

2010 ECONOMY: IMPROVING JOBS OUTLOOK WILL SPUR MODEST GROWTH

Expansion of Private Investment and Consumer Spending Key Prerequisites

The recession ended in November, although the National Bureau of Economic Research (NBER), the final arbiter of the business cycle, has yet to make it “official.”

True, Gross Domestic Product (GDP) began expanding before November. So, too, did most other indicators of economic performance that NBER considers in its determination of a cyclic turn. Industrial production, after-tax incomes, and merchant sales all began moving gradually upward in the summer of 2009.

There was one notable exception, however: employment. Despite the uptick in general activity, the nation’s job count continued to decline. And all of its correlates (e.g., unemployment, underemployment, job seeker discouragement) indicated that the human costs of the contraction remained unabated through year’s end.

In November, for the first time since 2007, U.S. employment increased. A streak of 22 consecutive monthly declines was broken and the jobs data began bottom-bumping. As explained in prior communications, November’s gain confirmed the other indicators and signaled the recession’s end. That is, the economy had stopped shrinking.

Recent data show that the economy is recovering (i.e., rebounding from its recessionary lows), but at a relatively subdued pace and unevenly across sectors.

“Things will get better—despite our efforts to improve them.”
— Will Rogers

It is preliminarily estimated that real (i.e., inflation-adjusted) GDP grew at a 5.7 percent annualized rate in the fourth quarter of 2009. That fell shy of the initial phase of earlier recoveries and was narrowly concentrated, driven by inventory liquidation and targeted incentives (e.g., “cash for clunkers” and housing credits).

This pattern was to be expected given the reinforcing interplay between the general economy’s slowdown and the financial sector’s meltdown. From the end of 2007, that negative feedback loop eliminated 8.5 million jobs and, at its most pernicious point, eradicated \$16 trillion of net worth.

Where Does the Recovery Go From Here?

After declining for two consecutive years, consumer spending (which accounts for more than 70 percent of GDP) has turned positive on rising after-tax incomes. Although the household sector remains cautious, an improving jobs market should bolster confidence and lead to increased spending over the course of 2010.

Private investment should also provide continuing impetus at an accelerating rate in the first half of 2010. Having slashed

spending during the downturn, businesses now need to replace worn-out equipment and upgrade outmoded systems. Further, depleted inventories must be replenished.

Concurrently, private sector employment (down 8.5 million from its pre-recession peak) is poised to expand. Through 2009, firms met rising demand by increasing the productivity and hours worked by their current employees; yet payrolls continued to shrink (-4 percent year-on-year). But private employment bottomed toward the end of 2009 and was virtually unchanged (-0.01 percent) in January. Increases appear imminent.

It appears, then, that the recovery will be sustained in 2010 by continued expansion of private investment and consumer spending—assuming no external shocks.

But it must be kept in mind that the pace of private sector growth will be inhibited by financial constraints (notably, lenders’ deleveraging and borrowers’ legacy debts).

To begin with, given the need to repair their balance sheets, businesses and households evidence a reduced appetite for credit.

For those businesses looking to expand, access to bank loans and commercial paper remains limited. Where available, it's relatively expensive. There is an exception, however, for those firms with platinum balance sheets.

And while the households are still heavily indebted, they have made considerable progress in reducing their non-mortgage obligations. Consumer credit has steadily declined since September 2008.

During the downturn, *increased* public sector deficits, most notably the Federal government's, partially compensated for the decline in private demand. Part of the increased deficit was the result of automatic stabilizers (e.g., higher-income transfers, such as unemployment benefits; and lower taxes); the other part came by way of the \$787 billion American Recovery and Reinvestment Act (ARRA).

But by mid-2010, the stimulative benefits of the ARRA will be in the rearview mirror.

Concurrently, state and local governments, whose 2009 (but not 2010) spending was supplemented by ARRA, continue to cut spending due to greatly reduced tax revenues.

In 2010 the public sector is likely, *cet. par*, to shift from tail wind to head wind; from pushing growth in the second half of 2009 to dragging on it in the second half of 2010.

On balance, the impetus from increasing private investment and consumer spending should exceed the drag emanating from the public sector, and the economy will push forward in 2010, albeit slowly. In other words, things will get better despite our efforts to improve them. ■

Patrick J. O'Keefe is director of economic research at J.H. Cohn LLP. He can be reached at pokeefe@jhcohn.com or 877-704-3500. For more insight from Mr. O'Keefe, please visit our website, www.jhcohn.com.

To view a library of the charts associated with this article, [click here](#).

For more information on J.H. Cohn's Economic Notes, [click here](#).

California

San Diego

4180 Ruffin Road, Suite 235
San Diego, CA 92123
858-535-2000

Los Angeles

Good Swartz Brown & Berns,
A Division of J.H. Cohn LLP
11755 Wilshire Boulevard, 17th Floor
Los Angeles, CA 90025
310-477-3722

Warner Center

Good Swartz Brown & Berns,
A Division of J.H. Cohn LLP
21700 Oxnard Street, 7th Floor
Woodland Hills, CA 91367
818-205-2600

Cayman Islands

P.O. Box 1748 GT
27 Hospital Road
George Town, Grand Cayman
877-704-3500 x7839

Connecticut

Glastonbury

180 Glastonbury Blvd.
Glastonbury, CT 06033
860-633-3000

New Jersey

Roseland

4 Becker Farm Road
Roseland, NJ 07068
973-228-3500

Eatontown

27 Christopher Way
Eatontown, NJ 07724
732-578-0700

Lawrenceville

997 Lenox Drive
Lawrenceville, NJ 08648
609-896-1221

Metro Park

333 Thornall Street
Edison, NJ 08837
732-549-0700

New York

Manhattan

1212 Avenue of the Americas
Suite 1200
New York, NY 10036
212-297-0400

Charles Brucia & Co.,
A Division of J.H. Cohn LLP
1212 Avenue of the Americas
New York, NY 10036
212-682-2459

Frederic Kantor & Company,
A Division of J.H. Cohn LLP
1212 Avenue of the Americas
New York, NY 10036
212-727-2300

Long Island

100 Jericho Quadrangle
Suite 223
Jericho, NY 11753
516-482-4200

White Plains

1311 Mamaroneck Avenue
White Plains, NY 10605
914-684-2700

 **J.H. COHN** LLP
Accountants and Consultants since 1919

877-704-3500
www.jhcohn.com

This newsletter is published by J.H. Cohn LLP for the general information of its clients, friends, and business associates and should not be acted upon without prior professional consultation.