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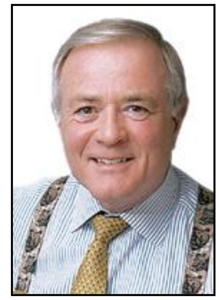

William Rutherford

Slow recovery in U.S. continues, but employment and consumer spending remain weak

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At the start of the second quarter, the U.S. economy is struggling. Corporate profits provided a surprisingly strong uptick, at greater than 6 percent growth – in line with the 10-year average. However, employment numbers were disappointing. Wages and salaries were weak. The average hourly wage rose only a penny month over month, and the average work week was firm at 34.5 hours. These numbers suggest weak personal income growth and suggest why retail sales disappointed in April. These results are especially discouraging for a consumer-led economy.

The depth of the recession makes a recovery especially difficult. The U.S. lost nearly 8.8 million jobs from 2008 to 2010, more than the previous four recessions combined. Three years into the recovery, the U.S. employs 5 million fewer workers than before the recession.

The construction industry has been hit especially hard because the housing sector remains a big part of the issue. The construction industry employed 7.5 million people when the recession hit. By June 2010, that number was down to 5.5 million, and it has barely begun to recover. Construction workers make up a disproportionate share of the 4.4 million Americans who have been out of work a year or longer.

Even the small amount of private-sector growth is being offset by public-sector job cuts. Most of those have come at the local level, especially schools. While male-dominated industries like construction suffered big hits at the beginning of the recession, the tide has turned. Early in the recession the unemployment rate for men was 2.6 percent higher than for women, but now the rates are nearly equal.

The May 4 monthly payroll report missed expectations again. The increase in jobs was 115,000, well short of the growth forecast of 168,000, and even shorter of the number needed to accommodate new workers.

Some observers trumpeted the drop in the unemployment rate to 8.1 percent, but even that number was a sign of weakness because the reason for the drop was that more job seekers dropped out of the labor force. Nearly 80 percent of the employment “improvement” was brought about by people stopping job searches. The labor force participation rate was 63.3 percent, the lowest reading since 1981.

The next jobs report is due June 1, with a Fed policy meeting set for June 19-20. A third grim jobs report in a row might be enough to push the Fed to seek more quantitative easing.

The San Francisco Fed’s John Williams said, “The nation remains far from the Fed’s assigned goal of maximum sustainable employment … Under these circumstances and with inflation … well under control, it’s essential that we keep strong monetary stimulus in place for quite some time.” Fiscal stimulus seems out of the question in an election year.

Election results in Europe raise new problems for the European financial crisis – and provide a lesson for U.S. politicos. Continuing a trend of “throwing out the rascals,” French President Nicholas Sarkozy was upended in his race for re-election. He thus joins a long line of politicians and governments that have failed in this financial climate.

Sarkozy's successor, Francois Hollande, will be the first Socialist president of France since Francois Mitterrand. Hollande has promised an end to austerity, planning to grow the French economy through a combination of public spending and tax increases.

At the same time, voters in Schleswig-Holstein appeared to be turning out Angela Merkel's party. Hollande will want concessions from Merkel for the European debt crisis, and now she has less room to maneuver.

Also, Greek voters were abandoning the center for the far left and the far right. The markets will soon have a vote on the election outcome, but one should not be surprised if France becomes the next sick man of Europe. Indeed, the question of the survival of the European Union may soon be on the table.

Politicians in the U.S. will be trying to learn the lesson of these elections in Europe, where the electorate has rejected austerity and instead voted for the party that promises more growth through more public spending, accompanied by tax increases.

If this sounds like the issue before U.S. voters, that is because it is the same issue. But will the result be the same as in Europe?

William Rutherford is the founder and president of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com. *Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.*