economy grew less than 1%.

• Revised figures show that the recession was deeper than previously announced, the distance to "back to normal" is longer that policymakers realized.

In July manufacturers had their weakest month in two years. The index of manufacturing activity created by the Institute for Supply Management fell from the June mark of 55.3% to 50.9%. A reading above 50% in this index suggests that manufacturing is growing. Through the first four months of 2011, the index was above 60%.

Unemployment remains the most stubborn problem. The recession of 1981-82 was the most severe economic contraction since World War II. Two years after that recession ended, unemployment was down 3.6% from a peak of 10.8%, and the number of employed persons was up 2.5%. For the recession that ended in 2009, unemployment has declined only 1%, and the number of active workers (the labor force participation rate) is actually lower now than when the recession ended!

Throughout July, the Congress was preoccupied with a debate over increasing the debt limit. There was a fear that failure to raise the limit could trigger a default, government shutdown, or some unfortunate consequences in the financial markets. On the one hand, given the fragility of the recovery, a sharp reduction in government spending might compromise such positive developments as we've had. Accordingly, most of the proposals deferred meaningful reductions in deficit spending for several years. On the other hand, there is a growing consensus that those countries, such as Canada and Germany, that relied less upon stimulus spending have begun to recover more quickly than the U.S. has.

According to recent research by the Federal Reserve, when the economy is growing very slowly it may hit a "stall speed." When that happens, a recession may be triggered, which would mean a double dip for the current cycle. What's more, very low growth rates make the economy far more sensitive to external shocks, such as the Japanese earthquake earlier this year, or spikes in energy prices.

Investors may want to assume a defensive posture until the economic indicators turn up again.

(August 2011)

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