

Sky Isn't Falling On This Economy, Contrary To Myopic News Reports

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Disraeli once said there are lies, damned lies and statistics. After watching recent news coverage and evaluating the isolated statistics that are often cited, one might think the U.S. economy is desperately stranded in the midst of a dire recession.

Before diving into an analysis of our economic status, let's talk about the basic elements in a viable economy. My contention is you would still have a healthy economy if all economic factors are bad except the following:

1. People are employed; jobs are available.
2. People have healthy levels of income. Healthy income includes additional discretionary income that they can spend after paying bills.
3. Inflation should be low. The value of the currency that people hold today should be worth roughly the same as it was one to five years ago. Hard-earned dollars should not be depreciating substantially over time.
4. People are able to buy things on credit, and at reasonable rates of interest.
5. Real GDP should be growing, as evidenced by the level of sales rising, with the value of goods and services sold and traded also going up.

In sum, if you are employed, can pay your bills, can borrow cheaply, can hold the value of what you own and do this while living in an economic climate that is positive and growing, other outstanding economic conditions speak much less loudly than what recent media coverage has conveyed.

A reasonable perspective on the U.S. economy today includes:

• **Employment.** Today 95% of Americans in the civilian labor force are employed. This means 146.3 million out of 153.9 million people have jobs. The current unemployment rate is 5%, while last year at this time it was 4.5%. The average rate of unemployment over the past 50 years is 5.86%. So while the rate of unemployment is higher today than a year ago, it is only a slight difference.

Some would argue that the current trend of unemployment is bad, signaling a serious downhill movement. But they typically go too far in quickly assuming that small trends will become long-term trends.

Forecasts like these bear resemblance to those in the '60s that fearfully projected that overpopulation would certainly cause worldwide economic calamity.

• **Disposable income.** The average household income in 2006 was \$48,201. In 2005, it was \$46,326. Ten years ago it was \$38,885. Real U.S. disposable income has been rising nicely for over 40 years. On

balance, it would be extremely difficult to contend that people have a lower standard of living today than five years ago.

- **Inflation.** The current rate of inflation is 3.98%, up from last year's 2.78%. Over the past 50 years, the average rate has been 4.1%. The U.S. is definitely facing problems with gas prices and dependence on foreign oil. But in perspective, the overall price inflation is acceptable and even positive. Do you remember the late '70s? Starting then, Paul Volcker's Fed made a great and lasting effort to curb the devastating effects of inflation in the U.S.

- **Interest rates.** If you want to buy a house today, the average 30-year mortgage will cost you 5.97%. Ten years ago, the same interest rate might have been 7.13%. Thirty years ago, the rate would have been 9.2%.

The "credit crunch" we are experiencing might be noise on the screen, but people and businesses are still able to borrow inexpensively, which is what counts on an aggregate level. Banks also need to lend money, and if they can continue to do this at low rates of interest, this component will be fine.

- **GDP growth.** In the last quarter, GDP growth was 0.6% — nothing to write home about, but still positive. Last year, GDP growth was 2.2%. Five years ago, it was 2.5%. The average real rate of GDP growth for the past 50 years has been 3.31%.

GDP growth has undeniably slowed down, but it also makes sense that, after almost 10 years of high growth, it may temporarily slow. Keep in mind that the average "recessionary" GDP cycle has been 11 months, while the average expansionary cycle has been four years.

So while the U.S. economy is admittedly moving at a slower speed, we are not in a recession, despite what you hear daily throughout the media world. A better perspective is achieved by looking at hard data over time, rather than speculating on what may become.

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