

Double Dip Recession 2010: Reality or Myth?

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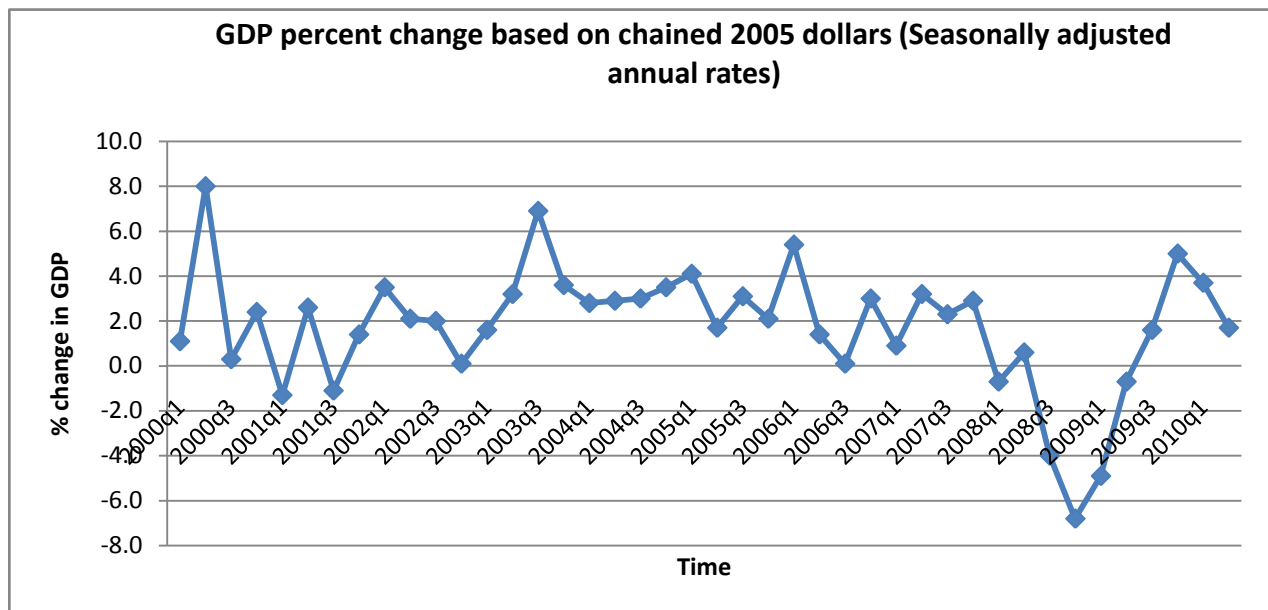
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Housing market price bubble started with a rapid growth in prices in the second half of the last decade, was followed by the burst of the bubble and led to the financial market crisis—the major failure of markets in 2008. This, in turn, slowed the growth and eventually set a decreasing GDP trend in the country. By definition, the start of a recession is announced if the GDP has negative growth (goes down) for two consecutive quarters. Based on this definition despite the fact that we experienced a negative growth in the first quarter of 2008 and a slight increase in the second quarter of 2008, we did not officially enter a recession until the fourth quarter of 2008. Also, the same definition implies the official end of recession in the third quarter of 2009.

Graph 1: Real GDP growth rate



One might disagree with this definition of recession. However, to make a comparison with the past recessions one should remain consistent by retaining the same definitions of the phenomena under study.

The unemployment rate in US, around 4% in 2000, went up in 2001-2003 following the 2001 short recession. There has always been a lag (delay) in decrease of unemployment rate after a recession. It takes a few quarters to a couple of years, once a positive growth rate is restored, for the unemployment to follow suit. In other words, employers take a while to regain confidence in sustainability of an up-trend economy to start hiring. Even when employers decide to hire, the hiring process can take months to complete, and afterwards it takes one or two more month for the newly changed unemployment rate to be measured and announced by the government. Given the depth of the recent recession and the high increase in the unemployment rate it is only natural to expect a longer recovery—one which may take a couple more years. Given the fact that unemployment has been above 7% for more than 20 months already, it is natural that people are

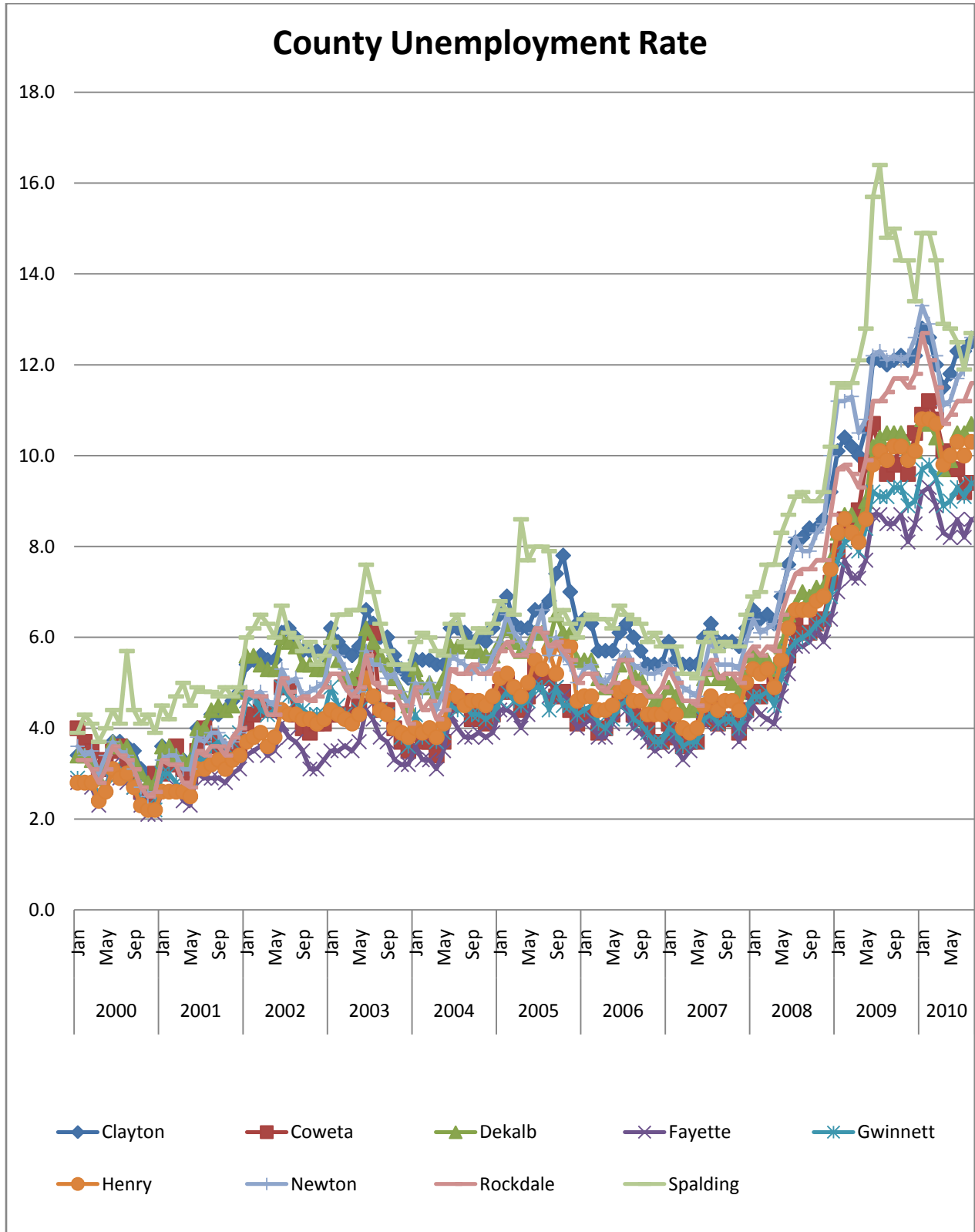
worried about the future of the economy, especially when growth rate is low and unemployment rate is high. As a matter of fact, the growth rate shall be much higher than what we have now to decrease unemployment rate substantially.

Table 1: Monthly and Annual Unemployment Rate (US)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2000	4.0	4.1	4.0	3.8	4.0	4.0	4.0	4.1	3.9	3.9	3.9	3.9	4.0
2001	4.2	4.2	4.3	4.4	4.3	4.5	4.6	4.9	5.0	5.3	5.5	5.7	4.7
2002	5.7	5.7	5.7	5.9	5.8	5.8	5.8	5.7	5.7	5.7	5.9	6.0	5.8
2003	5.8	5.9	5.9	6.0	6.1	6.3	6.2	6.1	6.1	6.0	5.8	5.7	6.0
2004	5.7	5.6	5.8	5.6	5.6	5.6	5.5	5.4	5.4	5.5	5.4	5.4	5.5
2005	5.3	5.4	5.2	5.2	5.1	5.0	5.0	4.9	5.0	5.0	5.0	4.9	5.1
2006	4.7	4.8	4.7	4.7	4.6	4.6	4.7	4.7	4.5	4.4	4.5	4.4	4.6
2007	4.6	4.5	4.4	4.5	4.4	4.6	4.6	4.6	4.7	4.7	4.7	5.0	4.6
2008	5.0	4.8	5.1	5.0	5.4	5.5	5.8	6.1	6.2	6.6	6.9	7.4	5.8
2009	7.7	8.2	8.6	8.9	9.4	9.5	9.4	9.7	9.8	10.1	10.0	10.0	9.3
2010	9.7	9.7	9.7	9.9	9.7	9.5	9.5	9.6					9.7

While national unemployment rates provide an overall picture of unemployment in the country, one should keep it in mind that different states, cities, and counties, have different unemployment rates. Economic changes affect local unemployment rates differently, for example while oil price crisis hurt most states it helps the state of Texas. Graph 2 depicts how nine counties surrounding Clayton State University are experiencing different unemployment rates patterns, since 2008.

Graph 2: Monthly Unemployment rate

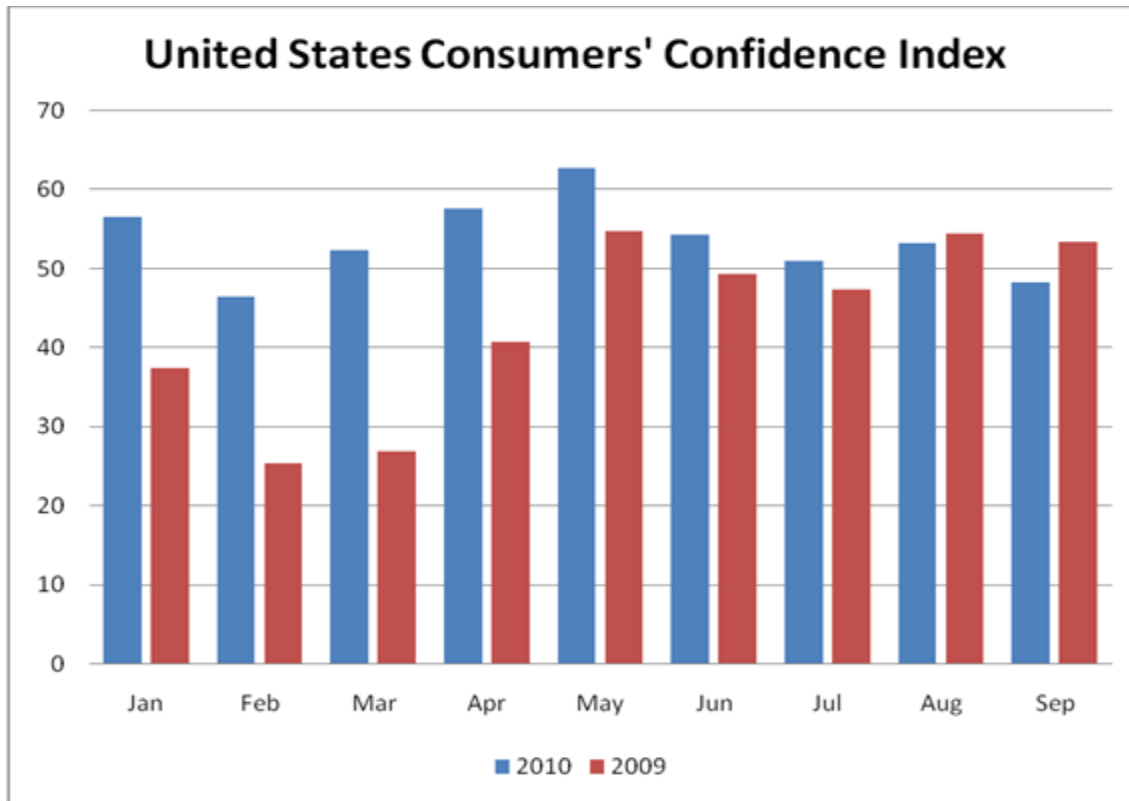


Consumer Confidence index for the same month has decreased from 2008 to 2009, whereas, it has increased from 2009 to 2010, with the exception of August and September of 2010 where the Consumer Confidence level was lower than 2009. In September, according to the Conference Board Consumer Confidence index, a measure of the level of optimism, declined to 48.3 from its level of 53.2 in August. Surprisingly, for all the months in 2010 Consumer Confidence index had stayed above its levels in similar months in 2009, demonstrating consumers were regaining their trust in their future and in the economy. It seems the lukewarm economic performance during the summer and the media reaction caused their confidence to drop. After all, the slow economic growth had not been either expected or predicted. Notably, in 2009 a similar trend existed for months of August and September. The Consumer Confidence index declined across these two months. However, it bounced back by November.

Table 2: Monthly Consumer Confidence Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	56.5	46.4	52.3	57.7	62.7	54.3	51	53.2	48.3			
2009	37.4	25.3	26.9	40.8	54.8	49.3	47.4	54.5	53.4	48.7	50.6	53.6
2008	87.3	76.4	65.9	62.8	58.1	51	51.9	58.5	61.4	38.8	44.7	38.6

Graph 3: 2009 – 2010 Consumer Confidence Index



The greatest fear is that of a double dip recession – a comeback of recession after the start of a slow recovery. So far, as we discussed above, there is no confirmed sign of a double dip recession. Nonetheless, the possibility is being extensively discussed in the media and by economists. If more and more people believe that there is a chance of a double dip recession, that gloomy expectation will lead to more saving (in anticipation of a future economic hardship) and less consumption. Less consumption, in turn, will be followed with less production, leading to a lower GDP that turns pessimistic expectations into reality. The takeaway lesson is that if enough many individuals believe in “false” or “inaccurate” information it can become a reality.

Currently, there is no indication that we are facing a double dip recession, but it is possible to face one if more and more people start to think that we are moving in that direction.