



**PRESSING ECONOMIC QUESTIONS (AND ANSWERS)**

**by Mark Schniepp**

**Q: When does all the hiring of new workers begin?**

Temporary hiring is a reliable leading indicator of future permanent hiring. At this stage of the economic recovery, corporations are still averse to hiring full time. But demand for temp workers surged in the second half of 2009 and during the first 2 months of 2010. During the previous two business cycles, temp hiring eventually led to permanent hiring.

**Q: There is talk that this recovery will not create many new jobs and that high unemployment will be the new normal. Why will businesses hire again if they are already experiencing sound profitability?**

It is true that corporate profits soared during the 2nd half of 2009 though sales of goods and services have not yet increased much. This is because firms have contained their costs by sharply cutting their workforces and delayed new purchases of equipment and other capital.

However, business investment on equipment and labor must rise as demand for their goods and services continues to grow. There is little doubt about this. Furthermore, businesses will hire workers financed from

the strong profitability they have already realized over the last 6 months. Workers and not equipment alone are needed to produce more goods and services.

Historically, profitability has been one of the best leading indicators to job creation. Greater profitability today will mean more hiring tomorrow.

**Q: Will hiring pick up in the U.S. or will it occur abroad?**

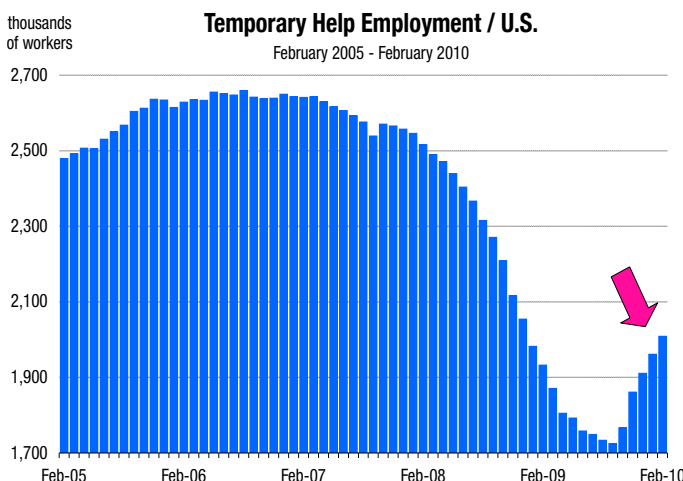
Labor costs in the United States are cheap. Labor costs in the U.S. fell before, during, and after the recession. Foreign labor costs are rising in China, Brazil, India and some European countries. More hiring will therefore occur in the U.S. during this economic cycle relative to the 1991 and 2001 recessions where labor costs were rising going into the economic downturn.

**Q: Is the Financial Stimulus creating jobs yet?**

Eventually the Economic Stimulus bill that the President signed a year ago will create jobs, but it has not occurred yet. To date, few jobs have been created and while the administration claims that over 600,000 jobs have been saved, there is more compelling evidence to the contrary. As the full \$787 billion is spent in the U.S. economy, more jobs will be created in construction, federal government, and administration. However, this will occur in 2011 when the economy will already be creating jobs as the recovery picks up momentum.

**Q. Is it therefore time to unwind that stimulus?**

Yes. The labor markets have now stabilized. The stimulus was only a means to prevent a collapse. If it did anything, it did that. Over the next year, the federal government needs to figure how to best hand off the baton to the private sector.



**Q: What could the government do now to stimulate job creation?**

Reduce taxes on businesses, especially small businesses who hire most of the workers today. Other than that, the government shouldn't attempt to do anything else . . . we can't afford it.

**Q: What needs to happen to credit?**

There needs to be more of it extended. Foreclosures and bankruptcies need to abate, and the heightened perception of credit market risk needs to fade.

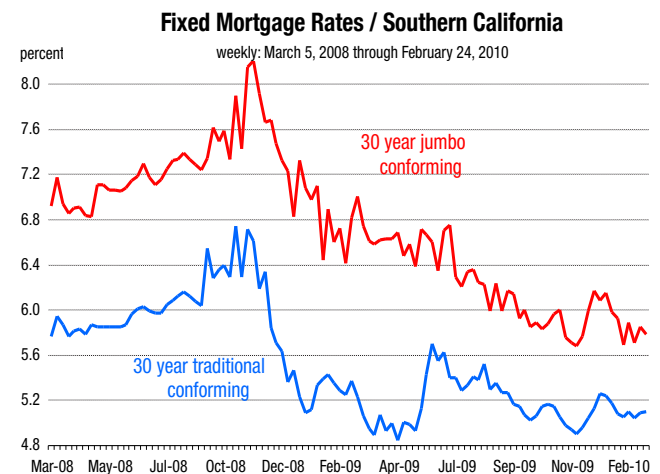
An indicator that points toward some recovery in lending is the tightening of spreads which measure the difference between short-term and long-term interest rates. Spreads converging to normal levels indicate that heightened risk associated with lending is dissipating. Already the difference between conventional and jumbo mortgage yields is converging back to the normal spread.

Furthermore, tightening spreads signal an improvement in capital markets, which consequently implies a trend away from corporate distress and bankruptcy.

**Q: What about inflation and a rise in interest rates?**

In the current environment with weak job growth occurring alongside high unemployment, a broad-based inflation threat is off the table. Moreover, we could see more normal economic growth and low inflation this year and next which we haven't had for more than a decade.

Consequently, the Fed may be slow to dramatically increase rates. They are likely to unwind low interest rates very gradually because that's how the jobs market recovery is occurring. Furthermore, inflation appears entirely under control and that makes the Fed happy.



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