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*September 2, 2009*

Mark Zandi declared “the recession is over” on Tuesday September 1, 2009. All of the economists at CERF would like this to be true. However, we suspect that this is not true. Mark’s declaration was based in part on the ISM manufacturing activity index data release. The economy has benefited from expenditures on vehicles in the Cash-for-Clunkers program. Certain other household expenditures rose as well. World trade experienced a blip and the Ted Spread fell a little indicating that risk aversion is returning to more normal levels. Investment in inventories may also see a spike in the second half of 2009.

While it is possible that GDP growth will be positive in the 3rd quarter, we believe that the private economy will be weak for some time to come. The evolution of this recession could look like a “W” or an “L”. GDP growth rates will be small, sometimes negative or near zero, with occasional bounces that will be driven by temporary household and/or government expenditures. If GDP is recalculated without foreign or government influences, then 2009 quarter 2 economic activity declined by 4 percent, see my August 5 blog on this topic. Real estate delinquencies and foreclosures continue at historically high levels. It appears that the tide of commercial foreclosures will continue to rise. Foreclosures hit the economy hard, having serious negative consequences for both Main Street and Wall Street. US economic growth might be positive in 2009 quarter 3, but the factors driving economic activity may conspire to reduce GDP growth in late 2009 or early 2010.