
KeyValueData™
National Economic Report
September 2011

By Kevin R. Hopkins

About the Editor

The KeyValueData National Economic Report is written and edited by Kevin R. Hopkins. Mr. Hopkins is a former senior economic advisor to President Reagan. He previously served as Director of the White House Office of Policy Information and as Senior Staff Member for the White House Cabinet Council on Economic Affairs. He has also been a senior contributing editor to Business Week magazine for the past 18 years. He attended the Ph.D. program in Economics and Mathematics at UCLA.

Use of Materials

The KeyValueData National Economic Report™ (“the Report”) conveys general economic conditions through the second quarter of 2011 and, in some cases, the third quarter of 2011. For indicators with more frequent reporting periods, data has been sourced up to Report’s publication date. In addition, the Report provides 10-year historic data references for trend analysis purposes. The report will be updated by KeyValueData on a monthly and/or quarterly basis to maintain data timeliness.

The information contained within the report should not be interpreted as advice for the preparation of valuations or other financial counseling. Usage and application of the information for valuation or other consultative purposes is the sole responsibility of the individual appraiser. KeyValueData and the editors of the Report believe the contents of this Report to be accurate as of the publication date. However, neither KeyValueData nor the editors take any responsibility nor offer any warrants for the accuracy of the data or any consequences that may result from the use of this data or other contents of this Report for personal or professional purposes. Please notify us of any errors by writing info@keyvaluedata.com.

Licensed users and individual subscribers to the Report have permission to extract material contents from the KeyValueData National Economic Report for use in their own documents provided that the cited materials are attributed to the original sources noted in the Report.

September 2011 National Economic Report: Summary

After a brief rebound, the U.S. economy has started to sputter again. According to the U.S. Census Bureau, the U.S. economy grew by 3.1% in the fourth quarter of 2010 and by 2.9% for all of 2010. However, during the first quarter of 2011, the economy's growth rate—pulled down by rising food and gasoline prices and harsh winter weather—slipped to an initially estimated 1.9%. Matters worsened on July 29, when the re-estimated fourth quarter growth rate was scaled back to 2.3% and the first quarter's growth rate was revised sharply downward to an anemic 0.4%. The growth rate for the second quarter was equally grim, ultimately revised downward to just 1.0%. Said Moody's: "The economy essentially came to a grinding halt in the first half of the year." In concert with these difficulties, U.S. jobs grew by only 113,000 in September (with 45,000 of those "new" jobs resulting from striking workers returning to their old positions) after posting zero net gain in August. At the same time, the U.S. unemployment rate, which had slipped from 9.2% in June to 9.1% in July, held at that level for the third month in a row.

Other serious problems remain. After months of debate over plans to raise the U.S. debt ceiling in order to avoid a first-ever default on U.S. debt obligations, congressional leaders agreed on August 1 to a deal that would allow President Obama to boost the debt limit in three stages over the next two years. The deal was not enough to slow Federal borrowing, however, which shot up by \$238 billion in the wake of the debt agreement—immediately consuming more than 60% of the newly freed up funding. Subsequently, the Congressional Budget Office estimated that the FY 2011 deficit would reach a near-record \$1.3 billion. Retaking the political offensive, President Obama began strenuously calling for more than \$1 trillion in new taxes, mostly on the wealthy, which Republicans argued would destroy rather than create jobs. Elsewhere, industrial production and auto sales were up, but the housing market, consumer confidence, and consumer spending still struggled. Consumer and energy prices moderated somewhat.

U.S. Economic Growth Rate Down Sharply in First Half of Year

After a brief rebound, the U.S. economy has started to sputter again. According to the U.S. Census Bureau, the economy grew by 3.1% in the fourth quarter of 2010 and by 2.9% for all of 2010. However, during the first quarter of 2011, the economy's growth rate—pulled down by rising food and gasoline prices and unusually harsh winter weather—slipped to an initially estimated 1.9%. Matters worsened on July 29, when the re-estimated fourth quarter growth rate was scaled back to 2.3% and the first quarter's growth rate was revised sharply downward to an anemic 0.4%. The growth rate for the second quarter was equally grim, coming in at just 1.0%. Said Moody's: "The economy essentially came to a grinding halt in the first half of the year."

Jobs Improve in September After Zero Gain in August

After generating no net new jobs in August—the first time since 1945 that the government had reported a net job change of zero—the U.S. economy added 103,000 jobs in September. However, nearly half (45,000) of the "new" jobs were the result of striking Verizon employees returning to work to their formerly held jobs. The unemployment rate held at 9.1% for the third straight month.

Federal Budget Deficits Continue to Soar

For the first half of fiscal 2011, the U.S. budget deficit was up by 15.7% over last year's. On October 7, the Congressional Budget Office forecast that the FY 2011 deficit would finish at about \$1.3 trillion, matching last year's level and only slightly improved from the all-time record of two years earlier.

Tax Debate Sharpens Again

Having failed to secure significant new taxes as part of the August 1 debt deal, President Obama called on voters to pressure Congress to "put country first" by sharply raising taxes. Subsequently, on September 18, he proposed an additional \$1 trillion in new taxes, including a new "millionaire's tax" and limits on itemized tax deductions for families with taxable income greater than \$250,000. He also renewed his call for letting the Bush tax cuts expire. House Speaker John Boehner (R-Ohio) ruled out tax increases, but urged that consideration be given to a full rewrite of the U.S. tax code.

Bank Failure Rates Down

After reaching the highest rates last year in nearly 30 years, bank failure rates are down considerably in 2011. A total of 76 banks have failed as of October 10, as compared with 157 failures in 2010 and 140 in 2009. In addition, the FDIC added only four banks to its list of "problem institutions"—those whose weaknesses threaten their continued financial viability—during the first quarter of 2011, the smallest increase in more than three years.

Stocks End Their Worst Quarter Since 2008

U.S. stocks registered their biggest quarterly drop since the financial crisis of 2008 with a triple-digit dive on September 30. The Dow shed 240.60 points, or 2.2%, to close at 10913.38. The loss capped a 12% third-quarter decline for the Dow, the biggest percentage drop since the first quarter of 2009 and the largest point loss since the first quarter of 2008. The S&P 500 stock index fell 28.98 points, or 2.5%, to 1131.43, putting the measure's quarterly loss at 14%. The Nasdaq Composite index tumbled 65.36 points, or 2.6%, to 2415.40, for a 13% quarterly fall.

Industrial Production Continues to Improve

US. industrial production unexpectedly climbed by 0.2% in August, above market expectations for an unchanged reading and following a solid 0.9% gain in July. With the August bump, the capacity utilization rate also edged up to 77.4% from a downwardly revised 77.3% in July.

Productivity Falls in First Half of Year

Worker productivity, which had picked up in 2010, is falling again. After declining by 1.8% during the second quarter of 2010—the biggest drop in four years—U.S. productivity grew by a revised 2.3% during the third quarter and by 2.6% during the fourth quarter. But these trends went into reverse in 2011. Productivity fell by a revised 0.6% during the first quarter of 2011 and fell again by 0.7% in the second quarter.

U.S. Auto Sales Up Strongly in September

After a solid August, U.S. automakers experienced a strong September as well. Automakers sold nearly 1.1 million vehicles last month, up 2% from August and up 10% from September 2010. That sales rate translates into annual sales of more than 13 million, the highest level since April. Chrysler Group's sales were 27% above year-ago levels, while GM's sales were up by 20% and Ford Motor Co.'s sales were up by 9%.

Housing Market Roller Coaster Continues

Sales of new U.S. single-family homes fell for the fourth straight month in August, plummeting by 2.3% and reaching a 6-month low, after tumbling by 0.7% in July. If the current pace continues, 2011 would become the worst year for new home sales on record. In contrast to tumbling new home sales, the number of previously owned U.S. homes under contract rose by 7.7% in August as compared with July.

Consumer Confidence Stabilizes After Steep Decline

After plummeting in August to its lowest level since April 2009, the Conference Board Consumer Confidence Index remained essentially unchanged in September. The Index now stands at 45.4 (1985=100), up slightly from the August level of 45.2. Similarly, following a deterioration in August to the lowest level since May 1980, consumer sentiment as measured by the Thomson Reuters/University of Michigan Consumer Sentiment Survey rebounded to 59.4 in September as compared with 55.7 in August.

Consumer Spending Growth Slows in August

Consumer spending growth slowed in August as family incomes declined, adding still more evidence that the scarcity of jobs is preventing the U.S. economy from gaining ground. Overall, consumer purchases increased by just 0.2% during August after a 0.7% increase in July. On an annual basis, total consumer spending fell by 2% last year.

Retail Sales Climb Slowly in September

U.S. retail sales in September increased at their slowest pace in five months, raising concerns that the coming holiday season may be the most bruising since that of 2002. Sales at stores open at least 12 months gained just 2.0% from a year earlier.

Consumer Prices Rise, Although Less Than in July

Consumer prices increased by 0.4% in August after climbing by 0.5% in July. When the more volatile food and energy prices were excluded, the consumer price index rose by 0.2% in July, the same gain registered in August.

Gasoline Prices Moderate

Retail gasoline prices in August were \$3.64 per gallon, about the same as in June and July and well below the May 2011 peak of \$3.91 per gallon. However, August 2011 prices were considerably above their year-earlier level of \$2.71 per gallon.

#####

September 2011 National Economic Report

Note: in a new format for the KeyValueData National Economic Report, full reports will be provided for the first month of each quarter. For the remaining months, an abbreviated summary report will be supplied that valuers can drop directly into their business valuation report—in whole or in part. In addition, with this issue, we also move to a new presentation style for the main body of the NER, bulleting and highlighting data to make the report easier to read and scan.

After a brief rebound, the U.S. economy has started to sputter again. According to the U.S. Census Bureau, the U.S. economy grew by 3.1% in the fourth quarter of 2010 and by 2.9% for all of 2010. However, during the first quarter of 2011, the economy's growth rate—pulled down by rising food and gasoline prices and harsh winter weather—slipped to an initially estimated 1.9%. Matters worsened on July 29, when the re-estimated fourth quarter growth rate was scaled back to 2.3% and the first quarter's growth rate was revised sharply downward to an anemic 0.4%. The growth rate for the second quarter was equally grim, ultimately revised downward to just 1.0%. Said Moody's: "The economy essentially came to a grinding halt in the first half of the year." In concert with these difficulties, U.S. jobs grew by only 113,000 in September (with 45,000 of those "new" jobs resulting from striking workers returning to their old positions) after posting zero net gain in August. At the same time, the U.S. unemployment rate, which had slipped from 9.2% in June to 9.1% in July, held at that level for the third month in a row.

Other serious problems remain. After months of debate over plans to raise the U.S. debt ceiling in order to avoid a first-ever default on U.S. debt obligations, congressional leaders agreed on August 1 to a deal that would allow President Obama to boost the debt limit in three stages over the next two years. The deal was not enough to slow Federal borrowing, however, which shot up by \$238 billion in the wake of the debt agreement—immediately consuming more than 60% of the newly freed up funding. Subsequently, the Congressional Budget Office estimated that the FY 2011 deficit would reach a near-record \$1.3 billion. Retaking the political offensive, President Obama began strenuously calling for more than \$1 trillion in new taxes, mostly on the wealthy, which Republicans argued would destroy rather than create jobs. Elsewhere, industrial production and auto sales were up, but the housing market, consumer confidence, and consumer spending still struggled. Consumer and energy prices moderated somewhat.

1. THE ECONOMY

1.1 Economic growth

U.S. economic growth rate down sharply in first half. After a brief rebound, the U.S. economy's growth rate has started to tumble again. According to the U.S. Census Bureau, the economy grew by 3.1% in the fourth quarter of 2010—and by 2.9% for all of 2010—building on a foundation of strong consumer spending gains and increased exports and pushing demand up at one of the fastest clips in more than a quarter century. However, during the first quarter of 2011, the economy's growth rate—pulled down by rising food and gasoline prices and unusually harsh winter weather—slipped to an initially estimated 1.9%. Matters worsened on July 29, when, on re-estimation, the fourth-quarter growth rate was scaled back to 2.3% and the first-quarter growth rate was revised sharply downward to an anemic 0.4%. The growth rate for the second quarter was equally grim, coming in at just 1.9%. Then, on August 26, the second-quarter rate was revised downward as well, to 1.0%. "The economy essentially came to a grinding halt in the first half of this year," according to a senior analyst at Moody's rating agency.

1.2 Behind the numbers

U.S. “on the wrong track.” In a Rasmussen Reports poll released on August 10, 2011, just 16% of surveyed likely voters said that the country was headed in the right direction, down sharply from the already ominously low 27% who responded in the same way in January. Also in August, both a Harris Interactive poll and a Bloomberg National Poll indicated that 66% of Americans thought that the country was “on the wrong track.” Likewise, in a Reuters/Ipsos Poll released on August 10, the number of Americans who believed that the country was on the wrong track rose to 73% in August, up from 63% in July and from 60% in June. And in an August 18 Gallup poll, just 11% of Americans said that they were satisfied with conditions in the nation—the second lowest figure in more than 39 years of polling, and just 4 points above the 2009 low of 7%. These trends continued into September, with only 19% of Americans telling NBC News/Wall Street Journal pollsters that they thought the country was headed in the right direction.

Americans worse off. By 44% to 34%, Americans believe they are economically worse off now than they were when President Obama took office, according to a Bloomberg National Poll conducted June 17-20. Further, according to a CNBC poll, released June 3, some 61% of Americans say they don't expect to return to their pre-recession lifestyles until the spring of 2014, if ever. Even President Obama, on October 3, admitted that Americans were not better off now than they were four years ago.

Recovery the weakest on record. A grim report from the July 5 edition of The Wall Street Journal paints the ongoing recovery as the weakest on record, saying that the economy's improvement since the recession's end in June 2009 has been the worst, or one of the worst, since the government started tracking these trends after World War II.” A Reuters report on the same day concurred, noting that payroll employment today is 5% lower than it was before the recession began 41 months ago.

Has the double-digit recession begun? According to a July 31 report on MSNBC.com, “the U.S. has entered a second recession.” In fact, the news outlet says, the 2007 – 2009 recession may never have ended. Key factors at play in this assessment include the nearly 50% drop in home values in many parts of the country and the persistence of unemployment levels of 14 million or more. Its conclusion, in numerous economic areas, is stark: “There is no relief in sight...” Echoed a New York Times news analysis on August 4: “Time to say it: the double-dip recession may be happening.... The unrelenting negative economic news has painted a picture of a United States economy that fell further and recovered less than we had thought.”

1.3 Complications

Obama's approval ratings fall to lowest point yet. According to the most recent Gallup tracking poll, President Obama's approval rating has fallen to his record low 38%, with 54% disapproving. Gallup also reported that Mr. Obama's approval rating on the economy has nosedived to a new low of 26%, with 71% disapproving. An NBC News/Wall Street Journal poll on September 6 reported record lows as well, with 44% approving of Mr. Obama's job as president and 37% approving of his handling of the economy. And, in an October 5 ABC News/Washington Post poll, four in ten Americans said they “strongly disapproved” of his job handling. Later, in an October 6 Quinnipac University poll, voters by a margin of 44% to 11% said that the economy was growing worse, not better—and only 39% said that it would improve if Obama were re-elected.

Obama's re-election in doubt. As a reflection of the negatives just discussed, a Bloomberg National Poll released on June 21 indicated that, while 30% of Americans said that they “definitely” would vote to re-elect Mr. Obama, 36% said that they “definitely would not.” Separately, early-September polls by John Zogby found that only 33% of Americans believed that Mr. Obama deserved re-election, with respondents rating him five times worse on handling the economy than former President Jimmy Carter. Likewise, in an October 3 ABC News/Washington Post poll, just 37% of Americans said that they thought Mr. Obama would be re-elected, with 55% expecting him to lose.

Congress fares even worse. It isn't only the President who receives Americans' disapproval. An August 5 New York Times/CBS News poll revealed that a record 82% of Americans disapproved of the way that Congress was handling its job.

1.4 What lies ahead

Fed says the recovery is close to faltering. Federal Reserve Chairman Ben Bernanke told a Congressional hearing on October 4 that the U.S. economic recovery was close to faltering and admitted that recent economic indicators were pointing to “the likelihood of more sluggish job growth” in the months ahead.

Fed further cuts its projected growth rate for 2011. In July 2010, the U.S. Federal Reserve cut its projected growth rate for the U.S. economy for 2011 from between 3.8% to 4.5% to between 3.5% and 4.2%. In January, the Fed further trimmed its 2011 growth projection to between 3.4% and 3.9%. Then, on April 27, 2011, the Fed lowered its projected growth rate even more, to between 3.1% and 3.3%, or more than a quarter below the projection of less than one year ago. Finally, on June 22, the Fed reduced its 2011 growth forecast even further, to between 2.7% and 2.9%.

IMF cuts U.S. growth forecast as well. On June 17, the International Monetary Fund (IMF), cuts its growth forecast for the U.S. economy to a tepid 2.5% for this year and to 2.7% for 2012. In its forecast of just two months previous, the IMF had projected U.S. growth rates of 2.8% and 2.9%, respectively.

CBO cuts growth projections. On September 13, the U.S. Congressional Budget Office (CBO) released new economic projections indicating that the U.S. economy would grow by only 1.5% this year and by just 2.5% in 2012. Those figures are down from the CBO's August estimates of 2.3% and 2.7%, respectively.

Private analysts cut growth projections sharply. Moody's Analytics, a sister company to the credit-ratings firm Moody's Investors Service, on August 15 dramatically lowered its projections for U.S. economic growth through 2012. Just a month ago, the company was forecasting growth of 3.5% for the 18-month period. Now, the analytics group see growth at 2.0% for the balance of 2011 and just over 3.0% for all of 2012. Days later, Morgan Stanley cut its U.S. and global growth rates significantly as well.

Hard times to continue. On July 10, U.S. Treasury Secretary Timothy Geithner conceded in a “Meet the Press” interview that many Americans would face hard times for the foreseeable future. “It's going to feel very hard, harder than anything they've experienced in their lifetime now, for a long time to come,” he said.

Another recession coming? If the double-digit recession isn't already here, it may be coming. A new Morgan Stanley report, released on August 18, indicates that "a negative feedback loop... now appears to be in the making" in both the United States and Europe. Both economies, the report says, are "dangerously close to a recession... It won't take much in the form of additional shocks to tip the balance." CNBC, on September 22, highlighted this concern with the headline: "Global Meltdown: Investors Are Dumping Nearly Everything." On another front, a Bank of America Merrill Lynch analysis, released on August 3, said that the coming end to long-term unemployment benefits places the chances of a renewed recession at one in three. Economist Nouriel Roubini, known for his bearish views on the world economy, places the probability of a second recession much higher, at 60%. And billionaire investor George Soros, a key financial backer of President Obama, declared on September 22 that he believed the United States was already in the midst of the second dip of a double-dip recession.

2. EMPLOYMENT

2.1 Unemployment

Zero jobs growth in August. After generating no net new jobs in August—the first time since 1945 that the government had reported a net job change of zero—the U.S. economy added 103,000 jobs in September. However, nearly half (45,000) of the "new" jobs were the result of striking Verizon employees returning to work to their formerly held jobs. As the Associated Press characterized the September jobs report, "The jobs crisis isn't getting any worse. But it isn't getting much better, either." Prior to the current slowdown, U.S. job growth in July actually had accelerated, with nonfarm payrolls increasing by 117,000 after slowing abruptly during the previous two months.

Unemployment rate stuck at 9.1%. After rising from 8.8% in March to 9.2% in June, the U.S. unemployment rate slipped back slightly, to 9.1%, in July—and remained there in both August and September. Previously, the unemployment rate had tumbled from 9.8% last November to 8.8% in March.

Still more stimulus called for. In response to the flagging employment numbers, President Obama on September 8 announced another stimulus plan, this one a \$450 billion measure aimed at increasing the number of jobs and focused primarily on short-term, targeted tax cuts (including an extension of Social Security tax relief) and new infrastructure spending. However, the plan would be financed mainly by steep new permanent tax increases on the job-creating and investment-producing class, including a new "millionaire's tax" based on the so-called "Buffer Rule" that no millionaire should pay a lower tax rate than his employees. Employers quickly responded, saying that the new measure would not lead to significant new hiring, noting that the dismal state of the economy was the main reason why few companies were hiring new workers. House Republicans called the plan dead on arrival, and even some Senate Democrats balked. Among the public, by a margin of 51% to 40%, Americans doubted that this new round of stimulus would lower the unemployment rate. Even if it did, the new jobs would be costly: U.S. Treasury Secretary Timothy Geithner admitted on September 26 that the jobs would cost some \$200,000 each, but that this was "still a bargain."

2.2 Behind the numbers

Labor force participation remains near historic lows. Despite recent increases in the number of jobseekers, the percentage of people looking for work has declined sharply over the longer term. The U.S. labor force participation rate stayed at 64.2% in May for the fifth month in a row, then declined to 64.1% in June and further to 63.9% in July. By September, the rate was back up slightly, to 64.2%. Still, these figures are the lowest in 27 years, meaning that the percentage of Americans either not working or not even trying to find a job is at a nearly three-decade high. Indeed, the last time the participation rate was above 66%—the 10-year average—was in August 2008. Looked at another way, only 45.4% of Americans had jobs in 2010, the lowest level since 1983.

Jobless claims fall below 400,000, then climb back above. After bouncing around between 400,000 and 430,000 for 15 straight weeks, first-time jobless claims fell to 398,000 during the third week in July. However, by the second week in August, new claims had risen back above 400,000, where they remained through the third week of September. New claims dipped during the last week of September to 395,000 before climbing back to 401,000 during the first week of October.

Long-term unemployment worse than in Great Depression. Currently, about 6.2 million Americans—about 45% of all unemployed workers in the country—have been jobless for more than six months. According to CBS News, that percentage is higher than the proportion of long-term jobless during even the Great Depression. The average duration of unemployment rose in July for the fourth straight month and now stands at a record 40.5 weeks—double the level when President Obama took office January 2009.

Recession takes huge toll on young adults. According to a September 22 report by the Associated Press, “young adults are the recession’s lost generation. In record numbers, they’re struggling to find work, shunning long-distance moves to live with mom and dad, delaying marriage and raising kids out of wedlock, if they’re becoming parents at all. The unemployment rate for them is the highest since World War II, and they risk living in poverty more than others—nearly 1 in 5.” Statistically, employment among young adults aged 16-29 is 55.3% as compared with 67.3% in 2000.

African American unemployment rate reaches 27-year high. “The unemployment situation across America is bad, no doubt,” according to a July 28 Fox New report. “But for African Americans in some cities, this is not the great recession. It’s the Great Depression.” For instance, in Charlotte, the “jewel” of the new South and the largest financial center outside of New York City (and home to the 2012 Democratic National Convention), African American unemployment is now 19.2%. In predominantly African American Washington, D.C., black youth unemployment has soared to a staggering 50%. Overall, according to the U.S. Labor Department, African American unemployment reached 16.7% in August—the rate’s highest level in 27 years.

Half of stimulus hires already employed. According to a new study from the Mercatus Center at George Mason University, based on surveys of more than 1,3000 managers and employees, of all people receiving jobs as a result of President Obama’s stimulus plan, nearly half (47.3%) already were employed at the time, while just 42.1% were jobless. Another 6.5% came from school or outside the labor force.

Stimulus jobs were costly. Critics long contended that the jobs created by President Obama's economic stimulus program would be costly. Now, there's proof of this proposition from a very unlikely source—the Obama Administration itself. In a report released on July 1 by the President's Council of Economic Advisors, White House officials conceded that the Federal government spent \$278,000 for every job generated by the stimulus—and that assumes one accepts the Administration's claim that more than 2.4 million jobs were "created or saved" by the Federal stimulus package, a figure that many economists dispute.

2.3 Complications

Government jobs now dominant. According to an April 1 report by The Wall Street Journal, "Today in America there are nearly twice as many people working for government (22.5 million) than in all of manufacturing (11.5 million). This is an almost exact reversal of the situation in 1960, when there were 15 million workers in manufacturing and 8.7 million collecting a paycheck from government." In fact, "more Americans work for government than work in construction, farming, forestry, manufacturing, mining, and utilities combined."

2.4 What lies ahead

Fed more pessimistic on job market outlook. In its most recent formal assessment, the U.S. Federal Reserve raised its estimates for the unemployment rate in the coming years. For 2011, the Fed forecast a rate of between 8.3% to 8.7% (versus an earlier forecast of 8.1% to 8.5%) and, for 2012, it projected a rate of between 7.1% and 7.5% (versus an earlier forecast of 6.6% to 7.1%). More bluntly, Fed Chairman Ben Bernanke declared last December that, "at the rate we're going, it could be four, five years before we are back to a more normal unemployment rate."

White House pessimistic as well. Following the June jobs report, then-White House economic advisor Austan Goolsbee conceded that the U.S. unemployment rate, now at 9.2%, was unlikely to fall below 8.2% even by the fourth quarter of 2012.

CBO pessimistic. The U.S. Congressional Budget Office (CBO), in its September 13 projections, indicated that U.S. unemployment—currently 9.1%—would remain close to 9.0% throughout the end of 2012. Just last month, the CBO had forecast an unemployment rate of 8.9% this year and of 8.5% for next year.

Outside economists equally pessimistic. In a 180-degree turnaround, Jared Bernstein, former chief economic advisor to Vice President Joe Biden—who famously declared in 2009 that, if President Obama's stimulus package were passed, U.S. unemployment would not go above 8%—now says that he was wrong and that he does not think the unemployment rate will fall below 8% before the end of 2012.

Jobseekers most pessimistic of all. According to a CNN/Opinion Research Corp. poll released on August 12, only 29% of Americans believe that more jobs will be available in their communities one year from now than are currently present. A mere 44% says that they believe the same number of jobs will be available, while 26% fear that there will be even few jobs available in the future than there are now.

Riots in the street? In a widely publicized comment, New York City Mayor Michael Bloomberg on September 16 predicted riots in the streets if the economy does not begin to create more jobs—similar to riots that occurred earlier in the year in Egypt and Spain. To some degree, those “riots”—thought relatively peaceful—did emerge in early October with the “Occupy Wall Street” protests in New York and other cities, though the exact provenance and concerns of many of the protest groups remain vague.

3. FEDERAL BUDGET & TAXES

3.1 Spending and deficits

Federal budget deficit continues to soar. For the first half of fiscal 2011, the U.S. budget deficit was up by 15.7% over last year's. On October 7, the Congressional Budget Office forecast that the FY 2011 deficit would finish at \$1.3 trillion, matching last year's level and only slightly improved from the all-time record of two years earlier.

Debt grows at fastest rate ever. According to an analysis by The Los Angeles Times, when Barack Obama took the oath of office on January 20, 2009, the national debt was \$10.6 trillion. Now, following the recent increase in the debt limit, it stands at \$14.6 trillion. With growth of more than \$4.2 trillion in just 945 days, the Times says, that represents the fastest increase in the national debt under any U.S. president ever. In a similar vein, on October 3, the Obama Administration passed another record, having increased the national debt more than all previous presidents combined.

Debt levels to grown even more. Even at these high levels, the U.S. national debt is destined to climb even higher: the U.S. Treasury Department projected on October 18 that the debt would climb to \$16.5 trillion by 2012. At this level, the deficit would consume some 62% of the nation's economic output, according to the U.S. Congressional Budget Office (CBO)—the highest level since World War II. Worse, the debt level is projected to climb to some \$19.6 trillion by 2015—a figure that would represent more than 100% of the value of the U.S. gross domestic product. It gets worse: House Budget Chairman Paul Ryan (R-Wisc.) in early April asked the CBO to extend the projections throughout the next generation, and the CBO reported that, by 2037, the Federal debt would reach an unsustainable figure of 800% of the U.S. GDP.

Debt accord reached. After months of politically infused wrangling over plans to raise the U.S. debt ceiling in order to avoid a first-ever default on U.S. debt obligations, Republican and Democratic congressional leaders agreed on August 1 to a deal that would allow President Obama to raise the debt limit in three stages over the next two years—the largest debt increase in U.S. history. The deal envisions cuts in spending growth of approximately \$2.4 trillion over 10 years, which Congress would approve in two steps—an initial \$917 billion when the debt measure is passed and another \$1.5 trillion by the end of the year. No tax increases were included in the bill.

Debt deal to spur Federal borrowing. In the wake of the August 1 debt accord, the U.S. Treasury revealed that it expected to issue \$331 billion in net debt in the July-September quarter, up from \$190 billion during the previous quarter. In fact, the U.S. debt immediately shot up \$238 billion in the wake of the debt agreement—consuming more than 60% of the newly freed up funding. Subsequently, on September, the U.S. approved a \$500 billion increase in U.S. borrowing authority, raising the Federal debt level to \$15.19 trillion.

Public takes a dim view of the debt deal. By more than a two-to-one margin, Americans said that the August 1 agreement to raise the U.S. debt ceiling would make the U.S. economy worse rather than better, a USA Today/Gallup survey released on August 3 found. Overall, 41% of those surveyed said that the bill would worsen the economy, while only 17% thought the measure would improve economic conditions. Some 33% said that they didn't believe the bill would have any effect.

U.S. debt downgraded. In the wake of the acrimonious battle over the Federal debt ceiling increase, the Standard & Poor's ratings agency announced on August 5 that it had downgraded the U.S. credit rating for the first time in history, dealing what The Washington Post called "a symbolic blow to the world's economic superpower in what was a sharply worded critique of the American political system." The ratings agency said that the bipartisan agreement reached earlier in the week to find at least \$2.1 trillion in budget savings "fell short" of what was necessary to tame the nation's debt over time and predicted that leaders would not be likely to achieve more savings in the future. "It's always possible the rating will come back," David Beers, head of S&P's government debt rating unit told The Post, "but we don't think it's coming back anytime soon." The U.S. Treasury countered that the ratings agency erred in its downgrade, in part because it made a \$2 trillion arithmetic error in its debt calculations.

3.2 Taxation

Major new tax hikes proposed in 2012 budget. The uncertainty over the extension of the Bush-era tax cuts ended in December when Congress approved and the President, on December 17, signed Mr. Obama's compromise two-year extension proposal. The Obama administration's tax position soon shifted, however. In his FY 2012 Federal budget, released on February 14, President Obama proposed more than \$1 trillion in new or increased taxes over the next decade. If enacted, the tax hikes would raise tax revenues from 14.4% of GDP in 2011 to 20% of GDP by 2021. By comparison, the historical average is only 18% of GDP. These proposed hikes compare with 21 new taxes or tax increases the Mr. Obama already has signed into law, according to the advocacy group Americans for Tax Reform.

Tax debate sharpens again. Having failed to secure significant new taxes as part of the August 1 debt deal, President Obama has aggressively resumed his campaign for higher taxes on the American people. In an August 15 speech in Cannon Falls, Minn., Mr. Obama blasted Republicans for refusing to increase taxes as part of the debt deal, and called on voters to pressure Congress to "put country first" by sharply raising taxes. In his new stimulus plan, he further called for significant new taxes on the investment class. Subsequently, on September 18, he proposed an additional \$1 trillion in new taxes, including a new "millionaire's tax" and limits on itemized tax deductions for families with taxable income greater than \$250,000. He also renewed his call for letting the Bush tax cuts expire. Finally, according to the Associated Press, the plan includes more than \$130 billion in new government fees, most of which would fall on middle-income taxpayers. Republicans in Congress shot back by saying that they would not support another increase in taxes that they said would destroy rather than create jobs. House Speaker John Boehner (R-Ohio), in particular, ruled out tax increases, but urged that serious consideration be given to a full rewrite of the U.S. tax code.

Economists favor spending cuts for deficit reduction. An August 22 survey of economists by the National Association for Business Economics (NABE) revealed that a majority of economists believe that the Federal deficit should be reduced only or primarily through spending cuts. In total, 56% of surveyed economists felt this way, with 37% saying that the burden of deficit reduction should be divided equally among spending cuts and tax increases, and 7% saying that the deficit should be closed primarily or exclusively through tax hikes.

4. FINANCIAL MARKETS

4.1 Banks and finance

Bank failures down; picture improving. After reaching the highest rates last year in nearly 30 years, bank failure rates are down considerably in 2011. A total of 76 banks have failed as of October 10, as compared with 157 failures in 2010 and 140 in 2009. In addition, the FDIC added only four banks to its list of “problem institutions”—those whose weaknesses threaten their continued financial viability—during the first quarter of 2011, the smallest increase in more than three years. Subsequently, in the second quarter, the number of problem banks fell for the first time in five years, to 865. The problems are far from over, however. According to an October 11 report, the Federal Deposit Insurance Corp. (FDIC) projected that bank failures through 2015 would drain \$19 billion from the FDIC fund.

Fannie Mae, Freddie Mac bailouts more costly than thought. The Congressional Budget Office (CBO) has reported that the real cost of the Federal government’s bailout of failed mortgage giants Fannie Mae and Freddie Mac was \$317 billion—not the \$130 billion frequently claimed by the Obama Administration. In findings delivered to the U.S. House Budget Committee on June 2, the CBO said that the “fair value” of accounting for the government guarantees was more than twice as high as first estimated. And yet the numbers continue to grow worse. Fannie Mae on August 5 asked for another \$5.1 billion from taxpayers as the weak housing market causes greater losses on pre-2009 loans.

Moody’s downgrades banks. Moody’s Investors Service, on September 21, lowered debt rating for Bank of America Corp., Citigroup Inc., and Wells Fargo & Co., saying that the U.S. government was getting less comfortable with bailing out large troubled lenders. The government is “more likely now than during the financial crisis to allow a large bank to fail should it become financial troubled,” the ratings agency said.

4.2 Stock markets

Stocks end their worst quarter since 2008. U.S. stocks registered their biggest quarterly drop since the financial crisis of 2008 with a triple-digit dive on September 30. The Dow shed 240.60 points, or 2.2%, to close at 10913.38. The loss capped a 12% third-quarter decline for the Dow, the biggest percentage drop since the first quarter of 2009 and the largest point loss since the first quarter of 2008. The S&P 500 stock index fell 28.98 points, or 2.5%, to 1131.43, putting the measure’s quarterly loss at 14%. The Nasdaq Composite index tumbled 65.36 points, or 2.6%, to 2415.40, for a 13% quarterly fall. The quarterly drops for these two indices also were their worst since Q4 2008. Separately, an October 3 survey revealed that valuations on the S&P index are now 25% below the average level of the past nine U.S. recessions.

5. INDUSTRIAL PERFORMANCE

5.1 Industrial production

Industrial production continues to improve. US. industrial production unexpectedly climbed by 0.2% in August, above market expectations for an unchanged reading and following a solid 0.9% gain in July. With the August bump, the capacity utilization rate also edged up to 77.4% from a downwardly revised 77.3% in July. The rise in industrial production in August largely reflected surprisingly strong manufacturing activity along with continued gains in the mining sector. Manufacturing output, in particular, rose by 0.5% in August, building on a 0.6% gain in July.

Manufacturing activity up for 26th straight month. The Institute for Supply Management (ISM), a private trade group, reported on October 3 that its index of manufacturing activity rose in September to 51.6%, an increase of 1.0 percentage point from August's reading of 50.6%. The August reading was the lowest since July 2009—one month after the recession ended. On the positive side, any level above 50 indicates growth, and the index now indicates that manufacturing growth for 26 straight months.

5.2 Productivity

Productivity falls. Worker productivity, which had picked up in 2010, is falling again. After declining by 1.8% during the second quarter of 2010—the biggest drop in four years—U.S. productivity grew by a revised 2.3% during the third quarter and by 2.6% during the fourth quarter. For 2010 as a whole, productivity was up by 3.9%—almost identical to the 3.5% gain during 2009. But these trends have gone into reverse in 2011. Productivity fell by a revised 0.6% during the first quarter of 2011 (instead of an initially reported gain of 1.6%) and fell again by 0.7% in the second quarter (revised downward from the initial 0.3% decline), the U.S. Bureau of Labor Statistics reported.

5.3 Investment

Investor optimism plummets. U.S. investor optimism declined sharply in September, as the Wells Fargo/Gallup Investor and Retirement Optimism Index plunged to -45 from +33 in May and +42 in February. The index now has returned to levels last seen during the financial crisis of late 2008.

6. KEY SECTORS

6.1 Automotive

U.S. auto sales up strongly in September. After a solid August, U.S. automakers experienced a strong September as well. Automakers sold nearly 1.1 million vehicles last month, up 2% from August and up 10% from September 2010. That sales rate translates into annual sales of more than 13 million, the highest level since April. Chrysler Group's sales were 27% above year-ago levels, while GM's sales were up by 20% and Ford Motor Co.'s sales were up by 9%. By contrast, Toyota's sales dropped by 18% year-over-year and Honda's sales fell by 8% over the same time period.

6.2 Health Care

Health care costs skyrocket. Despite promises that Obamacare would reduce U.S. health costs, Medicare's chief actuary says that such costs actually will rise under the plan. Private insurance premiums are already increasing—and are expected to rise by as much as 25%—as insurers adjust to the requirement to cover clients' children until age 26. In a separate survey, the Kaiser Family Foundation reported that employees' shares of health premiums would rise by an average of 14% in 2011, as companies continue to shift the burden of rising health care costs onto workers. And next year, U.S. employers can expect another 8.5% increase in their medical costs, due at least partly to the health care reform bill, the consulting firm PwC reported on May 18.

Consumers will have to switch health plans. While proponents of the new health care law claimed that no one would have to switch insurance plans under the measure, that claim also is proving to be false. According to the Obama Administration's own estimates, as many as 69% of employees, 80% of small businesses, and 64% of large businesses will be forced to change coverage, most likely to more expensive plans. A McKinsey & Co. survey, released in September, confirmed this prediction, finding that almost one-third of private-sector employers would drop their employee health insurance coverage when the Administration's government-mandated health exchanges open up.

Government claims bigger share of health-coverage market. According to data from the Kaiser Family Foundation, employment-based health coverage dropped by 1.5 million last year, while the number of people covered by government programs rose by 1.8 million and now stands at 31% of the population. This is the fourth consecutive year in which the number of people covered by government insurance has increased.

Government designing health care coverage. On October 7, a report surfaced that, according to the Associated Press, indicated that the Federal government was "taking on a crucial new role in the nation's health care, designing a basic benefits package for millions of private insured Americans." To date, the task of designing benefits packages has exclusively been the role of insurers, employers, and states.

Americans want health law repealed. A growing number of Americans want the Obama Administration's national health care reform law repealed. In a survey reported in the Capitol Hill publication "The Hill," 56% of voters in battleground Congressional districts wanted the bill repealed—including 49% of independents and even 23% of Democrats. Overall, according to the latest Kaiser Health Tracking Poll, only 39% of Americans view the law favorably, while 44% view it unfavorably.

Appeals court rules against and then for health law. President Barack Obama's health care plan suffered a serious setback on August 12 when the U.S. Appeals Court for the 11th Circuit, based in Atlanta, ruled 2 to 1 that Congress exceeded its authority by requiring Americans to purchase coverage, although it unanimously reversed a lower-court ruling that threw out the entire law. By contrast, on September 8, a separate Federal Appeals Court (the 4th Circuit Court of Appeals in Richmond) said that it could not rule on the law's constitutionality until it actually becomes effective in 2014. The issue now appears headed to the U.S. Supreme Court, probably early next year.

6.3 Housing

Housing bust worst since Great Depression. The American dream of owning a home has experienced its biggest drop since the Great Depression, according to new U.S. Census Bureau figures released on October 6. Overall, the homeownership rate fell to 65.1%. Moreover, the Bureau warned, the rate may never return to its mid-decade peak of nearly 70% due to tighter credit, job losses, and reduced government support.

New home sales fall to 6-month low in August. Sales of new U.S. single-family homes fell for the fourth straight month in August, plummeting by 2.3% and reaching a 6-month low, after tumbling by 0.7% in July. If the current pace continues, 2011 would become the worst year for new home sales on records dating back half a century.

Existing home sales trending upward. In contrast to tumbling new home sales, the number of previously owned U.S. homes under contract rose by 7.7% in August as compared with July, climbing to a seasonally adjusted rate of 5.03 million, the National Association of Realtors (NAR) reported on September 21. The gain in existing home sales, the highest since March 2011, pushed sales up by 18.6% over one year earlier.

Housing prices end their downward spin. After months of steady declines, U.S. housing prices have started to rebound slightly. Most recently, average U.S. housing prices were up by 0.8%, according to the FHFA Price Index—the fourth straight monthly gain. Similarly, the Core-Logic House Price Index also has posted gains in each of the four most recent months. Both of these price indices reveal a moderation in year-to-year price declines. But the market is hardly out of the woods. For instance, the percentage of homeowners in negative-equity positions—with a home worth less than its mortgage—has rocketed to 28%, a new crisis high, according to the real estate site Zillow.com. Zillow now predicts prices will fall about 8% this year and says it no longer expects the market to bottom before 2012. JPMorgan Chase added to these woes with a June 10 prediction that home values would fall by another 4% to 5% over the next 12 months. Worse, in an October 4 survey by the Professional Risk Managers' International Association, 49% of respondents said that U.S. home prices would not return to 2007 levels for at least another nine years.

Foreclosure picture still worrisome, though improved. Foreclosure filings were up by 7% in August on a month-over-month basis, but were down by 33% from August 2010 levels, according to foreclosure analyst RealtyTrac. For the third quarter as a whole, foreclosure filings were up by only 1% on a quarter-over-quarter basis, and were down by 34% from the third quarter of 2010.

Mortgage delinquencies on the rise again. After several quarters of improvement, the number of U.S. homeowners who were late on their mortgages increased in the second quarter of 2011, the Mortgage Bankers Association reported on August 22.

Mortgage rates fall. On the positive side, from homebuyers' perspective, the average rate on a 30-year fixed mortgage fell in early October to below 4% (3.94%) for the first time ever. The average rate on a 15-year fixed loan, a popular refinancing option, dipped to 3.26%, also a record low

7. CONSUMERS

7.1 Consumer confidence

Consumer confidence stabilizes after steep decline. After plummeting in August to its lowest level since April 2009, the Conference Board Consumer Confidence Index remained essentially unchanged in September. The Index now stands at 45.4 (1985=100), up slightly from the August level of 45.2. The Present Situation Index decreased to 32.5 from 34.3, while the Expectations Index edged up to 54.0 from 52.4. Noted Lynn Franco, Director of The Conference Board Consumer Research Center: “The pessimism that shrouded consumers last month has spilled over into September. Consumer expectations, which had plummeted in August, posted a marginal gain. However, consumers expressed greater concern about their expected earnings, a sign that does not bode well for spending. In addition, consumers’ assessment of current conditions declined for the fifth consecutive month, a sign that the economic environment remains weak.”

Thomson Reuters shows slight consumer confidence rebound. Following a deterioration in August to the lowest level since May 1980, consumer sentiment as measured by the Thomson Reuters/University of Michigan Consumer Sentiment Survey rebounded slightly in September. The index reached 59.4 last month, as compared with 55.7 in August. “The data indicate that consumers have shifted from anticipating deeper declines to the growing belief that the economy will stagnate at its currently depressed level,” survey director Richard Curtin said in a statement. “Even without a downturn, spending will not be strong enough to enable the rapid job growth that is needed to offset the growing negative grip of economic stagnation.”

7.2 Family incomes

U.S. poverty rate climbs. The nation’s poverty rate rose to 15.1% in 2010, its highest level since 2010, the U.S. Census Bureau reported on September 15. In total, 46 million people were living below the poverty line, the highest in U.S. history. By contrast, in 2009, 14.3% of Americans were living in poverty. The largest recent increase in poverty has come among the middle-class and in the suburbs, leading one CNBC commentator to label the current economic malaise the “suburban depression.”

Income levels stagnate. One reason for the sharp jump in poverty is that the U.S. median household income last year declined by 2.3%. Indeed, the income of the typical family—long the envy of much of the world—has dropped for the third year in a row and is now roughly where it was in 1996 when adjusted for inflation. The median income levels is 7.1% below its 1999 peak, according to new data from the U.S. Census Bureau.

Child poverty rate rises. According to a new national study sponsored by the Annie E. Casey Foundation, child poverty increased in fully 38 U.S. states from 2000 to 2009. As a result, 14.7 million children—or 20% of all children in the nation—were living below the poverty line in the country. That figure represents a 2.5 million increase from 2000, when 17% of children lived in low-income homes.

Food stamp use hits record. Nearly 15% of the U.S. population relied on food stamps in May, according to an August 4 survey by the U.S. Department of Agriculture. The number of Americans using food stamps spiked to an all-time high of 45.8 million, a figure that was up 12% from a year ago and 34% from two years before.

Benefit penetration grows. According to an October 5 U.S. Census Bureau report, Americans were more dependent on government income-assistance programs than ever last year. Overall, nearly half—48.5%—of Americans lived in a household that received some type of government payment during the first quarter of 2010. Those numbers have climbed since the middle of the recession, in the third quarter of 2008, when 44.4% of Americans lived in households receiving government benefits.

7.3 Consumer spending

Consumer spending growth slows in August. Consumer spending growth slowed in August as family incomes declined, adding still more evidence that the scarcity of jobs is preventing the U.S. economy from gaining ground. Overall, consumer purchases increased by just 0.2% during August after a 0.7% increase in July. Previously, consumer spending had fallen by 0.2% in June, which was the first decline in the measure since September 2009. On an annual basis, total consumer spending fell by 2% last year, according to the U.S. Labor Department's annual survey of consumer behavior. It was only the second decrease in spending since the government began compiling the survey in 1984, with the first decline coming in 2009.

7.4 Retail sales

Retail sales climb slowly in September. U.S. retail sales in September increased at their slowest pace in five months as consumers limited their spending, raising concerns that the coming holiday season may be the most bruising since that of 2002. Sales at stores open at least 12 months gained just 2.0% from a year earlier, according to the International Council of Shopping Centers and USB Securities LLC. The increase was the smallest since same-store sales fell by 1.9% in April.

8. INFLATION

8.1 Consumer prices

Consumer prices rise, although less than in July. Consumer prices increased by 0.4% in August after climbing by 0.5% in July. When the more volatile food and energy prices were excluded, the consumer price index rose by 0.2% in July, the same gain registered in August.

8.2 Producer prices

Producer prices unchanged in August. The Producer Price Index (PPI) for finished goods—often, a harbinger of future consumer price movements—was unchanged in August after rising by 0.2% in July and falling by 0.4% in June. With food and energy prices excluded, the PPI was up by 0.1% in August after rising by 0.4% in July and by 0.3% in June.

8.3 Energy prices

Gasoline prices moderate. Retail gasoline prices in August were \$3.64 per gallon, about the same as in June and July and well below the May 2011 peak of \$3.91 per gallon. However, August 2011 prices were considerably above their year-earlier level of \$2.71 per gallon.

#####