Numbers show the U.S. is closer to a recession than you think

By David Rosenberg
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I keep hearing from the stock promoters how great the U.S. economy is doing now. Somehow they don't see that the Atlanta and New York Federal District Bank economic models are down to around 1 per cent for real fourth quarter GDP growth. Despite suggestions in some circles that we are finding a bottom in this global growth downturn, I have news for you. It isn't happening.

It is, actually, a miracle that the U.S. economy isn't in a recession already. Several segments are in various degrees of angst, from residential construction to commercial activity to capital spending to exports and now the need for unwinding of excess inventories. Holding the glue together are various parts of the consumer sector, which are so large in GDP in terms of size and support, and from the government sector.

But make no mistake, the economy's breadth is very poor and the median sector has stopped expanding. Thirty per cent of GDP is actually in a technical recession of its own – back-to-back quarters of negative growth. Pretty well everything that resides outside of the consumer and government sectors combined.

And it just so happens that even in recessions, government spending doesn't normally participate in the downturn, and consumer spending on rent, utilities, health care and groceries have never collectively declined in any given quarter on a year-over-year basis in any recession. So while we talk about how great the consumer is behaving, a rising share of spending over time is being dedicated to essentials – these areas of spending that are always recession-proof, and now comprise more than 40 per cent of consumer spending and nearly 30 per cent of GDP.

To actually get negative GDP readings, the rest of the economy has to decline, and decline a lot. But on a diffusion basis, a growing number of GDP segments have entered or are entering recessions of their own.

Many pundits point to the low level of initial unemployment claims and continuing payroll growth as a sign that the U.S. labour market is hanging in just fine. But some cracks are starting to surface. One early indicator is from the ADP data – employment at small firms with fewer than 20 workers (the ma' and pa' shops), which are much more flexible than large companies and can see what is happening to the economy from the ground floor instead of the ivory tower, declined by 12,000 in October, and have fallen now in five of the past six months and by 73,000 over that span – something that hasn't happened in nine years.

And I will continue to ask – if the U.S. economy is doing so great, then where is the inflation? Where is the labour bargaining power? The Atlanta Fed wage tracker has gone from 4.3 per cent year over year in June, to 4.1 per cent in July, to 3.8 per cent in August to 3.7 per cent as of September. And where is the pricing power? The New York Fed's leading underlying inflation gauge was 3 per cent in February and has slowed every month since to 2.4 per cent in September (from 2.5 per cent in August). Surely these price signals are telling us a thing or two about the state of domestic demand because if there's one thing we know about the third quarter, the disinflation sure isn't coming from a 1990s productivity boom – since productivity actually dipped in this economy that the Federal Reserve keeps saying is "in a good place." Go figure.

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