Waiting for the Shoe to Drop

October 1. Probably until the results of the November election arrive, the economy seems to be stuck in neutral. There's some good news and some bad news, but overall economic growth has been disappointing. An economy that was growing 2.0% in the first quarter slowed to 1.3% in the second, according to a revised estimate released in September. The first estimate had been 1.7%, and economists had been expecting no change, so the downward revision was a disappointment.

We're heading for a fiscal cliff in January, with big tax increases and automatic spending cuts. Legislators adjourned to their campaigns without addressing the problem. Evidently, the elections are supposed to provide needed guidance for a lame duck session. Reportedly, one reason that the "Bush tax cuts" were extended for two years for everyone in 2010, and not just for those below the $250,000 cutoff, was the strong showing by Republicans that November. If true, the November results could be determinative. A permanent resolution to the fiscal cliff problem, one way or the other, might give the private sector the confidence that growth-building initiatives won't be undermined in a new administration.

A bottom for housing?

The Standard & Poor's Case-Shiller home price index showed good strength in July. Although the annual aggregate gain was only 1.2%, all of the cities in the index were in the black, up from their June levels. Much of the improvement has occurred in the bottom third of the market, and the price gap between the bottom and top of the market has narrowed. Home values rose an average of 5.9% through the first seven months of the year, the best such showing since 2005.

New home sales slipped in August, tempering the enthusiasm of economists somewhat. Still, the median price of a new home rose to $256,000, reaching a level last seen in March 2007.

QE3

The Federal Reserve Board announced a third round of "quantitative easing," which means that it will be injecting more dollars into the economy. For savers and investors, that decision suggests that startlingly low interest rates will continue through next year, perhaps for the following years as well.

Low interest rates are intended to spur businesses to borrow money cheaply for expansion, which, in turn, fuels employment growth. The paradox in the Fed's announced policies is that they've also signaled to businesses that there's no hurry to make a decision. Cheap money still will be available next year, maybe the year after. That takes the urgency out of some investment decisions.

Durable goods

Another worrying sign, orders for goods that last for more than five years fell a whopping 13.2%, the largest drop since January 2009. As manufacturing declines, factories won't be able to contribute to expanding the rolls of employed taxpayers.

Falling income

Perhaps the most troubling news of the past quarter was the Census Bureau's revelation that median annual household income has fallen more during the "recovery" than it did during the recession. Three data points are key:

• As the recession began in 2007, median household income (in 2011 dollars) was $54,489.

• Not surprisingly, the median fell to $52,195 by the end of the recession in June 2009.

• But disturbingly, median income continued to fall, reaching $50,054 by the beginning of this year.

Folks who lost jobs during the recession are having to take big pay cuts to rejoin the ranks of the employed, and that's what brings the median down. But household income is the critical fuel of the economy and for tax collections. If that is falling, it's no wonder that the economy as a whole can't get up.

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