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Economic Outlook

Unless you've been on vacation for the past six months, you've undoubtedly heard a lot of talk about whether or not the US economy is in a recession. The definition of a recession is two consecutive quarters of declining Gross Domestic Product (GDP). As of this writing, the US economy has actually experienced slow but anemic growth over the past two quarters. That being said, perception and psychology are just as important as a technical definition of a recession.

A couple of weeks ago at a Financial Planning Association meeting, I had the pleasure of hearing a presentation on the economy by John Mitchell. For those of you who don't recognize the name, John Mitchell is a fairly well known economist in the region, and until recently was the Western Region economist for US Bank. John recently retired from US Bank and now has his own consulting firm. What follows are some of the highlights from that presentation as well as my own thoughts on the subject.

First, the headwinds. Most Americans' economic reality is being driven by sliding home values, which have resulted in a decline to Americans' net worth. Tight credit markets have made borrowing more difficult, and caused many businesses to be hesitant to invest in infrastructure and hiring. And last but certainly not least, rapidly increasing food and gas prices have had a very real impact on the consumer's wallet. In total, these drivers have had a very powerful economic and psychological impact on the average American's sense of security and well being.

Countering these factors is the very rapid and coordinated response to our economic situation by policymakers. On the monetary policy front, the Federal Reserve has been aggressively cutting the discount rate (which drives short-term interest rates) and has opened the discount window to large investment banks (which has increased stability in the financial markets). Both of these actions have been aimed at stabilizing the housing market and easing the credit crunch by making money easier to borrow. On the fiscal front, the Congress and President quickly pushed through a stimulus package targeted at putting cash in Americans' hands (checks are being distributed as we speak) to stimulate consumer spending.

In addition to actions being taken by the US government, two other major factors are helping the US economy: global economic growth, and the declining US dollar. Together, these two factors have aided our economy by making US products cheaper to foreigners around the world and thus increasing demand for our goods.

Interestingly, the Pacific Northwest has been better positioned to weather the current economic environment than most regions of the United States. Consider this: if you were able to construct an economy from scratch in today's environment, what would you like to see? First, with increasing demand for US products you'd want to be in the export business (Ports of Seattle and Tacoma). Second, with world demand for commodities like food on the upswing you'd want to be in the agriculture business (eastern part of Washington). Finally, it might not hurt to be the world leader in products that are in high demand like airplanes (Boeing) and software (Microsoft). The one major area where the Pacific Northwest has a weakness may be in that we don't have huge oil reserves. Nevertheless, the mix of our region's products and services have cushioned the blow of the current economic downturn and provided relative stability for residents of Washington State.

Backing away from all the details, the important issue to recognize is that the economy is cyclical. There are periods of expansion and growth, and periods of contraction and decline. The good news is that regardless of whether or not we are actually in a recession, our policymakers have acted like we are and taken plenty of action with the goal of stimulating the economy and pushing the country through its current downturn.

-- Joe Hebert. Posted 05/20/08.