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When up is down and down is up

W e’re buffeted with news articles about economic data. The indicator is up, then down, then up, then down, then up, and so on. Most of the time it’s pretty clear whether an upward movement is good or bad. Sometimes it’s not. Here are a few recent examples of the latter:

April’s unemployment rate: Earlier this month, the federal government announced that the unemployment rate for April was 9.9 percent, up from March’s 9.7 percent. Unemployment got worse, but it was actually good news.

As many people know, the unemployment rate factors in only those people who are employed or looking for work. If you don’t have a job but aren’t looking for work, you’re not technically unemployed because you’re defined as being out of the labor force.

This is why the unemployment rate can underestimate the misery in the labor market when things are bad. Discouraged workers give up looking for work and are not counted as unemployed.

The opposite of that happened in April, when job seekers surged back into the market. The jump in the size of the labor force was the largest in more than seven years. Employment rose as well, but not as much, and the result was an upward blip in the unemployment rate. It made things look worse, but it was the result of a strong vote of confidence by American workers.

Falling oil prices: Because of higher oil supply in recent years, price movements have been driven mostly by the demand for oil. Prices fell over 70 percent when the global economy tanked in late 2008. Demand recovered as the economy emerged from recession, and prices rose throughout 2009 and early 2010.

But now prices are dropping again. Earlier this week the price of oil had fallen below $70 a barrel, from $86 at the beginning of May. That’s a drop of roughly 20 percent in less than a month. Good news, right?

Not really. The drop reflects fears by oil traders that the European currency and debt crisis will put a drag in the economic recovery and hence the demand for oil. The same fears are leading investors to flee risky assets and bid up the dollar in order to hold dollar-denominated securities. Oil is priced in dollars, so this pushes oil prices down further.

If these fears about the economy are warranted, lower oil prices are a harbinger of future economic weakness.


These days, as we emerge from the Great Recession, inflation is not just tamed but nonexistent. The seasonally adjusted rate for the first four months of 2010 was 0.0 percent. And that scares economists.

As a rule, monetary authorities should moderate, not zero, inflation. Being at or near zero puts us very close to a great danger known as a deflationary spiral, i.e. falling prices. Deflation shuts down capital markets because no one wants to repay money that’s worth more than when it was borrowed. It inhibits spending by both households and businesses because they expect prices to fall in the future. It clogs the economy’s pipes like nothing we’ve seen.

The worst thing that could happen to us right now isn’t inflation, but a Japan-style deflation. And we’re knocking at its door.

Let’s hope that people continue to have a reason to look for work, that oil and gasoline prices start rising again, and that a little inflation is in our future.

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