



IS ANOTHER RECESSION INEVITABLE?

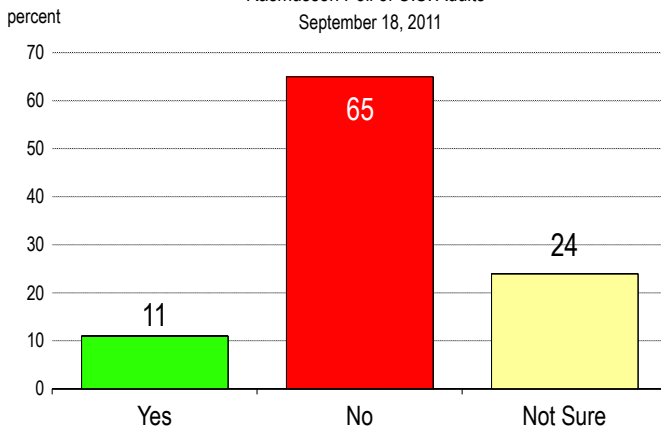
by Mark Schniepp

Is another recession inevitable?

The economic recovery has been tragically disappointing this year but we are not going backward. The U.S. economy does not appear to be worsening but Europe does face falling into another recession and this would materially hinder the U.S. export market. Effectively, our economy has stalled. A stalled economy could either become a contracting one or it could resume growth. The outcome depends on Europe and whether Eurozone leaders can collectively decide on an effective plan to avert financial defaults in Greece, Italy, and Ireland.

Is the Economy Getting Better ?

Rasmussen Poll of U.S. Adults
September 18, 2011



Though the Great Recession is over, few people acknowledge we are in a recovery. Most believe the economy is getting worse, not better. There is reasonable concern that the economy, plagued by sluggish hiring, unemployment and fractured confidence, will slide back into recession. Businesses and consumers have lost confidence, setting the stage for a possible contraction in GDP. Early reports for September are expected to show mixed results, consistent with the almost imperceptible pace of improvement that we are calling a “stall.”

While the risk of a new economic downturn is as high as it has been since the Great Recession ended more than two years ago, the likelihood for the economy is that growth will resume and a contraction in GDP will be avoided. Nevertheless, most people believe the nation is in recession or never emerged from the last one. Consequently, a new recession has little practical meaning because unemployment is already unacceptably high and the housing market remains depressed.

Europe

The reason that Europe is so important is that it's the source of 22 percent of the U.S. export market. A recession there would naturally impede growth of our export market which is one of the current bright spots in our economy today.

Governments in Europe have piled on debt, facilitated by the banks that lent them money. Now, just as the US economy is held back by households whose mortgages are still underwater and won't begin to spend again until their debt positions improve, Europe can't begin to grow again until its countries learn to live within their means. That means running down their debts during years of austerity and tax increases. In short, it still means years of painful adjustment.

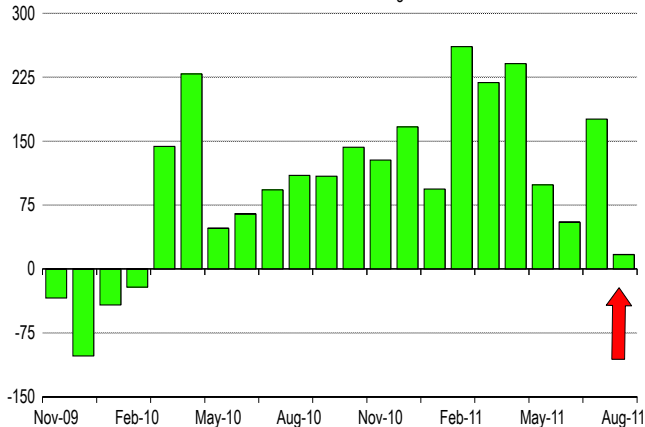
The uncertainty about Europe's future has been driving the gyrations of financial markets since the summer. Last week, stocks rallied on euphoria that a new and more powerful bailout was near, but the rally fizzled when cracks began to appear among European nations over the terms of money being given to Greece.

Eurozone leaders must decide on a large enough fund to bailout teetering governments, namely Greece. Until real measures are taken to restore growth, the divide in Europe between wealthy northern countries and weaker southern ones will continue to hamper the continent.

month-over-month
change
(thousands of jobs)

Private Sector Job Creation / U.S.

November 2009 - August 2011



Over the last 18 months, the U.S. economy has created 2.4 million private sector jobs. However, the rate of job creation has weakened since May and is not large enough to impact the unemployment rate which remains at 9.1 percent.

The job market in 2012

We are just skirting a new recession. Because layoffs have not picked up again, economic growth still remains positive. The rate of U.S. job growth has been tailing off in 3 of the last 4 months. It's weak but still positive. If the rate of job creation turns around and goes over 150,000 per month again, the economy will naturally strengthen and the risk of recession will decline.

Job growth is forecast to remain weak for the rest of the year, picking up by mid-2012. The rate of unemployment will clock in at or around 9 percent even 12 months from now. We do not expect an expansionary scenario for the creation of jobs until 2013, both in the U.S. and California. Locally, job growth in Ventura and Santa Barbara Counties is outperforming the State of California. Coastal counties have the edge right now because jobs in technology are being created and they are located principally in the Bay Area, Ventura, Orange, and San Diego Counties.

Also, the problem sectors such as construction, manufacturing and government are largely concentrated in the inland counties of California which are exhibiting more weakness than coastal counties.

Orange County Economic Outlook Conference

November 3, 2011
at the Irvine Hyatt Regency

The 8th annual UCLA Anderson Forecast
Conference in Orange County will provide an
updated outlook for the
National and Local economies.

Speakers:

Jerry Nickelsburg, Senior Economist, UCLA Anderson Forecast

David Osias, Managing Partner, Allen Matkins

Mark Schniepp, Director, California Economic Forecast

Richard Reisman, CEO, Orange County Business Journal

Kenneth Rosenfield, Past President and Infrastructure

Committee Liaison, American Society

of Civil Engineers, Orange County Branch

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