Money

The Recession Is Over

Brian S. Wesbury and Robert Stein 05.05.09, 12:00 AM ET

If you want a bone to pick--or an economic argument to have--it should be about when the current recession actually began. The National Bureau of Economic Research, the U.S.'s semi-official recession arbiter, says it started in December 2007. But real gross domestic product grew at a 1% annual rate from then through August 2008. That doesn't look like a recession to us.

Nonetheless, when Lehman Brothers collapsed and the $700-billion TARP plan was proposed, a very rare "panic" ensued. Monetary velocity collapsed. From September 2008 through March 2009, the economy shrank at a rate of 5.5%. That's why we think the recession started in September 2008, not in December 2007.

Once the "real" recession started--the one that began in September--we consistently forecast it would be over by mid-2009, earlier than many (including the Federal Reserve) predicted. Now it looks like our V-shaped recovery is underway. When the NBER eventually gets around to declaring the recession end date, we think it will be May 2009.

New claims for unemployment insurance are probably the very best single indicator of the end of a recession. The monthly average for claims normally peaks one or two months before the economy bottoms--and it appears to have peaked in March, at 658,000, versus April's 635,000.

Also, given that the September recession was marked by consumer spending falling off a cliff, we look at this measure to signal a rebound. Consumer spending grew at a 2.2% annual rate in the first quarter, and it looks set to rise again in the second quarter. Meanwhile, both major measures of consumer confidence (from The Conference Board and University of Michigan) shot upward in April.

The housing market is also showing nascent signs of life. New home sales bottomed in January at a 331,000 annual rate, but the pace of sales in February/March averaged 357,000. After falling 80% from January 2006 to January 2009, the rate of construction of single-family homes has remained essentially unchanged for the past two months, although (thankfully) it is at a level where builders are still rapidly cutting into excess inventories. In all likelihood, a bottom has been reached for both home sales and housing starts.

On the trade front, companies are increasingly willing to do business across borders. Inbound and outbound container traffic is up, at both the port of Los Angeles and the port of Long Beach. This is also a signal that credit conditions are easing, as international trade tends to be more credit-sensitive than domestic commerce.

Other signs of a rebound in monetary velocity can be found in prices. Consumer prices fell at a 12.4% annual rate in the last three months of 2008, the fastest decline since the Great Depression. In the first three months of 2009, however, prices are up at a 2.2% annual rate.

Meanwhile, commodity prices bottomed in February, signaling that the economy has turned a corner. In addition, Treasury bond yields are on the rise despite direct purchases by the Federal Reserve--an indicator that real interest rates have bottomed.

Add to all these signs April's month-to-month jump in the ISM Manufacturing Index--the second largest in the last decade--and recent sharp increases in the Chicago PMI, the Philadelphia Fed Index and the Richmond Fed Index. All show the manufacturing recession is rapidly losing steam.

The end of the recession does not mean we won't lose more jobs; employment is always a lagging indicator. And there will be more defaults, foreclosures and financial market problems too. But none of these are leading indicators.

In our view, there are no more shoes to drop.

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