



## THE RECOVERY HAS LOST MOMENTUM, BUT THAT'S NOT UNCOMMON

by Mark Schniepp

Though doubts about the sustainability of the recovery are valid, **it is not yet in danger of stalling**. Slow improvement is still improvement. While the recovery will take time to gain steam and become self-reinforcing, it has certainly begun.

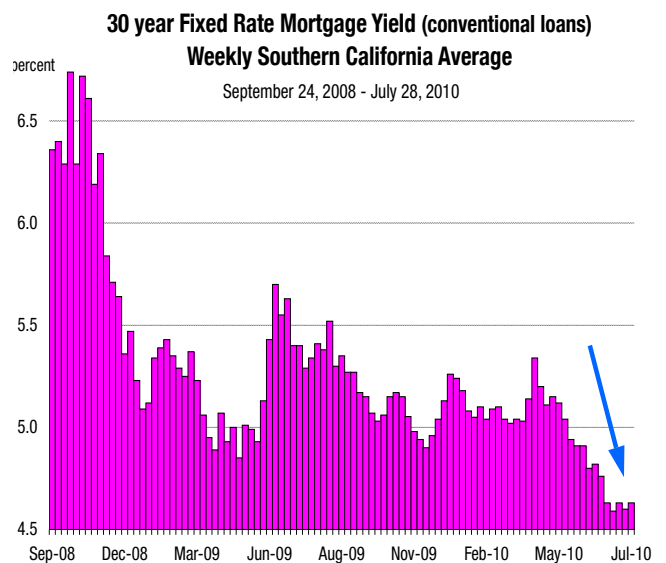
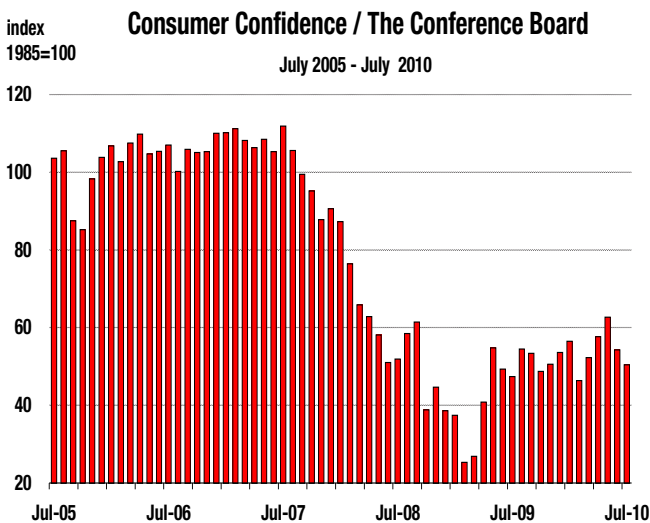
The layoffs are over, home values have stabilized, the stock market has rallied well beyond the March 2009 low, but consumers have not yet put the recession behind them. Last year, consumer confidence fell to an unprecedented low. Despite the recovery, consumers remain especially cautious, if not pessimistic. Several factors are keeping you the consumer tenuous about the recovery.

The first is the poor condition of the credit market and the inability of many homeowners to refinance during an environment of record low interest rates. This has been very frustrating. If credit markets would loosen up, the housing market could well be leading the recovery instead of lagging it.

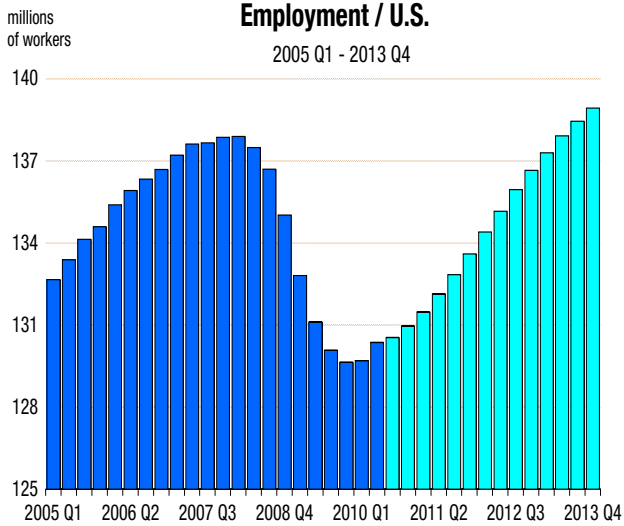
The second and biggest disappointment is the labor market.

During the past recession, the U.S. unemployment rate rose by a full 5 percentage points, the biggest jump of any downturn since the 1940s. After severe recessions of the past, the jobless rate recovered more quickly, because businesses needed to staff up as demand rebounded. Unfortunately, the current pattern more closely resembles the aftermath of a mild recession, with firms remaining cautious about adding new positions.

However, a slow recovery in employment is not unprecedented: After the 1990 recession, which also followed a financial crisis, virtually no job creation occurred for a year before hiring resumed in a meaningful way. If the current recovery follows the post-1990 pattern, employment will reach its pre-recession level by the middle of 2012. This is generally consistent with expectations by economists that job growth will accelerate in 2011 and 2012.



*Mortgage rates remain at all time lows, yet housing is not helping the recovery produce the necessary momentum to convince consumers that the recession is over.*



The lack of job creation has contributed to the financial difficulties of consumers, by causing income growth to lag behind the pace of past recoveries. Wages and salaries have only recently begun to grow. The lack of wage growth impacts spending, as consumers save to rebuild their household balance sheets and insulate themselves from further wealth declines. It also keeps consumer confidence subdued.

By most indicators, the U.S. economy is recovering at a slower pace than in either mild or severe recessions of the past—but it is nonetheless recovering, from arguably the most severe recession since the Great Depression.

The slow pace of improvement is worrisome, but it does not yet cause us to foresee a new recession. It isn't unusual at this point in a recovery to worry about its staying power.

A number of conditions are in place—corporate profits, manufacturing, exports, home sales, and business confidence—that should help keep the economy moving forward. Our economy's underlying strengths will ultimately prevail.

The economy will take its time to return to normal. We expect employment to reach the pre-recession highs by 2013, with unemployment falling to its so-called natural rate in late 2014 or early 2015. This forecast assumes an accelerated pace of job growth in 2011 and 2012---much faster than what we've experienced to date nationwide.

In California, employment growth will lag the nation because the state government sector is broken and should be laying off thousands of workers to balance the budget. It is largely unknown just what the state will do but the range of solutions is rapidly approaching outright layoffs. At any rate expect the public sector to delay a more vibrant recovery in the state, probably until 2012.

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