Economic uptick likely distant

Jim Stinson • Staff writer • January 11, 2009

Almost 525,000 jobs lost in December. Unemployment at 7.2 percent nationally for the first time since 1993 and possibly climbing to the 10 percent rate that joblessness hit in a severe 1982 recession.

Gross domestic product, a measure of the national economy, has been shrinking, and some economists expect the last three months of 2008 will show a negative rate as high as 6 percent.

When will it all end? When will the economy stop receding and resume growing?

Opinions vary widely about when a recovery will begin and what it will be like. Many economists and business leaders expect growth in the second half of 2009. Some said early 2010.

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All predicted the next few months will probably be like the last few months: ugly.

"I'm bullish, but the next six months are not going to be pretty," said Mark Zupan, dean of the William E. Simon Graduate School of Business Administration at the University of Rochester.

The recovery could begin in the third quarter of 2009, Zupan said, with stimulus already under way in the form of lower energy costs and lower interest rates. But in the meantime, unemployment will rise.

Zupan expects U.S. joblessness to increase from December's 7.2 percent, the highest in almost 16 years, but not reach the highs of the 1981-82 recession, when the rate hit 10.8 percent. In the Rochester area, the unemployment rate was 5.9 percent in November, while the statewide rate was 6.1 percent. December figures for the state and region are due out later this month.

"I don't think people are expecting any real change until well into the second half of the year, probably fourth quarter," said Sandy Parker, Rochester Business Alliance president, as she addressed the 2009 outlook last week. "It's going to be a long year."

Wild cards and unpredictable variables exist, so predictions can fall flat, the experts said. Zupan noted that energy prices could still rise if there is instability in the market, or if events seemingly as far away as the Russia-Ukraine standoff over natural gas disrupt supplies on a wider basis.

Another major factor is government stimulus, or targeted spending, which is being devised by President-elect Barack Obama and Congress.

Estimates of the stimulus bill range from $775 billion to $1 trillion.

That targeted spending could help the economy, said Daniel Tessoni, accounting professor at Rochester Institute of Technology. But "we're running out of the prescriptive tools necessary," he said. "The federal government can only do so much."

Tessoni is concerned that Obama is talking about a $300 billion tax cut over two years at the same time he's proposing aggressive new spending on infrastructure such as roads and bridges across the country. "Pretty soon, you just can't keep doing that," the RIT professor said.

The D-word

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The depth of the current recession has so troubled federal economists that some have lately been hinting at the D-word: depression. A Federal Reserve Board committee mentioned a "prolonged" economic contraction twice in recently published minutes from mid-December meetings when the committee decided to cut interest rates to near zero in an effort to get the economy moving. A depression has no official definition, although it can be viewed as a deep and prolonged recession. The current recession has already lasted 13 months as determined by the National Bureau of Economic Research in Cambridge, Mass.

This recession is nearing the length of the 1973-75 and 1981-82 downturns of 16 months each. Only the Great Depression of 1929-33 lasted longer — 43 months. The average duration of the 10 recessions since World War II was 10 months, according to the National Bureau of Economic Research.

Even worst-case scenarios for the final quarter of 2008 — thought to be very bad because of the stock market plunge and huge job cuts — aren't expected to hit the negative 10 percent rate in gross domestic product that some unofficial definitions of depression require. However, a rate of negative 6 percent is foreseen by some economists. That would approach the depths of the 1981-82 recession, when the economy shrank at a 6.4 percent rate in the first quarter of 1982.

The U.S. Commerce Department will release the fourth-quarter 2008 figure on Jan. 30 and update it a month later as more information on the economy's output becomes available.

A tough 2009

As bad as that backward-looking statistic will be, the forward-looking numbers aren't so good, either. Last week the Congressional Budget Office predicted GDP will shrink by 2.2 percent this year.

"It's going to be a tough 2009," said Gary Keith, chief economist for M&T Bank. He said an optimistic view would be recovery by the third quarter, but he expects it to take longer, starting in the final three months of 2009.

Rochester and the rest of upstate, with its heavy manufacturing losses and slow-growth economies, will probably lag the nation in recovery, Keith said, with an upturn not evident here until the beginning of 2010.

Still, Rochester hasn't been pounded by the recession in quite the same ways as California, Arizona and Florida, where housing foreclosures are running much higher and real estate values have fallen.

"We didn't get waxed with the housing downturn," said Keith, noting that Rochester-area home values have remained steady.

Even when the economy turns around and starts growing, unemployment will remain high, said the Simon school's Zupan. Keith agreed, saying companies usually need a year of proof and good news before they expand payrolls.

"That's typical of all recessions," he said.

Keith predicted national unemployment will peak at 9 percent. The Congressional Budget Office said it expects a high of 8.3 percent this year, rising to 9 percent in 2010.

Such a high rate of joblessness could last well into the start of a recovery. The 10.8 percent unemployment rate of December 1982 occurred months after the recession ended.

Mortgage blues

One particular cause for concern is the housing problem, particularly the subprime mortgages that have driven people from their homes as interest rates reset at unaffordable levels. The subprime problem started the unraveling of the U.S. economy in 2007, when credit markets began freezing as major lenders, stunned by the suddenly rising number of mortgage defaults, essentially stopped lending.

Ruhi Maker, a lawyer for the Empire Justice Center in Rochester, said a new wave of repriced mortgages will appear later this year and in 2010. People holding adjustable-rate subprime and Alt-A mortgages, which require a low level of income documentation, are especially vulnerable.

The resulting higher payments will cause a new wave of foreclosures, Maker said, and the federal government has yet to fully reform laws to alleviate the damage to the homeowners and the economy.

"Until you stop the cascade of foreclosures ... you're not going to stop the problem," said Maker.

But lower interest rates may help lessen the turbulence caused by future troubled mortgages, said James Glassman, senior economist for JPMorgan Chase & Co. in New York City. The Federal Reserve has cut its key interest rate to a range of zero to 0.25 percent, and the spread between that rate and the 30-year mortgage rate is narrowing, meaning new housing loans and refinanced loans are now more affordable, Glassman said.

The lower rates are indeed causing a mini-refinance boom, said Christopher Carosa, chief executive of Carosa, Stanton & Mulhern Asset Management LLC in Mendon. But the repricings of a large number of mortgages nationally could break the recovery in 2010 or 2011, Carosa said, leading to a "double dip" recession such as occurred when the 1980 recession ended, only to be quickly followed by a deeper recession in 1981-82.

Oversight faulted

How the federal government is handling the recession is also a concern to experts.

About half of the money from the $700 billion bailout passed by Congress in early October has been distributed to banks, but a congressionally appointed watchdog panel said Friday that the Treasury Department has virtually no idea how that money has been used.

Yet the bailout bill and a series of steps by the Federal Reserve to pump money into the financial system are having a positive effect, said Brian Wesbury, chief economist at First Advisors Trust LP in Wheaton, Ill.

"The Fed has been cutting rates for a year," he said. "We're past the worst."

More optimistic than most other economists, Wesbury predicted a recovery beginning in the second quarter of this year, with GDP growing at a rate of 0.5 percent from April through June. In fact, a recovery might already be under way, he said, noting that bank lending is beginning to increase, a key goal of federal officials.

M&T's Keith said U.S. loan growth at commercial banks was up 7.3 percent in mid-December from mid-December 2007.

Despite the loosening of credit, Maker of the Empire Justice Center is skeptical that consumers, who drive 70 percent of the U.S. economy, are ready to spend. Too many people still fear they will lose their jobs or their homes, she said.

"Everybody's on the sidelines."

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