

# Economic

## Digest

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#### Double Dip? Off the Cone and On the Table

After fervently denying for months the remote possibility of a so-called “double dip” recession, as if anyone can predict an unknowable future, even the most ardent of green-shooters find their proofs of nascent improvement withering away in the face of a host of data that perhaps suggest a funny thing happened on the way to economic recovery.

We would venture to suggest a double dip recession is unlikely, but for completely different reasons. Chief among them is that, as far as we can tell but only the National Bureau of Economic Research, arbiter of the nation’s business cycles, knows for sure, we never actually emerged from that recession which began officially, according to NBER, in December 2007.

Cash for Clunkers and two rounds of homebuyer tax rebates led many to expect NBER would later this year declare over The Great Recession sometime around August or September of 2009, as equity markets surged, automobile sales improved, housing sales accelerated and unemployment rates peaked above 10 percent.

Not so fast, we said at the time. Fiscal stimulus programs do what free money does best: pull future demand into the present. And nowhere illustrates that best than housing. May new home sales, the first month after expiration of the second round of the help-your-neighbor-buy-a-home program, came in at a record low annualized rate of 300,000. Not since the series began in 1963 has a smaller annualized month been recorded, and keep in mind the U.S. population in 1963, about 189 million, was about 60 percent of our current level. Adjusting for

population growth makes May’s new home sales report downright ugly, all the more so in an environment of record-low fixed rate mortgages, now well-under 5.00 percent for 30 year terms.

June automobile sales, while improved nearly 15 percent over a year ago, slipped to an annualized 11.1 million units from what widely was considered a weak May report of 11.6 million annualized and below April’s 11.2 million annualized sales.

As we are always reminded, the “con” in consumer and consumption stands for “confidence,” which is an amorphous collection of feelings about our present and immediate futures, somewhere six to 12 months ahead. Those in secure jobs and financial conditions may envision themselves easily capable of undertaking new financial commitments for big ticket items like houses, cars, boats, motor homes, motorcycles, furniture, college educations and the like, and are confident such large purchases will do nothing to alter the status quo.

The fact that housing and automobile sales remain lethargic, or worse, and that these two major components of the U.S. economy typically have led the way out of recessions past, at least in the post-WWII era, would appear to be evidence that far greater numbers of American consumers lack sufficient confidence in their present or immediate futures to pull the trigger on big ticket item purchases, a phenomenon now beginning to be reflected in various consumer confidence surveys. Or is it something else, in light of the fact that slightly more than 90 percent of the U.S. labor force *is* employed? We

are inclined to attribute this “something else” to a newfound austerity which likely will outlive whatever the duration of this, that or the other recession.

Pew Research Center recently published some eye-opening survey results. Half of respondents said they are in worse financial shape as a result of the downturn and an equal number reported they are paying down mortgage, credit card and installment debt, and six in 10 said they have reduced spending. Among Baby Boomers, more than a third older than 62 and still working indicated they would delay retirement. In the 50-61 year old group, 60 percent thought they may be forced to do the same.

Four in 10 adults said they have tapped savings and retirement accounts to make ends meet according to the Pew study. Others have sought help from friends and family. Almost a quarter reported they have borrowed money from someone. And one in 10 - including 24 percent of workers from 18 to 29 years old - indicated they moved back in with their parents to weather the economic storm.

Adult children returning to the nest, if more than a temporary phenomenon, is a troubling harbinger of

reduced or delayed household formation, one of the key determinants of economic growth.

You know the drill: boy meets girl, they get married, buy a starter home and the stuff to put in it, a couple of children later they are ready for a bigger house and more stuff and by the time the offspring are teenagers there’s an upgrade to the McDream home and an extra car or two. This has been a somewhat reliable demographic trend for decades, upon which the nation’s consumer economy has been built.

If this austerity does, in fact, outlive the recession’s duration, whether one very large single dip or the double dip now being whispered about, it would result in a much different economic landscape by the close of the Teens.

If significant numbers of Americans, especially the Boomers, now are committed to paying down debt and saving money, thus deferring or reducing “consumption,” and many of their offspring, the Echo Boomers, are delaying household formation for the same reasons, the decade’s trend will be that which makes up Fed Chairman Ben Bernanke’s worst nightmares: a debt-deleveraging deflationary episode the implications of which we will explore next month.

### U.S. Economy at a Glance

Category	As Of	Rate	Previous	Trend
Real Gross Domestic Product (% Annualized)	1Q2010, 3rd Rev	+2.7%	+5.6%	Decreasing
Real Personal Consumption Expenditures (% Monthly)	April 2010	+0.3%	+0.0%	Increasing
Real Disposable Personal Income (% Monthly)	April 2010	+0.6%	+0.5%	Increasing
Personal Savings Rate (% Annualized)	April 2010	+4.0%	+3.8%	Increasing
Consumer Price Index (% YOY)	May 2010	(0.2%)	(0.1%)	Decreasing
Producer Price Index – Fin. Goods (% YOY)	May 2010	(0.3%)	(0.1%)	Decreasing
U-3 Unemployment (Headline) Rate (%)	June 2010	+9.5%	+9.7%	Decreasing
U-6 Unemployment Rate (% Incl. PT/Marginal)	June 2010	+16.5%	+16.6%	Decreasing
Retail & Food Service Sales (% Annualized)	May 2010	(1.2%)	+0.6%	Decreasing
Automobile/Light Truck Sales (Annualized)	June 2010	11,100,000	11,600,000	Decreasing
Single-Family Housing Starts (Annualized)	May 2010	468,000	565,000	Decreasing
Single-Family New Home Sales (Annualized)	May 2010	300,000	446,000	Decreasing
Existing Home Sales (Annualized)	May 2010	5,660,000	5,790,000	Decreasing
Crude Oil, WTIC, Cushing, OK (\$/bbl)	June 2010	\$2.96	\$74.11	Decreasing
Natural Gas (\$/mmBTU)	June 2010	\$4.80	\$4.35	Increasing
Fed Funds Actual/Target Rate (%)	June 2010	0.21%/0.25%	0.21%/0.25%	Stable
10-Year Treasury Bond (%)	June 2010	2.95%	3.28%	Decreasing
30-Year Treasury Bond (%)	June 2010	3.90%	4.20%	Decreasing
30-Year Fixed Rate Mortgage (%)	June 2010	4.69%	4.86%	Decreasing