Will take years to make up job losses, Deck says

By Richard S. Plotkin
Editor

The extraordinary downturn in the economy in 2008-2009 is being followed by a less-than-ordinary recovery.

That was the central message delivered at Day With The Commissioner by Kathy Deck, director of the Center for Business and Economic Research in the Sam M. Walton College of Business at the University of Arkansas.

Deck was one of the featured speakers at Day With The Commissioner on May 7 at the Hot Springs Convention Center.

Consensus projections from the National Association for Business Economics are for about 3 percent annual Gross Domestic Product growth through the second quarter of 2011, Deck told an audience of approximately 270.

"We all get excited when we see positive bars [on graphs] these days," Deck said. "Three percent growth in GDP is nice and respectable. It is not, however, the normal response that we're used to seeing after a very, very deep recession."

The normal response, Deck explained, is a steeper recovery.

The modest economic growth projected as the United States emerges from a deep recession has significant implications, especially for the critical area of employment, Deck said.

Assuming the consensus projections are accurate, Deck predicts, "it's going to take years – not months, not quarters – but years and years for us to make up the employment losses that we saw."

There are just over 7½ million fewer non-farm employees nationally now than there were in January 2008, according to the U.S. Bureau of Labor Statistics. In Arkansas during that time, non-farm employment has dropped by 46,700.

Employment has stabilized in recent months, but the trend has been better defined nationally than in Arkansas.

The recession began in December 2007, according to the Business Cycle Dating Committee of the National Bureau of Economic Research. Despite three consecutive quarters of GDP growth, a "trough" date, which would mark the end of the recession, has not been established by the committee.

CAUTIOUS FORECAST: Kathy Deck, director of the Center for Business and Economic Research at the University of Arkansas, believes consumer confidence is not high enough to produce a vigorous economic expansion.

Manufacturing activity, driven by a buildup of inventories, is pulling the economy out of recession, Deck said. She points to the Purchasing Managers Index, which indicates the manufacturing sector grew for a 10th consecutive month in May 2010. In fact, the index in April reached its highest point in almost six years.

This indicates the expansion in manufacturing will continue at least for the next three to six months, Deck said.

"This is great news. But it's not the whole story, and it won't stay good news unless we talk about consumers and final demand," Deck said. "We're happy that things are being added to inventory. We're happy that we're making things, but now we need to go buy them."

Based on the trend in consumer sentiment, Deck explained, consumers have begun feeling they have been lifted from the "pit of despair" dug deep by rising unemployment and declining home and stock prices.

However, Deck noted, the level of consumer confidence is not sufficient to generate the volume of consumer demand needed for a vigorous expansion. And even though consumers have begun spending again, Deck

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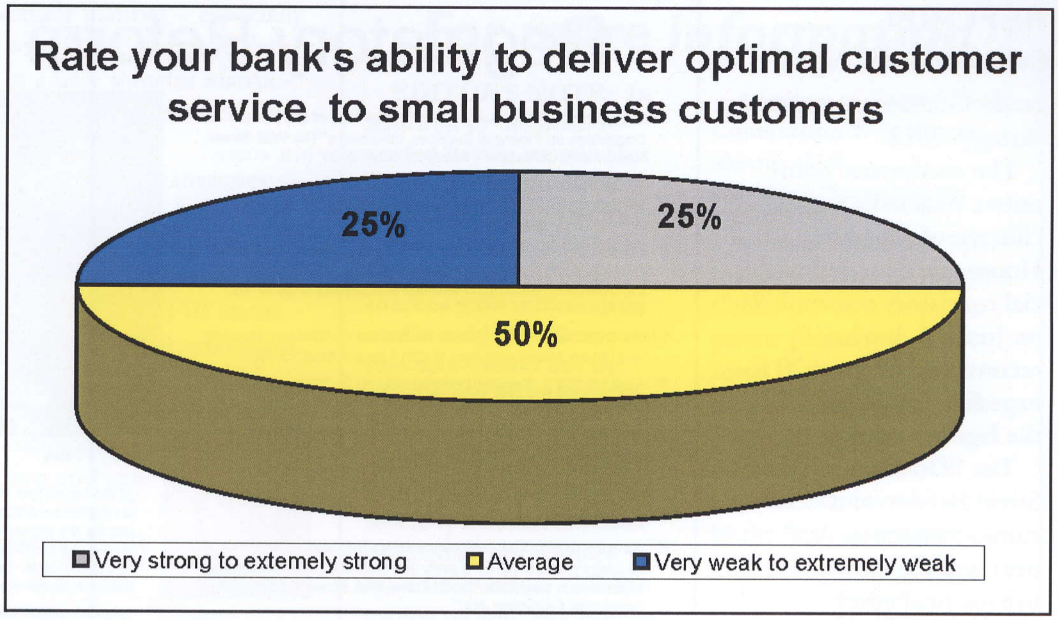
Big banks say small business service lacking

75% rate ability as weak or average, study finds



Source: Aite Group, LLC

Some of the largest banks in the United States are not confident of their ability to optimally serve small business customers, a recent survey finds.

Aite Group, LLC, a research and advisory firm, surveyed 20 of the 40 largest banks in January and February 2010 and released a report of findings on March 25.

The banks were asked to rate themselves in several areas, including their ability to "deliver optimal customer service to small-business customers."

In response to this question, five banks said, "Very weak to extremely weak" while 10 banks replied, "Average." The remaining five banks responded, "Very strong to extremely strong."

Aite Group says the report reveals that large banks are underutilizing technology, relying on transaction-based selling, segmenting their customers by size rather than need and failing to develop a strategy for migrating small business customers onto business banking platforms.

"Large banks are missing the boat when it comes to effectively serving and cross-selling to small business customers," says Christine Barry, research director for Aite Group and author of the report.

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said, they are using their personal savings to do so because their incomes have not increased and their access to credit is constrained.

"Consumers are going out and spending a little bit, but it's not sustainable because they're having to take it from savings and their incomes are not rising," Deck said.

If consumer spending does become anemic, the impact in Arkansas likely would be considerable because the largest employment sector in the state – Trade, Transportation and Utilities – is especially reliant on the consumer, Deck said. The sector includes the retail and wholesale trades.

"That doesn't bode well for a robust recovery," said Deck, adding that the size of the Trade, Transportation and Utilities sector in Arkansas could limit non-farm employment gains overall.

While the impact of recession in Arkansas has been less pronounced relative to the impact on the nation at large, the recovery in Arkansas actually may lag improvement nationally, said Deck, citing the trend in non-farm employment.

"If you look at the last few data points that we have seen coming out of this recession, Arkansas has not been showing the breadth of improvement that the nation has shown," Deck said. "It's improving, but because we were coming from a slightly more advantageous level to begin with, we're not seeing increases of the same magnitude. So we may, in fact, be a little bit slow to come out of the recession, although I expect to see our trends follow right along with the nation, as they clearly have this far."

In addition, Deck said:

- Although inflation is contained now, two sources that could exert upward pressure on prices in the future are a built-up stimulus from the federal government and energy prices.
- She expects a very weak housing market this summer because tax credit programs for buyers, which have expired, served to move up buying activity. Average prices, which have held up despite a large inventory of houses on the market, also could decline this summer.