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Economic Scene

In Tracking Recovery, Jagged Lines

By [DAVID LEONHARDT](#)

Could the economy be at risk of a double dip?

We're now in the midst of the worst run of economic news in almost a year. Home sales have dropped. So has [consumer confidence](#). Stocks peaked on Jan. 19.

This Friday may well bring the darkest piece of news yet, at least on the surface. Forecasters are predicting that the Labor Department will report that job losses accelerated in February, perhaps back above 100,000. The main reason will be the temporary hit from the big snowstorms last month. Yet there is reason to wonder if the economy also has bigger problems.

The weekly data on jobless benefits are narrower and less consistent than the monthly jobs report, but they have the advantage of being more current. From early January to late February, the number of workers filing new claims for jobless benefits [rose 15 percent](#). Over the previous nine months, this number was generally falling.

Economies rarely move in a straight line, and — as the better-than-expected numbers on Tuesday on [vehicle sales](#) suggested — the recent run of bad data is probably overstating the troubles. But whatever you thought at the start of the year about the recovery — strong, moderate, fragile — you probably need to be more pessimistic today.

“The strength of data we saw at the end of last year exaggerated the strength of the underlying economy,” Richard Berner of [Morgan Stanley](#), says. “And now we're seeing some pullback.”

This is especially troubling because the economy is still such a long way from being healthy. Lawrence Katz, the

Harvard labor economist, [estimates that](#) 10.6 million jobs would need to materialize immediately to return the job market to its condition when the Great Recession began. For it to get there four years from now, the economy would have to add 316,000 jobs a month. That pace would be faster than in any four-year stretch of the 1990s boom.

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The economy's biggest problem has not changed. When bubbles pop, they wreak enormous, lasting damage. Credit stays hard to get for years because banks need to rebuild their balance sheets. Families and businesses, whose net worth isn't what they thought it was, have debts to pay off.

Over the last two years, households have been paying down their debts at a fairly good pace. But they aren't yet close to being finished.

The average household still has debt that eats up roughly 17.5 percent of its disposable income — in mortgage payments, minimum credit card payments and the like. That's down from a peak of 18.9 percent in 2008. It is still above the 1980-95 average of about 16.6 percent, according to the [Federal Reserve](#). So debt payments will continue to hold down spending in the months ahead.

The economy did so well late last year in large part because companies began building up inventories they had whittled when they cut production during the [recession](#). What worries some forecasters is that this buildup won't last. Consumer spending, they say, will remain too weak to get companies to keep increasing production and to begin adding workers. "Not too long from now," says Joshua Shapiro of MFR, a research firm in New York, "you're going to need other demand to kick in."

The second problem is that the stimulus program and the Fed's emergency programs are in the early stages of slowing down.

These programs have done tremendous good, as I've [written before](#). The bubbles in housing and stocks over the last decade were far larger than an average bubble, and yet the resulting bust is on pace to be shorter and less severe than the typical one in the wake of a [financial crisis](#). That's not an accident. It's a result of an incredibly [aggressive response](#) by the Fed, Congress, the Bush administration and the Obama administration.

Just consider home sales. The stimulus bill last year included a tax credit for first-time home buyers that originally expired on Dec. 1. Like clockwork, home sales fell 16 percent in December. From March to November, sales rose 36 percent.

The credit has since been extended, but if you combine the other fading parts of the stimulus with household debt burdens, you can see why some economists are concerned. Mr. Shapiro predicts monthly job growth will be only 50,000 to 75,000 by the end of this year. To keep up with population growth — to keep unemployment from rising — the economy needs to add more than 100,000 jobs a month.

Recent events in Congress, however, have offered some cause for optimism. Last week, the Senate passed a small-bore \$15 billion [jobs bill](#), focused on road building and employer tax credits. But on Monday, Democratic leaders announced a proposal that would do more: a [\\$150 billion bill](#) to extend jobless benefits, [Medicaid](#) payments to states and some tax cuts.

Some of the extensions last through the end of the year, rather than for just a few months, as is typical. Senator [Jack Reed](#), Democrat of Rhode Island, told me the bill was meant to prevent what he called the “[Perils of Pauline](#)” problem — referring to the silent movie serial that placed its heroine in repeated danger.

The most recent extension of jobless benefits expired on Sunday. The Senate voted Tuesday night to extend the benefits for 30 more days after Senator [Jim Bunning](#), Republican of Kentucky, dropped his opposition to the measure.

If Congress passes a longer-term extension and adds some measures — like more aid to struggling states, maybe the single most effective form of stimulus — it can offset the winding down of other government programs. (Yes, these efforts to prop up the economy will have to end sometime soon, and debt reduction will have to begin. But the main historical lesson of financial crises is that governments are too timid and too quick to step back.)

It's also possible that Mr. Shapiro and his fellow pessimists are being a bit too dire about the private sector. Inventories are still [quite lean](#), and some restocking is likely to continue. Banks are becoming [more willing](#) to

lend, Fed surveys show. Strong growth in China and other emerging markets will help American exporters like [General Motors](#) and Cargill. To my mind, these forces make a true double dip unlikely.

Still, the jobs number on Friday will be ugly. Macroeconomic Advisers, a research firm, estimates that the snow kept [150,000 to 220,000 people](#) off a payroll when the government conducted its jobs survey in early February. But most of those jobs will reappear in March — the month when many economists think job growth will, at long last, resume.

Here's the thing, though. Even the optimists are not very optimistic. Morgan Stanley expects average monthly job growth of just 110,000 this year. The great jobs deficit — 10.6 million and counting — will be with us for years.

So no matter when the recent run of bad news comes to an end, the economy is still going to need help.

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