

PERSONALLY SPEAKING

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**IS BERNANKE WHISTLING PAST THE GRAVEYARD WITH HIS
“RECESSION IS VERY LIKELY OVER”?**

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Permission to quote is granted when the source is acknowledged.

Federal Reserve Chairman Ben Bernanke recently stated that the current recession is “very likely over.” Is this wishful thinking, is he whistling past the graveyard? Or does he know something the rest of us don’t know?

When economists like Bernanke think about a recession, they turn immediately to data on the production of goods and services – GDP. First quarter 2009 GDP declined at an annual rate of 6.4 percent. The second quarter numbers were better – the decline was only 1.0 percent. An optimist might say that the economy is improving and third-quarter GDP data could even show an increase. But none of us will know what happened to production in the third quarter until October and then the data will be subject to revision because they are based on early returns from U.S. employers. We won’t know for sure about third-quarter GDP until November-December.

What we do know about second-quarter GDP does not support the optimistic view. First, whereas personal consumption expenditures, especially for durable and nondurable goods, increased by 0.6 percent in the first quarter, those expenditures actually decreased in the second quarter by 1.0 percent. Second, by far the most important boost in GDP in the second quarter came from national defense expenditures which increased at an annual rate of 13.3 percent -- twice the rate of increase reported for federal nondefense expenditures. Third, quarter-to-quarter change in spending by U.S. producers on items such as capital plant and equipment, and residential construction has been negative in every one of the last seven quarters. In addition, businesses across the country have been drawing down their inventories of finished goods for the last 14 quarters.

On top of that, the FDIC reports that bank failures have risen from one bank in January-February 2008 to 39 in July-August 2009, with eight more failing so far in September. At the present time there are 416 financial institutions on the FDIC list of problem banks. Their problems are reflected in the fact that in the second quarter more than 28 percent of all insured banks reported net losses.

But even more important is the information just made available by the Bureau of Labor Statistics on August employment and unemployment by state.

There are eleven states in which the unemployment rate in August is above 10 percent and significantly higher than the national rate of 9.7 percent: California, Florida, Kentucky, Michigan, Nevada, North Carolina, Ohio, Oregon, Rhode Island, South Carolina, and

Tennessee. Even in the seat of our federal government – District of Columbia – the jobless rate is double-digit.

There has been a statistically significant increase in the unemployment rate between August 2008 and August 2009 in every one of the fifty states and the District of Columbia. Over the year, statistically significant declines in employment were reported in 45 states.

Statistically significant decreases in employment between July and August 2009 were reported in 15 states: Alabama, Georgia, Hawaii, Illinois, Kansas, Maryland, Michigan, Minnesota, Mississippi, North Dakota, Ohio, Oregon, Tennessee, Texas, and Washington. Texas has taken the biggest hit in the last month – a drop in employment of 62,200. Only the Big Sky Country of Montana has shown a month-to-month increase in employment.

Unlike economists, American workers and their families measure economic performance in terms of jobs and the jobs picture at the national level and in nearly every one of the states is pessimistic. The recession will be over on Main Street when America is back at work and American families will not need Bernanke or anyone else to break the news to them that the recession truly is over.

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