BANKING & FINANCE

The shape of things to come

CRAIG SPENCER | THE BUSINESS JOURNAL

Finance pros raid the alphabet to symbolize their economic projections

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The alphabet has taking on new meaning among professionals trying to predict the end of this recession, at least on blogs and at cocktail parties. Economists and investment gurus have adopted letters as symbols to represent the direction of business spending, employment levels and stock markets.

Will a future graph of U.S. gross domestic product look like a V — the best-case scenario, with GDP diving sharply, but recovering just as fast? Or maybe a W — with temporary improvement followed by more decline before things really get better? And then there are the symbols that don't quite fit into the alphabet — the backwards J and the modified square root both have strong proponents.

As to how things have gone until now, U.S. real gross domestic product fell 1 percent in the second quarter of 2009 from the first quarter, according to an early estimate released July 31 by the U.S. Bureau of Economic Analysis. That compares to a real GDP drop of 6.4 percent in the first quarter, suggesting stability may be in sight.

The bureau's most recent GDP figure for Oregon is an estimated 1.6 percent improvement in 2008 from 2007. More current measures include state unemployment figures — 11.9 percent in July, a slight improvement from 12.1 percent in March.

Also, the University of Oregon Index of Economic Indicators released in early August fell 0.9 percentage points in June to 84.2. The slowing pace of the decline suggests Oregon will emerge from recession in the second half of the year, said Tim Duy, director of the Oregon Economic Forum and a UO adjunct assistant professor, who compiles the index.

> **FAST FACTS**
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> **FIFTY-SIX PERCENT** of respondents to a July survey by the National Association of Business Economics expected real GDP to fall by 2 percent or more this year, and only 6 percent expected any positive growth. The vast majority of NABE panelists expect their companies' sales to be rising in 2010.

Potiowsky

Asked his favorite economic letter to symbolize the U.S. dive and eventual recovery in GDP, Oregon State Economist Tom Potiowsky said he was torn between a U and a backwards J.

"The future has a way of fooling us," he said. "But the letters are fun, and give us visual perspective."

Here are the leading contenders for the national forecast — in alphabetical order — plus a few non-letter symbols that experts have latched on to:

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LOW DEMAND: Manufacturers delay placing new equipment orders. 11

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NEXT WEEK: Catholic Charities takes on challenges presented by a brownfield site.

SYMBOLS: Even if GDP climbs, unemployment may remain low

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BACKWARDS J

Gross domestic product dropped quickly when the country entered recession. The long left stem of the backwards J represents that decline, while the rest of the letter suggests a period of stagnation followed by only partial recovery.


Bailey

If federal stimulus allocations were too small — a matter in dispute among economists — then GDP growth could mirror this letter, said Scott Bailey, Vancouver, Wash.-based economist with the Washington Employment Security Department.

"We had a pretty rapid decline, then we'll have a period on the bottom," Bailey said. "We will come up very slow."

Though the recovery may stall for a time, the backwards J will become a U, he said.

THE "L"

Japan's "lost decade" could be represented as an L. After stock market and land bubbles collapsed in 1991, GDP growth ground to a virtual halt for 12 years.

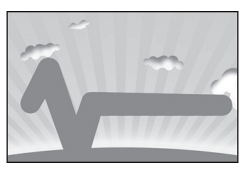
Bailey, an admitted pessimist, fears that the U.S. is at risk of a similar low, flat period of stagnant growth.

"We started looking at our problems earlier than Japan did," and responded with a larger economic stimulus spending package, countered Potiowsky.

But while GDP should start picking up relatively quickly, Potiowsky predicted that Oregon's job growth rate could still show the L effect, with unemployment staying elevated as late as 2013.

MODIFIED SQUARE ROOT

Dean Dordevic, principal at Portland-based Ferguson Wellman Capital Management, wrote a recent letter to clients in which he made a case that the economy could be charted to look like a modified square root symbol. After climbing to a peak and then collapsing to the bottom, Dordevic believes GDP will soon begin climbing. But recovery will not return growth to pre-recession highs, and will instead result in a long period of very slow growth before GDP and employment begin to pick up again.



"We've had the beginning of a bounce and our guess is that we have more of a bounce ahead of us," Dordevic said. "Once we get through this period of growth, we think the economy is going to grow very slowly while the system writes down and deals with this debt."


Dordevic

Only once debt has been brought in line, which could take several years, will the economy start growing at a faster clip, he said.

THE 'U'

The most popular letter among Oregon and Southwest Washington economists, the U assumes a prolonged — but not eternal — lull before the economy begins to improve.

Bill Conerly, principal of Lake Oswego-based Conerly Consulting LLC, expects a U-shaped recovery, but he predicts that the U will not be symmetrical.

Following a steep decline and flat transitional period, a slow recovery could leave the right leg of the U climbing at a slow tilt, as though it were italicized, he said.

Bailey believes that government action — responding to continued problems at large banks and addressing health care reform — will affect whether graphs of GDP ultimately curve up into a U or stay flat as an L. "The sooner we act, the more U-shaped we get," he said.


Conerly

THE 'V'

While optimists view the V — a sharp drop followed by an equally steep recovery — as realistic, most pessimists dismiss the possibility of a rapid recovery.

If businesses and jobs do recover quickly, state coffers and public programs will face a familiar challenge. Oregon's kicker refund law requires the state to return income tax dollars when collection forecasts are too low.

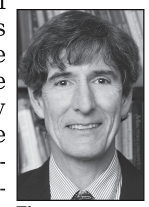
"If we experience a V-shaped recovery, we could go from having the worst recession since the 1930s, with a drop in tax collections, to giving back a billion dollars through the kicker," said Dana Hayes, public affairs manager for Portland Community College.

THE 'W'

Economic output could wobble up and down before the recession meets its final end.

Conerly said he can envision a second dip in 2011 or 2012.

"If you look at the specifics, most of the activity from the $787 billion federal stimulus package is coming in 2010. What would cause the W is if the Federal Reserve is too slow to tighten federal policy. Then they could hit the brakes on inflation, like in the 1970s, where we overreacted."


Thoma

As the $787 billion federal stimulus package continues to spread money around the country, the Federal Reserve said on Aug. 12 it will employ all available tools to promote economic recovery and to preserve price stability. It maintained the target range for the federal funds rate at 0 to .25 percent and anticipates keeping that rate exceptionally low for an extended period.

But Mark A. Thoma, associate professor of economics at the University of Oregon, said there might be several false starts before economic indicators achieve long-term upward momentum.

This might lead to charts that look "more like Bart Simpson's hair" than a traditional W, Thoma said.

THE 'X'

Robert Reich, secretary of labor under Bill Clinton, has popularized the idea of using X to mark this recession. Reich believes the economy of recent years was artificially inflated by debt. The X represents the end of an era, not a graph of business growth or employment levels. After this recession, the economy will be fundamentally different, Reich has said.

A possible indication of that change is in consumer debt. The Federal Reserve said in early August that consumer debt outstanding declined in June for a fifth straight month, falling at an annualized rate of 4.9 percent, to $2.5 trillion.

Reich's X is a provocative idea, but local economists are not buying it.

"The claim is that we were living beyond our means," Conerly said. "The fact is, we were producing more than we were consuming. We were not living beyond our means."

"I don't believe in the X. We had a financial problem, we're fixing it," Potiowsky said. "We were riding way too high on the economy, yes, and financial crises take time to get through. But we have a strong history of getting through them."

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