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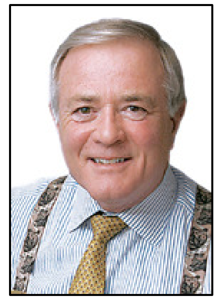

William Rutherford

With the U.S. economy, it's always something

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"It is hard to make predictions, especially about the future." That quote has been attributed to a various number of folks – Winston Churchill, Will Rogers, Albert Einstein, Victor Borge and Groucho Marx, among others.

"It's always something," said Gilda Radner as a performer on "Saturday Night Live." She later was diagnosed with ovarian cancer.

It appears that it's always something with the U.S. economy and government. Often, it seems that the "somethings" are self-inflicted wounds.

Unemployment remains stubbornly high. Consumers are not spending. Bank bailouts did little for households, but a lot for bank executives as they paid themselves big bonuses for their fine work during the Great Recession. To defend themselves from the government and litigious former homeowners, the banks have had to pay more than $100 billion to their lawyers – more than they have paid out in dividends to shareholders.

Not just the United States, but other major powers have been supported by their central banks. The U.S. Federal Reserve struggles with the question of how and when to trim that support, and whether they can.

In another self-inflicted wound, it was not helpful that President Obama fired Fed Chairman Ben Bernanke while this debate was going on. Markets and CEOs are now confronted with a murky Fed policy with no knowledge of who the next Fed chairman will be and what her or his policies will be. At this writing it appears that Obama's favored candidate is Larry Summers. He would likely favor reducing Fed support of the economy and raising interest rates. The prospect is already having a chilling effect.

Now the President has tripped over his bright red line, and painted himself into a corner over Syria.

The winner of the 2009 Nobel Peace Prize wants us all to join him in attacking Syria. Having dithered for months, he now wants congressional approval for his possible plan of attack, hoping that his plan will be talked to death. Then he can blame Congress for inaction and escape a dilemma of his own making.

With all this confusion, is it any wonder that business hiring and spending is slow? Full-time employment is down sharply from prerecession levels. We are becoming an economy of part-time employment. How much of that is the result of Obamacare is disputed, but what is undeniable is that part-time employment is growing much faster than full-time employment. Underemployment climbed to 17.7 percent, and the payroll to population ratio dropped to an unsustainable 43.8 percent from 63.5 percent in January 2010. Youth unemployment soared.

Median household income adjusted for inflation is more than 6 percent lower than in December 2007. The most vulnerable groups – blacks, Hispanics, female-headed families and the young – have fared worse than everyone else.

Black household income has plunged 11 percent since the recovery started. For single moms, median household income has dropped 7.5 percent. If the household has three or more children, the drop is even more at 9.2 percent. Every age group lost ground except senior citizens; people ages 65 to 74 saw their income rise 5.1 percent, while those 75 or older saw their income rise 2.1 percent.

To top it off, income disparity has grown four times faster under President Obama than under President Bush.

Is it any wonder then that the consumer, who represents 70 percent of the economy, is trimming spending? Teen-focused retailers have been hit especially hard.

"The retail environment remains challenging … as customers are cautious in their spending," according to a Wal-Mart spokesman.

Target's chairman said, "… our U.S. outlook envisions continued cautious spending by consumers in the face of ongoing household budget pressures."

Still there are bright spots. We are experiencing "reshoring," where jobs are returning to the U.S. – especially the southeast – as the nation becomes a low-cost producer. Pundits are predicting resurgence in the U.S. economy.

Charles Morris, a former banker turned writer, has predicted in his new book, "Comeback," that we are headed for an industrial renaissance on the back of an energy boom centered on shale gas. Most of us had not heard of shale gas in 2007, when the economy hit the skids. In spite of opposition from the administration and others, the shale gas boom has already added 1.7 million new jobs, according to Morris, and could double in 10 years. Also, we could add 1 million manufacturing jobs.

If this renaissance were to add just 1 percent to our projected GDP over the next 10 years, our debt to GDP would be closer to 60 percent – rather than the current predication of 80 percent. The predications of economic Armageddon may simply be wrong. Even if he is wrong, Morris' forecast signifies a change in the debate about our future economy.

In spite of our grim statistics, the S&P has rallied 153 percent from its lows – three times the typical gain between recession and monetary normalization. All of the bad news is known by the market, and still it is up. All the bad statistics could be the reason why the latest investor sentiment survey shows that bearishness has soared to 42 percent from 28 percent over the past five weeks. Each time in the past when bearishness has increased for five weeks or more, stocks have gained an average of 9 percent six months later.

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