

**FISHKIND
& ASSOCIATES**



The Outlook Brightens

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Finally, the U.S. economy has begun to grow strongly again. Real gross domestic product rose at a 3.1 percent rate during the April to June period propelled by robust gains in consumption and, even more importantly, a rebound in business investment spending. Since then the monthly indicators are pointing to accelerating growth. Retail sales were strong during the summer months, and the back-to-school period was buoyant. Furthermore, auto sales are very strong and new home sales are at historic levels. Industrial production is rising along with new orders.

The Wall Street Journal's latest poll of 53 economists predicts GDP growth of 4.7 percent this quarter and 4 percent for the fourth quarter. If true, this would be the economy's strongest performance since 1999. As you know, I share this view. There are many good reasons to expect strong economic growth over the next 12 to 24 months. The recently enacted tax cuts are clearly stimulating consumption. Even though interest rates are up from their lowest levels, they remain quite low, so housing sales and mortgage refinancing remain strong.

But there is one major cloud on the horizon: falling employment. In August the economy lost another 93,000 jobs, bringing the total loss to 600,000 so far this year and a whopping 2.1 million since the recovery officially began almost two years ago. This level of job loss during a recovery period is unprecedented in U.S. economic history. Part of the explanation is the extraordinary productivity performance. For instance last quarter productivity leaped ahead at a 6.1 percent pace. But this is not the whole story.

Some fear that for whatever reason the economy may not generate jobs for the balance of this year and into next year as well. If this should come to pass, the recovery would be in jeopardy. I think that this fear is misplaced for two reasons. First, part of the growth last quarter was fueled by a reduction in inventories. This process cannot continue, and soon business will have to substantially increase output to meet surging demand. Labor will have to be hired to accomplish this.

Second, I believe that the employment data themselves are flawed. The establishment survey, which is the basis for the employment data, underreports employment for small firms. In fact, firms with fewer than three employees are not even counted at all. Small businesses are the ones that generate the bulk of new jobs during the first half of most economic recoveries. So part of the lack of reported jobs is due to the undersampling of small firms.

After the last jobless recovery following the 1990-91 recession, the employment data were revised from no growth to substantial growth. I believe that this will happen again and that the economy is even healthier than currently reported.

This is Hank Fishkind for 90.7 FM, WMFE News.

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