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Recession fears grow after S&P downgrade hits fragile economy

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(AJC business reporter Michael Kanell and I wrote the following story for Sunday's paper.)

Economists worried Saturday that the nation's already hobbled economy may be stumbling back toward recession after a tense week that ended with the unprecedented downgrade of the U.S. credit rating.

Friday's downgrade was only the latest — and perhaps most embarrassing — wound, following a near-default by the federal government, a 513-point tumble in the Dow Jones industrial average and increasing financial troubles in Europe.

"I put down 25 percent as the chance of recession," said Rajeev Dhawan, director of the Economic Forecasting Center at Georgia State University. "If you asked me three months ago, I would have put down 10 percent."

To understand the downgrade, follow the signals on Wall Street, he said.

"I would like to watch the stock market for the next three days," Dhawan said. "It could turn out to be a non-event. But the economy is very fragile."

Some experts judged the chances of recession as high as 80 percent, which could set off another round of foreclosures and bankruptcies.

Experts define a recession as a contraction of the economy — a loss of production as well as jobs. The latest national recession — a brutal decline that destroyed more than 8 million jobs — officially ended two years ago.

But growth since then has been weak, and that can feel a lot like recession. And a slow-growing economy is vulnerable.

"It really looks like we are getting a protracted period of low growth that could give us recession if it's not managed well," said Emily Sanders, president and CEO of Sanders Financial Management in Norcross. "And right now, it doesn't look like it's being managed well."

The 11th-hour debt deal reached last week might have been good for cutting future deficits, but by cutting spending in the short-run, it will hurt job growth, she said.

"There isn't anything in the new debt deal that will give us more employment," she said.

Sanders has been shifting her clients' assets away from stocks and into cash. But the recent retreat in stock prices has made some companies look like a bargain, and she said she has "started to selectively buy."

Jack Markwalter, CEO of the Atlantic Trust wealth management firm in Atlanta, said he doesn't expect another recession. But to ensure the country doesn't fall into one — and instead start creating more jobs — he said, the "political paralysis" evidenced during the debt talks must end.

A bipartisan approach, based on compromise, is needed to reach a long-term plan on the debt that will restore business confidence to invest in jobs, Markwalter said.

"We're constrained by the political inability to respond to the problem … and weak leadership," he said.

The Standard & Poor's downgrade, he hopes, will be the necessary "shot across the bow" to change the dynamics in Washington.

If that happened, he said, business confidence would rise and some of the $2.5 trillion in cash that companies are stockpiling may be spent, creating jobs.

But more than confidence or the cost of borrowing, most companies are just waiting for business to get better, said economist Roger Tutterow of Mercer University.

"I don't think there's any business that thinks that interest rates are too high and that is holding them back from investing or hiring," said Tutterow, who raised the probability of a renewed recession to one-in-three from well below 20 percent.

One reason that economists are becoming more pessimistic is that the odds of a dramatic government intervention to spur the economy are low.

The Federal Reserve, which controls money policy, already has used various means to lower short-term and long-term interest rates. Those measures have had limited impact on job growth.

On the fiscal front, the 2009 stimulus package was followed by an end to the huge job losses but only timid hiring. There is little political support for another stimulus.

Instead, Congress and the White House have spent the past several months engaged in what many see as a political fiasco. Angry negotiations on how much spending to cut and how to cut it almost led to the nation's first-ever default.

For metro Atlanta, which in recent months has barely begun to emerge from a three-year downturn, the prospects are even gloomier than the national picture, Tutterow said.

“We have been lagging, and I think we are likely going to keep lagging,” he said. “That is simply because real estate was so important to the Atlanta economy.”

When the housing bubble burst, jobs evaporated in the region by the tens of thousands, lost especially from construction, but also banks, architecture firms, legal services and other companies.

The immense overhang of foreclosed homes — and the huge drop in home values — also hammered households across the metro area.

The metro Atlanta economy cannot rebound until housing comes back and that will not happen for a long time, Tutterow said. “And for middle-class Americans and Atlantans, a lot of their perceived wealth is tied to their home value.”

Until the real estate market stops dragging the economy down, the region's recovery will be sluggish at best, economists say.

Metro Atlanta lost 265,800 of its jobs — a staggering 10.8 percent of the total — between 2007 and January of this year. Since then, growth has been modest — about 34,000 jobs.

Meanwhile, the unemployment rate, which seemingly peaked at 10.7 percent last year before dropping, has climbed back to 10.5 percent, according to the Bureau of Labor Statistics.

That bitter statistic only partly reflects reality: It does not include about 88,000 people who have dropped out of the metro labor force entirely in the last three years.

The national economy started shedding jobs in early 2008. Those losses accelerated. In the last three months of that year, almost 2 million jobs evaporated.

Job losses slowed in mid-2009, but there was no job growth until 2010. Since then, roughly 1.9 million jobs have been added.

Nationally, the economy added an estimated 117,000 jobs last month, the government reported Friday. While better than expected, that number still falls far short of the job growth needed to meet demands of a growing population while putting a significant dent in the unemployment rate.

“To get back to the pre-recession unemployment rate by the middle of 2014, we would need to add roughly 400,000 jobs every single month between now and then,” economist Heidi Shierholz of the Economic Policy Institute said in Friday news release. “In other words, we need jobs to grow more than three times as fast as occurred in July, just to make it back to the pre-recession unemployment rate three years from now.”

– Henry Unger, The Biz Beat

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