

Is the Recession Over?
by John V. Kamin

During the third week of September, Economist Dr. Ben Bernanke, head of the Federal Reserve said, "Technically, the recession is over."

Your Forecaster economist does not agree, respectfully. In the words of Yogi Berra, "It ain't over until the fat lady sings." Berra, who was a New York Yankee catcher, also said, "It ain't over til it's over."

Other than temporary stimulus, new jobs are not being created. Most employers are avoiding hiring. The home construction industry is operating at a shrunken rate and Industrial Capacity Utilization is on the low end.

What will replace the taxpayer-paid "Cash-for-Clunkers" program? Are Americans ready to spend beyond their means or live above their means as they have for several previous years?

Forecast: The credit crunch may be easing a bit, but borrowing can still be very tough. Double-digit unemployment rates still plague many metro areas and states (15% in Michigan and 13% in California and Nevada).

Forecast: Productivity is up a bit, but is mostly the result of "thinning the ranks." Less people are doing more, the same work, as firms eliminate less-efficient employees, troublemakers as well as good workers and do not replace them. Job seekers out-number jobs open / available by six to one.

Prediction: What may also hold back 2010-2011 employment are extended unemployment payments plus ex-military soldiers returning from Iraq over the next few months, adding to job seekers. Ask anyone who is unemployed and they'll tell you how hard it is to replace a vanished job that they used to have.

Prediction: Promised higher taxes on risk-takers who might start new companies will serve as punishment disincentive. Why take on a risky business amidst a 2009 recession is risky future profits are going to be taxed more? Grunt work (labor-intensive) jobs are still fleeing to lower wage nations such as India and Bangladesh. China has average \$75 per month wage on a six day work week; Vietnam has an average monthly wage of \$55 and Egypt, the biggest USA foreign aid recipient has an average monthly wage of \$32.

"Handed a Recession?" History Gives Perspective

President Obama keeps referring to his predecessor Bush as "handing him a recession" when Obama took office.

Forecaster view is that the business cycle downturn was overdue, the property boom had ended and the first Bush stimulus program of May 2008 didn't work, though it was

costly. The second stimulus program of May 2009 didn't work either. Let's see what history shows.

Back in October of 1962, the Dow-Jones Industrial Average dropped well below 200. Bets were taken on whether DJIA would ever reach 200 again. The Soviets were installing Intercontinental Ballistic Missiles in Cuba. The Cuban ICBMs were pointed at southern USA, as little as 90 miles away, resulting in the missile crisis. The USA military draft affected all healthy young men. Government leaders did not care that graduates had to postpone jobs, marriage and education. They were just drafted. Economist Dr. Milton Friedman fought for a voluntary military, but it took another 15 years.

JFK could not get a single major Bill through Congress during the three and a half years he was in office...not one bill! But after November of 1963, Congress passed everything he had asked.

Fast forward to 1973 and the formation of OPEC and the Arab Oil Embargo. Americans were caught flat-footed during the crisis. Vietnam was ending in a demoralizing way as Americans hastily departed leaving behind massive air bases, bulldozers, tanks, artillery, trucks, cars and everything to the Communists. Inflation was whipping up as Ford entered office and gas prices soared.

Fast forward again to the final Carter years, especially 1979 and 1980 when he was replaced by Reagan. Inflation soared to double digits – 16%. T-Bills yielded 16%, as did the prime rate. If you could even find a mortgage, no matter how good a borrower you were (pre-FICO scores) - a loan would cost you 10% to 16% - double digits.

Punches for Petrol?

Oil rich California was running out of gas. Residents were limited to buying gas on odd or even days, but not both, depending upon the ending digit of their license number. Fill-ups were limited to five gallons at a time. Fist fights broke out in long gas lines. Pump-jockeys were rude to patrons. Washington printed gas rationing coupons and almost issued them, but did not. They wanted to “be ready”.

During Carter's term, Iran embarrassed the USA; helpless while Iranians over ran the US Embassy and kidnapped hundred of Embassy diplomats and workers, holding them for many months.

In Afghanistan, during 1979-1980, the Soviets had invaded and propped up the Taliban who beat people with steel rods and forbade any female from going to school to learn to read and write.

By Reagan's second year in office, (1982), the Dow-Jones Industrial Average had dropped to the 600s. Let's not even mention the Black Monday, the October 1987 Stock Market massive 25% crash in a single day, the aftermath of which was handed to Bush #1 during the 1988 election.

Fast forward again to the Clinton years; to the tech-wreck of 1999 and 2000. You couldn't have forgotten that recession. As Bush entered office during 2001, he was handed not only a brutally blistered economy, but the 9/11/2001 terrorist attacks. All commerce was shut down, the Exchanges closed and airports shut. A family member who had been working at the U.S. Embassy in Guatemala got stranded in Miami for a week on her way home. She couldn't reach anyone by phone and no one knew where and what would happen next. We were stuck in Denver that day. Gas stations would only accept cash – no credit, power outages were common and ATMs were shut down.

Summary

Things happen. Current 2009 leaders' claims that they "were handed recession" are neither unprecedented, nor are business cycles "unusual". Expecting elected candidates to be handed only up-cycles is unrealistic at best; not worth complaining about when history is examined.

Still, gold protected people this decade. After hitting a low of \$250 per ounce a few years ago, it has now surpassed \$1,000 per ounce. Silver got as low as \$3.50 and is currently \$16.50.

I plan to wait for more evidence that the recession is indeed over. This could be a Dead Cat Bounce, fooling many. Clients are still adding to hard assets, buying cheap foreclosures and expecting future inflation. Prudence may make you more money by accumulating tangibles, cash flow and hard assets rather than betting on a fast end to recession.

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