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Welcome to the Second Depression

U
h oh. Was that the sound of a recession starting? Talk of a double-dip recession isn’t new. It’s been heard since the Great Recession ended in June 2009. Growth in this expansion has been halting and unemployment remains stubbornly high. It hasn’t felt like much of a recovery, hence the persistent fear of a quick fall back into recession.

But recently it’s seemed like there’s more than just garden-variety nervousness at work. Consider the following:
- The federal government recently issued revised figures for Gross Domestic Product and related statistics. Not only was the recession deeper than we thought, the recovery has been weaker than we hoped. In the first half of this year, the economy grew at an annual rate of less than 1 percent. That’s really bad.
- Even before Standard & Poor’s controversial downgrade of U.S. government securities, the stock market was falling sharply on concerns over poor domestic growth and the eurozone debt/currency crisis. Coming into this week, the market had fallen for four consecutive weeks.
- Interest rates have moved downward for months, with the benchmark 10-year Treasury-bond yield now hovering just above an amazingly low 2 percent. Deficit spending and the S&P downgrade clearly aren’t driving yields upward. Instead, it looks like investors sense economic turbulence and are flocking to T-bills, their usual safe haven in times of uncertainty.
- Prices of commodities, in particular oil, have fallen. Oil prices went above $110 per barrel in April on the strength of demand in emerging economies. But as growth prospects have dimmed, prices have fallen to around $85. It’s nothing like the huge drop in late 2008, when prices went from $145 to $30, but it’s enough to give us pause.
- Closer to home, in July the North Carolina unemployment rate rose above 10 percent for the first time in almost a year. And payroll employment in the state has fallen for three months in a row. Not counting the end of temporary Census jobs in 2010, the last time we saw a three-month reversal of employment growth here was in early 2008, right at the start of the Great Recession.

Fortunately, not everything is pointing to recession. The bad news on jobs is due mostly to a lack of hiring, not a new wave of layoffs. Initial claims for unemployment insurance, traditionally a leading indicator of a recession, are higher than we’d like but aren’t rising. The average work week and consumer confidence are similar—they’ve stopped rising but aren’t falling. And other indicators, like industrial production and retail sales, are still moving upward.

Even so, the mix of data includes some ominous signs that have increased the risk of a new recession. Leading forecasters now estimate that risk to be in the range of one in three. That’s uncomfortably high, and yet we’re still more likely to continue along the path of this historically weak recovery.

The economists at Wells Fargo forecast growth of only 1.6 percent in 2011, followed by 1.1 percent in 2012. That won’t be enough to cut significantly into our high unemployment rate. And it forces us to ask: What’s so great about avoiding recession if unemployment is stuck at 9 percent? During the 1930s, we experienced both recessions and expansions. But the economy was quite weak during the expansions, which is why we refer to that entire period as the Great Depression.

Welcome to the Second Depression.

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Opinion

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Viewpoint

Andrew Brood