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Monthly Review

"Steppin' in and out of that crooked, crooked beat..." The Clash

March 2013 Unemployment Rates	Mar. 2013	Feb. 2013	Mar. 2012
Seasonally Adjusted:			
U.S.	7.6	7.7	8.2
U.S. U-6	13.8	14.3	14.5
Washington	7.3	7.5	8.4
Oregon	8.2	8.3	8.8
Portland Metro	7.7	8.0	8.1
Unadjusted:			
U.S.	7.6	8.1	8.4
Washington	7.5	8.2	8.9
Oregon	8.7	9.1	9.5
Clark	8.5*	11.2	11.5
Cowlitz	11.1	12.0	11.9
Wahkiakum	12.1	12.9	13.0
Portland Metro	7.8	8.5	8.8
*See text. Data will likely be revised upward.			

State of the Nation

GDP and the four horses of the Apocalypse:

The Not-So-Out-of-Control U.S. Budget Deficit: The conventional view of our federal government is that we have an ever-expanding budget deficit that is piling up debt. In 2009, the deficit was equal to 10.1 percent of our economy. Since then, it has fallen at a faster rate than at any time since the end of World War II. The deficit for the first three months of this year was estimated at only 4.5 percent of GDP, and this was before spending cuts due to sequestration have kicked in. Our friends at Goldman Sachs project the deficit to fall to 2.7 percent of GDP in the next two years.

The deficit has been falling due to both a growing economy (which means higher tax revenues) and slower growth in spending. The end of the temporary cut in payroll taxes in January is also helping.

The deficit's shrinking, so that's a good thing, right? Well, not necessarily. In times of economic stress, a smaller deficit means slower economic growth—as workers funded by federal dollars get furloughed or laid off, they have less to spend in the local economy, which leads to a negative multiplier effect and additional job losses. In turn, that means lower income tax revenues, and a potentially higher budget deficit.

But doesn't a large federal debt mess up the economy? A funny thing happened this past week, funny, that is, if you like laughing at economists. Two prominent economists (Ken Rogoff and Carmen Reinhard, who have otherwise done very good work) issued a study back in 2010 claiming that there seemed to be a tipping point, where if government debt exceeded 90 percent of GDP, economies were prone to go into a serious tailspin—technically, they found a correlation between high levels of debt and economic growth, but in a number of public comments, they politicized their work by strongly suggesting that high debt levels cause slow or even negative growth. Their paper was cited repeatedly by politicians in the U.S. and Europe favoring budget cuts.

Other economists tried but could not replicate their results. When Rogoff and Reinhard finally shared their data and calculations, their critics found a simple spreadsheet error. While that kind of error is unfortunate but forgivable, there were also some serious methodological issues with their approach. At most, one could conclude that there is a correlation between higher levels of debt and modestly lower growth rates, but it could easily be argued that slower growth leads to higher debt, not the other way around.

More buns in the European basket case: Europe, of course, has been the pudding for proving whether budget cuts ("austerity") lead to growth, and the evidence is clear: austerity not only doesn't work, but does harm. Consider Portugal:

> Let's start from three facts: Portugal is in a recessionary cycle. The economy will shrink by 2.3 per cent this year, more than twice as much as the previous government forecast... Austerity is self defeating: the deficit-to-GDP ratio widened from 4.4 per cent in 2011 to 6.4 per cent last year, and is forecasted to be 5.5 per cent in 2013. Far above the target of 3 per cent that the government had agreed with the [European authorities]... The magic wand of confidence is not magic. The budgetary cuts did not boost private spending, and expectations remain gloomy.

All economies in Europe have been weakened, and the really weak economies (Ireland, Greece, Cyprus, Latvia, Portugal, who's next?) are being ruined. Greece, as one observer noted, is starting to resemble a John Grisham novel, with high-level corruption, trumped up charges, secret Swiss bank accounts, bought-off media, and foiled murder plots, with a heroic journalist in the middle of it all.

Never on a Sunday: This kind of corruption could never happen in the U.S., of course. The Office of the Comptroller of the Currency (OCC) is one of the federal agencies that supposedly regulate our banking system. Due to many consumer complaints, like being served with a foreclosure notice when one didn't even have a mortgage, unjustified late fees, false or misleading advice, the OCC launched an investigation into the foreclosure practices of large banks. To make a long story short, the investigation was slipshod as far as it went (the contractor hired to do the investigation apparently let the banks in question supervise the contractor's employees) and then was suddenly cut short, a total damages estimate was pulled out of someone's hat, and the mail notices to those who had been damaged came in an envelope with the kind of labeling that most people associate with a scam and put right into the shredder ("OFFICIAL NOTICE!"). To top it off, for those who actually made it through the gauntlet and filed a claim for damages, many of the first round of checks bounced. And more: the contractor hired to send out letters of notice was sending them to different addresses than were in the claimant's letters, and refusing to make corrections. The whole mess has been documented in a free e-book.

Let them eat derivatives: Pundits sometimes speak of the "financialization" of the economy. One of the meanings of "financialization" is to transform normal economic activities into opportunities for speculative investment. Money flows into these activities that normally wouldn't, often leading to volatile changes in prices, leaving non-speculators in the lurch. The entry of speculators into food commodity markets began several years ago, and led to disastrous spikes in food prices globally in 2008, resulting in food riots around the globe as poor people couldn't afford the basics (like rice and corn) that they rely on to survive. Unfortunately, according to a recent article, more large speculators are moving into the food commodities market. The result will likely be further price volatility and more misery for the world's poor. And on that cheery note...

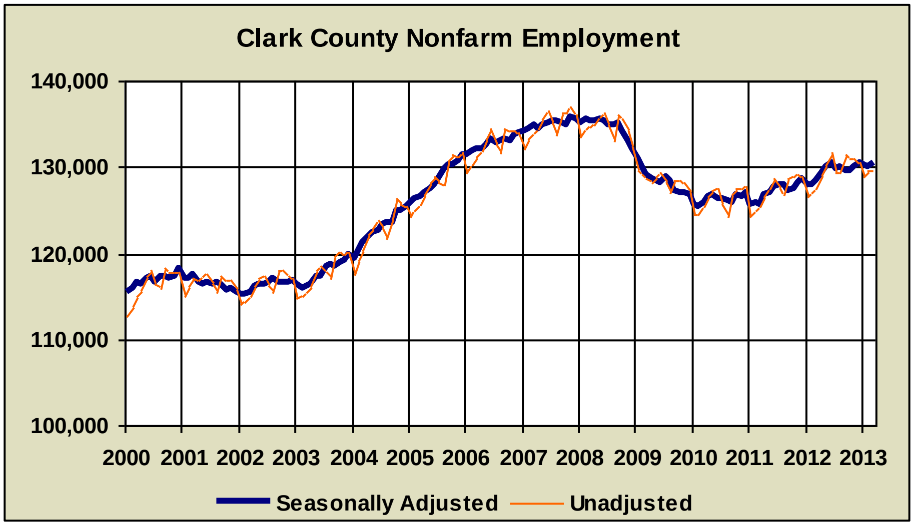
State of the States—and PDX

Preliminary estimates showed Washington losing jobs in March, but the unemployment picture improving. Go figure. And maybe wait for benchmarked numbers (look for an explanatory article next month). Oregon added a modest number of jobs (1,900) and had a slight drop in unemployment. The Portland metro area added 2,900 jobs (more than the state) and had a larger drop in unemployment, from 8.0 percent down to 7.7 percent. So the story is pretty consistent for the nation and each state: slow improvement, ups and downs, with the hole not as deep but still a long way from prosperity.

Regional Roundup

Clark County

Nonfarm employment was essentially unchanged in March, adding 100 jobs, with no industry changing by more than 100. March employment usually declines a bit, however, so on a seasonally-adjusted basis employment actually rose by 300 jobs. The gain was diffused across a number of industries.



Over the year, payrolls are up by 2,000 jobs, or 1.6 percent. Trending up over the past few months: wholesale trade, retail trade, information services, and business services.

Some good news: look for the growth rate to be revised upward next month when fourth quarter 2012 preliminary estimates are revised.

As expected, February's preliminary unemployment rate was revised upward more than a point from 9.6 percent to 11.2 percent. March's preliminary rate of 8.5 percent will likely settle in at a tad above 10 percent.

Claims data continued to show improvement. Only 1,600 initial claims were filed in March (seasonally-adjusted), the lowest since 2006. Continued claims continued their downward trend—the 3,738 claims were 500 fewer than in March 2012 but more than 1,000 above 2006 levels. In addition, almost 1,800 county residents who had been unemployed for more than six months received Emergency Unemployment Compensation.

Taxable retail sales, which had a nice increase in the third quarter of 2012, retrenched a bit in the fourth quarter. Sales at general merchandise stores (Freddie's, Target, Wal-Mart, etc.) fell by 10 percent early in the recession (less than the overall drop in spending) but haven't moved an inch in five years (except to keep up with inflation—not much at all). While overall spending at retail outlets was still 13 percent below the pre-recession peak, both restaurants and hotels/motels continued to see increased sales and have now exceeded their previous highs.

Cowlitz County

Cowlitz County's labor market remained in the slow lane in March. Nonfarm employment rose by 300 jobs over the month, with small gains in a number of industries. Growth over the year was also 300 jobs, less than one percent. There were gains in construction, transportation services and leisure & hospitality, but overall, growth remains slow, and the number of jobs was still 8 percent off of pre-recession highs.

Unemployment fell to 11.1 percent, almost a point lower than the 11.9 percent from last March. However, the decline was due to people dropping out of the labor force. The county's labor force participation rate, which was well below average before the recession started, remains at a very low level, close to 53 percent, versus the national rate of 63 percent.

The one bright spot continued to be that the number of unemployment claimants has trended down close to normal levels. Initial claims are especially low—674 claims on a seasonally adjusted basis, lower than all but five months going back to 1998. Continued claims need to drop another 15 percent to reach pre-recession levels; along with 1,200 regular claimants, there were over 600 county residents filing for Emergency Unemployment Compensation who had been jobless for over six months.

In summary: while there are relatively few job losers, it is hard to find work if you have lost a job, as there is still too little job generation.

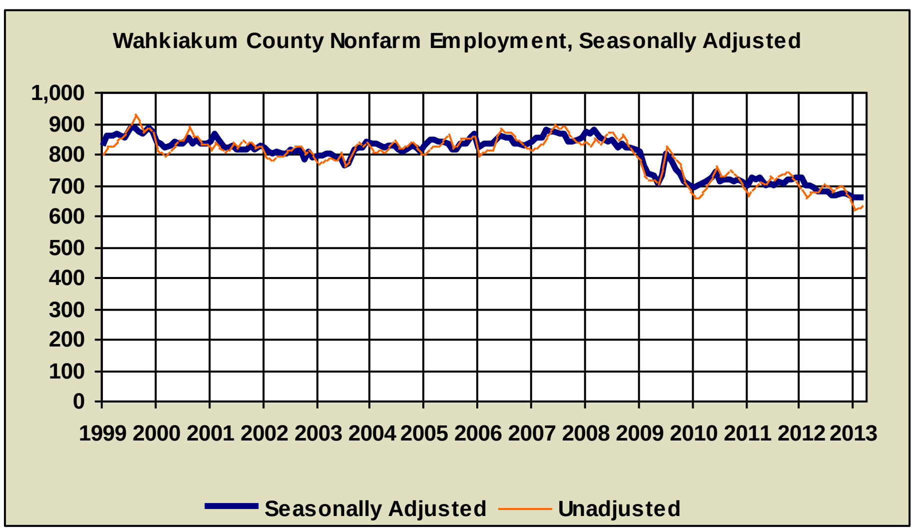
Taxable retail sales rose by 5 percent in the third quarter of 2012, raising hopes that consumer spending was on the mend. Alas, after adjustment for inflation and seasonality, sales fell by 4 percent in the fourth quarter. Auto-related sales declined, as did sales at general merchandise stores, restaurants, and motels. Only construction bucked the trend. Sales at retail outlets were still 20 percent below their peak back in 2006.

Wahkiakum County

March brought little change to the Wahkiakum County labor market outside of normal seasonal trends. County employment remained 220 jobs (25 percent) below its March 2008 peak.

Nonfarm employment increased by 20 jobs to 650 jobs. All of the jobs were seasonal hires in logging. Employment was 20 jobs below the year-ago level.

The unemployment rate was estimated at 12.1 percent, almost a point lower than the 13.0 percent from a year ago.



Initial unemployment claims remained at low levels, while continued claims fell for the sixth straight month. There were 44 continued claimants, and another 21 residents who received Emergency Unemployment Compensation who had been unemployed for more than 6 months.