



Good News About the Bad Economy

By James M. Hohman and Mark J. Perry

Summary

The U.S. economy is facing myriad problems, but its overall strength will allow it to rebound if policymakers pursue free-market remedies rather than increased government meddling.

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We hear discouraging and pessimistic comments about the economy every day, and many people are afraid of how long the current recession will last. Michigan just got more bad news as its economic forecasters predicted that the unemployment rate will average 11.3 percent in 2009 and the state's budget will overspend revenues by \$1.6 billion. But within the economic slowdown, there is actually plenty of good news if you take the time to look for it.

First, there are areas of the country that are actually doing quite well. As of November, the jobless rate was at or below 4 percent in four states and below 5 percent in 10 states, including states ranging from New Hampshire to Oklahoma to Hawaii. Wyoming's jobless rate is only 3.2 percent, and it actually experienced employment growth over the last year, along with five other states.

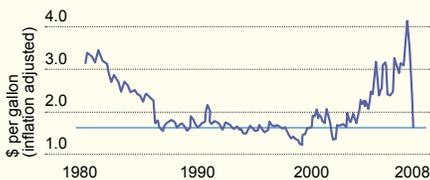
And just as there are some states that continue to prosper, there are some industries that continue to experience positive job growth. For example, employment in the natural resources and mining industries increased by 8.7 percent over the year, and private-sector education and health services added 439,000 jobs over the same period, a growth rate of almost 3 percent.

But even those net job figures give us only part of the bigger employment picture. While the overall economy lost 2.9 million jobs from December 2007 to December 2008 (following five years of solid job growth that created almost 8 million jobs), there was also a huge amount of healthy job turnover in 2008. According to government data, there were 7.1 million new jobs created in the first quarter of 2008 (the most recent period available), but also 7.4 million jobs lost. Despite a net job loss, the fact that there were so many jobs created in just the first three months of 2008 is an encouraging sign that new opportunities in the dynamic U.S. economy, even during a recession. Going back to 1990, there has been an average quarterly job loss of 5.7 percent of total jobs, but an average growth in new jobs of 7.6 percent, and we'll likely return to a period of positive, net job growth again in 2009 or 2010.

Second, retail prices for many consumer products have declined significantly, allowing Americans to stretch their dollars further and save billions. For example, retail gasoline peaked in July 2008 at \$4.12 per gallon,

Real price of gasoline

Jan. 1980 - Dec. 2008



The precipitous drop in gas prices means that American consumers are expected to save \$357 billion. Price changes like these soften the blow of a national recession.

Source: Energy Information Administration, GasBuddy.com

but then decreased substantially to the current average price of \$1.81, translating into annual saving for consumers and business of more than \$350 billion.

There have been industry trends and improved technologies over a long period that have helped consumers save money — computers cost 88 percent less now than they did a decade ago — and the same holds for televisions (78 percent less), cameras (63 percent less), cell phone service (30 percent less), clothes (10 percent less) and even new cars (8 percent less).

The combination of falling home prices and record-low mortgage rates has pushed the National Association of Realtors' home affordability index to record highs in recent months. Mortgage rates are at near-historic lows, currently only 5.12 percent for a 30-year fixed rate mortgage — lower than any time since the 1960s.

While the lingering troubles in the real estate market have resulted in a large number of foreclosures, even this problem is largely regional. According to RealtyTrac, more than half (53 percent) of all November foreclosures were concentrated in only four states — California, Florida, Nevada and Arizona. Without those four states, foreclosures in the other states actually declined in November from October, and were up by only slightly from the same month in 2007.

There certainly are serious problems facing the economy, but these should be considered as temporary setbacks for the world's largest and strongest economy. Economic conditions are not uniformly bad and opportunities still exist in many states, and in many industries and sectors. Instead of arbitrary pump-priming from Washington, policies should reflect that the U.S. economy is both incredibly resilient and highly dynamic and, absent government meddling, the marketplace will correct and become even stronger on the other end of this slowdown.

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James M. Homan is a fiscal policy research assistant at the Mackinac Center for Public Policy, a research and educational institute headquartered in Midland, Mich.

Mark J. Perry is a professor of economics at the University of Michigan-Flint and an adjunct scholar with the Mackinac Center. Permission to reprint in whole or in part is hereby granted, provided that the authors and the Center are properly cited.

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Please contact:
Michael D. Jahr
Director of Communications
140 West Main Street • P.O. Box 568
Midland, Mich. 48640

Phone: 989-631-0900
Fax: 989-631-0964
Jahr@mackinac.org
www.mackinac.org