Is the Recession Over? Don't Bet on It!
by Gary D. Halbert

We have seen some encouraging economic news in recent weeks and President Obama and his cronies in the mainstream media have declared that the worst recession in post-war history is all but over. The advance estimate of second quarter GDP was down considerably less than expected (-1.0%); the unemployment rate actually fell slightly to 9.4% and the ISM manufacturing index posted a nice improvement in July. The Fed says it will end its record large purchases of government agency debt in this month. If indeed this happens, it will be the first step in ending the Fed's massive stimulus spending.

While these reports were better than expected, and continue to suggest that the worst of the recession is behind us, this economy is far from out of the woods yet. Growth prospects continue to look muted, although a growing number of forecasters are suggesting that GDP will register a positive number in the third quarter due largely to the rebuilding of inventories.

Economic Signs of Improvement
Over the last several months, we've seen some encouraging economic reports. In some cases, "encouraging" simply means that the reports weren't as negative as expected. That was certainly the case with the advance Second Quarter GDP estimate at the end of June, which showed a decline of only 1% (annual rate) versus pre-report estimates which were considerably worse. Some analysts expect that number to be revised downward somewhat when the second estimate is released later this month.

On the manufacturing front, the ISM Index rose more than expected in July to 48.9, up from 44.8 a month earlier. Industrial production rose 0.5% in July, and construction spending and the factory operating rate both rose modestly last month as well. These are all signs that the recession may be leveling out.

As of this writing, we haven't received the Index of Leading Economic Indicators (LEI) for July, and the pre-report consensus is for a rise of 0.6%, following +0.7% in June. If the LEI was up for July, that would mean the fourth consecutive monthly increase. That would be very encouraging and a sign that we will likely be out of this recession by the end of the year.

The US unemployment rate unexpectedly dropped from 9.5% in June to 9.4% in July, as employers slashed 247,000 jobs, the slowest rate of decline in nearly a year. This news temporarily sent stocks to their highest level of the year since the pre-report consensus was for a rise to 9.6%

However, the July decline in the jobless rate came about not because more people had jobs, but because almost 800,000 "discouraged workers" - people who have essentially given up on looking for a job - were not counted as unemployed, thereby allowing the official unemployment rate to fall modestly in the latest jobs report. The number of long-term unemployed people - those who have been out of a job but looking for more than 26

weeks - rose by another 584,000. Thus, it appears we are still headed for 10% employment before this cycle reverses.

Despite the still troubled employment situation, investors welcomed the reports above, and more and more forecasters have apparently decided that the recession is over. I continue to believe that we are still at least a few months from concluding that the recession has ended. The Consumer Confidence Index fell for the second month in a row in July, and retails sales were down slightly last month. Therefore, it is premature to declare that the recession is over.

Fed Vows to Keep Rates Low
To no one's surprise, the Federal Open Market Committee (FOMC) announced that it will continue its policy of keeping interest rates at their historically low levels. The FOMC also maintained its position that interest rates could remain historically low for an "extended period of time." In other words, the floodgates of liquidity are still wide open.

About the only new revelation was that the Fed announced that it will stop buying long-term Treasuries this month. This could be the ultimate case of good news/bad news, in that it's good that the Fed may no longer be printing money to buy Treasuries, but bad in that these securities will soon have to compete in the open market, and this could lead to higher interest rates. Remember that this is why the Fed committed to start buying Treasuries in the first place.

However, the Fed's printing press will not be idle as it said it will continue to purchase up to $1.25 trillion in agency mortgage-backed securities and other agency debt from Fannie Mae and Freddie Mac. The Fed's hope here is to keep a lid on mortgage rates in an effort to stimulate the housing market.

From an economic standpoint, the latest FOMC statement notes that US economic activity is "leveling out" meaning that the rate of descent has slowed. However, this simply means that the recession may not get deeper. The Fed's prospects for recovery, however, were modest, at best. The Fed expects economic activity to remain weak "for a time" (whatever that means) and a return to sustainable economic growth is likely to be gradual.

Conclusions
While we have seen some encouraging economic reports over the last few weeks, it is premature to declare that the recession has ended. As discussed above, the unemployment rate is very likely to rise even higher before this cycle is over. Remember that consumer spending is still the main driver of this economy, and retail sales fell slightly in July well below the pre-report consensus. The Consumer Confidence Index fell a second month in a row in July.

On the positive side, the Fed remains committed to keeping interest rates very low for an extended period, and liquidity is plentiful for now. If this Thursday's Leading Economic

Indicators report is positive, that will market the fourth consecutive monthly increase, which will be a very good sign that the recession will end by the end of the year.

Stocks are overbought at this point, as many investors who bailed out in February and March are jumping back in. The stock market has felt like a mini-bubble since the March lows and especially in July. Thus, I would not be surprised to see the downward correction that began last week to continue in the weeks ahead.

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