

North Carolina Bankers Association business barometer Sandhills Business Times, July 1, 2008

RALEIGH – The National Bureau of Economic Research , which is a group of several economists, looks in their rear view mirror and tells us if we are in a recession months after the start and finish.

The NBER looks at GNP growth, employment, personal income growth, sales activity, and industrial production. The NBER says a recession is a widespread decline in economic activity. Are we in a recession now? Economists are split, with a slight majority saying no.

One of the problems for the NBER is the fact that recent recessions have been short and mild relative to other recessions in the post WWII experience. The economic data is presently mixed suggesting a very short and very mild recession if one at all. The economy has yet to have a negative quarter of GDP growth.

Several indicators point to a recession. The index of leading economic indicators has been negative five out of the last seven months. Consumer confidence has crashed and is at a 16-year low. Housing sales and prices continue to fall and foreclosures continue to rise. Energy and food prices are taking their toll on consumer spending, which is 70 percent of the economy. Household net worth fell \$1 trillion in both the fourth quarter of last year and first quarter of this year. Industrial production has fallen 1.6 percent since its peak in July 2007. The stock market is in free fall.

To this point in time, the most important indicator that we are in a recession is data from the employment front. The economy has lost 324,000 jobs over the past five months for a monthly average of nearly 65,000 lost jobs. The average monthly losses in the two previous recessions were 110,000 in 2001 and 150,000 in 1991. Therefore, the data point to a mild recession.

There are several reasons for a mild rather than deep recession. First, the Federal Reserve acted quickly and decisively to lower interest rates and increase liquidity. Second, U.S. exports are growing at double digits due in part to the lower value of the dollar. Third, Congress and the president moved quickly on the \$168 billion economic stimulus package, which is already impacting the economy.

Regardless of whether or not we are in a recession, economic growth will be slower than usual into 2009. We will not experience rapid economic growth soon which has been the post WWII experience after a recession or slowdown. Personal debt levels are higher and household wealth has suffered more than in previous recessions. High energy prices act as a tax on the economy and they will remain high for the foreseeable future.

North Carolina continues to outperform most states. While our unemployment rate is rising and is higher than the national rate, the state economy continues to grow.

Manufacturing for export is strong and housing is not the drag on our state economy it is in several other states.