



The Sky May Be Lower But It Isn't Falling

By BRIAN HAMILTON | Posted Monday, January 05, 2009 4:20 PM PT

There is probably something in every generation that makes us think the problems we face are uniquely difficult.

Much has been written about the economy and, if you accept certain assumptions from what you read, you might think that we are in the midst of a global depression.

Yet it is important to put the current economy in perspective. We might even try reviewing and analyzing some objective data.

In the most recently reported quarter, the third quarter of 2008, GDP fell at a rate of 0.5%, which means that the total value of goods and services produced in the U.S. fell by a half of one percentage point from the previous quarter.

For the first two quarters of last year, GDP grew by 0.9% and 2.8%, indicating that economic growth was relatively flat last year, but that it is not falling off a cliff.

This isn't the first time GDP has fallen, and it won't be the last. The last decrease in GDP was in the fourth quarter of 2007 and before that was in 2001. A decrease in GDP after almost six years of increases is not positive, but almost predictable. No economy grows indefinitely and consistently; there are always temporary lapses.

In fact, if you consider the media coverage of the economy over the past year and the consequent way people have been scared, it's remarkable that anyone is buying anything.

But we can't just look at GDP, some would say. So let's look at other factors.

Interest rates remain at historically low levels. This means that if you want to borrow money, you can borrow money inexpensively as a business or as a person.

Loan volume in the country, according to the FDIC and contrary to what you read

about the credit crisis, actually increased last quarter compared to the same quarter a year earlier. Someone is getting loans, and they are not paying excessive interest rates for them.

How about employment? According to the Bureau of Labor Statistics, unemployment sits at 6.7%. At this time last year, unemployment was 4.7%. The decrease in employment is not favorable, but historically an unemployment rate of 6.7% is not close to devastating. The 50-year historical rate of unemployment is 5.97%.

Most economists agree that the natural rate of unemployment, which is the lowest rate due to the fact that people change jobs or are between jobs, is around 4%. So, today we sit at 2.7% above that rate. Once again, the very recent trend is not good but it is certainly not horrifying.

I have noticed many recent media references to the Great Depression (the period between late 1929 and 1938 or so, depending upon the definitions used and personal inclinations). It might be illuminating to note that by 1933, during the height of the Depression, the unemployment rate was 24.9%. During that same period, GDP was falling dramatically, which created a devastating impact on the country.

Americans have good hearts and empathize with those who are unemployed. Yet it would be easy to go too far in assuming how the working population is currently affected in aggregate. If 6% of the people are unemployed, 94% of the people are working.

We should always shoot for full employment, but why would we view our efforts as poor when we don't quite make that mark? A good student might try to get straight "A's," but getting an occasional "B" or "C" won't end the world.

Look at personal income, or that received by individuals from all sources, including employers and the government. It was up last quarter compared with a year earlier, according to the Bureau of Economic Analysis. Compared with five years ago, personal income has risen by 32.1%. Even considering that inflation was 18.13% over this period, people are generally making more money than they used to.

This is another one of those statistics that can easily get bent to fit a story. You often hear things like "personal income fell last month by 23%," but writers tend to leave larger and more important statistics out. In this case, would you be more interested in trends over a quarter or a year? Using isolated statistics to fit your view is something that has become accepted.

Then there's inflation. The inflation rate measures the strength of the dollar you hold today as compared to a year ago. It is currently 3.66%. Over the past 50

years, the inflation rate has averaged about 4.2%. Inflation remains well within control. Yet, would you be surprised to read a story next month citing an X% jump in inflation over the last month? I wouldn't be.

Skeptics reading this will point to other (and, I believe, far lesser) statistics that validate their gloomy view of the economy and the direction of the country. But if people are employed, are making good wages, can borrow inexpensively, hold a dollar that is worth largely what it was worth a year or five years ago, and live in a country where the value of goods and services is rising, tell me exactly where the crisis is?

No doubt the economy has slowed, but slowness does not equal death. It's true that the financial markets are a mess (and the depreciation of equities is both scary and bad). But analysts typically go too far in ascribing the fall of the financial markets to the fall of a whole economy.

The markets are an important component of the economy, but they are not the totality of the economy. No one can say if conditions will worsen in the future. However, we've learned that the American economy has been tremendously resilient over the past 200 years and will probably remain so, as long as the structural philosophies that it has been built upon are left intact.

Hamilton is CEO of Sageworks Inc., a Raleigh, N.C.-based developer of financial analysis applications and a leading information source on privately held companies.