Webster® EconomicReview

Musings & Amusings

"There are three things you can do in a baseball game. You can win, or you can lose, or it can rain." **Casey Stengel**

"Ninety percent of the game is half mental." **Yogi Berra**

A rookie pitcher was struggling, so the catcher said to him. "I've figured out your problem, You always lose control at the same point in every game."
"When is that?"
"Right after the National Anthem."

with Nicholas S. Perna, Ph.D., Webster Bank Economic Advisor

Play Ball! I wouldn't describe myself as a fanatic, but I do enjoy the game. Over the years, I've been fortunate to attend many opening days at either Fenway Park or Yankee Stadium. I've watched some really great ballplayers throw out the first pitch: Ted Williams, Carl Yastrzemski, Joe DiMaggio and Yogi Berra. And ever since seeing *Moneyball*, I like thinking about the economics of the game.

I've also learned to be cautious about basing conclusions on just a couple of games. Prior to opening day on April 3, the pundits were writing that the Sox and Yankees would be battling for last place. A short time later, the Yankees were closing in on the Sox for first place. As Yogi Berra, one of the most famous Yankees of all time said, "It ain't over 'til it's over." Same is true with Economics.

National Scorecard: The Great Recession began in the fourth quarter of 2007 - finally ending in the second quarter of 2009. Since then, recovery has been slow and uneven. Real GDP is still only about 3 percent above the 2007 pre-recession peak. There were three million (2.1 percent) fewer jobs in March than at the peak. And the unemployment rate is still three points above the pre-recession low. On the other hand, stocks have soared following a spectacular plunge of more than 50 percent.

National Recovery Scorecard

	High	Low	Latest	vs. Peak
GDP (Bil '05 $)	13,326	12,701	13,760*	+3.3%
Dow Jones	14,165	6,547	14,548	+2.7%
Jobs (Thous.)	138,056	129,320	135,195	-2.1%
Unemployment (%)**	4.4	10.0	7.6	

** Estimate*
*** Unemployment 1st column is pre-recession low and 2nd column is recession high*

Why this "Main Street vs. Wall Street" disparity? Businesses have been cautious in hiring for any number of reasons: fiscal uncertainty, the recession in Europe, and the coming costs of "ObamaCare." Another factor is the combination of tight national budget policy and expansionary monetary policy. The fiscal drag has helped restrain demand (GDP) while those incredibly low interest rates have boosted stock prices.

This year, the economy started off strong as evidenced by good job gains during January and February. Autos and housing were also improving. However, the March labor data were quite disappointing. Payroll jobs grew much less than had been expected and the decline in the unemployment rate was caused by a further shrinkage in the workforce rather than job gains. While March is only one month's evidence, it raised concerns that the economy is being held back by the additional fiscal drag that hit over the past few months – with the end of the payroll tax holiday in January and the start of the sequester spending cuts in March. The stock market, however, ignored all this and continued to hit homes runs – at least through mid-April.

However, I don't see the start of an economic batting slump. Rather, we should see moderate GDP growth in the vicinity of 2.5 percent for the remainder of 2013 as we continue to digest the fiscal tightening and uncertainties from Europe. Momentum should pick up next year as these negative factors fade.

When will we get back down to the pre-recession unemployment rate low of 4.4 percent? Most likely it won't be in the foreseeable future – sort of like the odds of the Miami Marlins (who have the worst record in major league baseball) making it to the World Series. Economists see unemployment only falling about half a point annually for the next several years which would only get us down to 6 percent by 2015. Moreover, the Federal Reserve has disclosed that its "longer run"unemployment rate forecast is in the range of 5-6 percent. This really isn't a forecast. Rather, it is more a statement of what unemployment rate the Fed thinks is compatible with fulfilling its mandate for achieving maximum employment.

The Fed has already said it will probably start raising short-term interest rates when unemployment is near 6.5 percent. And most economists think the Fed will start scaling back on purchases of bonds before that, thereby allowing longer-term interest rates to rise.

Because they've never before had to unwind such a massive program, there's a lot of uncertainty surrounding the ultimate effects of reversing Quantitative Easing, including the potential for future inflation. Maybe Yogi Berra had the Fed in mind when he said "A nickel ain't worth a dime any more."

Regional Standings: New York and Boston have had the strongest economic performance in the Northeast. I'm pretty sure this was not caused by the rankings of the Yankees and Red Sox over the past couple of seasons. Unfortunately, economic performance for the geography in between is less impressive.

In baseball, no single statistic truly indicates how well a batter is performing. There's the batting average, on-base percentage, RBIs, etc. The same is true for measuring performance of the labor market. In addition to the recent unemployment rate, the table shows where jobs are today relative to the pre-recession peak. If space permitted, we'd want to analyze labor force growth, participation rates, and more.

Anyway, Connecticut is 4.1 percent (70,000 jobs) below 2008. It has recovered only 50,000 of the 120,000 jobs that disappeared during the recession. Rhode Island has made less progress. At 5.9 percent below the peak, it has regained only one in four of the lost jobs. New York and Massachusetts have more than fully recovered all lost jobs. As such, they're not only outperforming Connecticut and Rhode Island but the nation as well.

Massachusetts and New York both had smaller declines during the recession than the other two states. This means that they had much shallower holes to climb. They also seemed to have had less difficulty in resolving their state budget problems. Connecticut enacted large tax increases that may have inhibited job growth. In Rhode Island, there was considerable uncertainty over whether several municipalities would have to declare bankruptcy.

Furthermore, the areas of the region that are doing better have a different mix of industries. For example, they have a smaller proportion of employment in manufacturing and more employment in professional and business services.

However, it is important not to get too pessimistic. Connecticut and Rhode Island received some good news recently. Both benefitted from substantial upward revisions to their jobs data covering the past couple of years. For Rhode Island, the original data had jobs declining during most of 2012 while the revisions showed them increasing. Both states are doing better than we thought previously when the risk of their re-entering recession was rising. And most forecasts are expecting the pace of job creation to accelerate fairly soon.

Is there anything that can be done to improve regional growth prospects? *Moneyball* stressed the rewards for thinking outside the box. It really makes no difference whether a player gets on base because he hits a single or because he walks. If you only focus on a familiar metric such as the batting average you may end up overlooking some real talent.

In many places, political jurisdictions are often too small to achieve economies of scale in the provision of public services. One way of thinking outside the box is to move towards regionalizing the provision of many services. Recent studies show that there are sizeable savings here. The Federal Reserve Bank of Boston concluded that localities in both Massachusetts and Connecticut could reduce costs of 9-1-1 call centers as much as 60 percent by consolidating them. (Sufficient data weren't available for Rhode Island). And this is just one example of what might be done to cut the cost of doing business and the cost of living in our region. I hope Yogi was right when he said, "The future ain't what it used to be."

Labor Markets: March 2013

	Jobs % above or below peak	Unemployment rate %
Connecticut	- 4.1	8.0
Massachusetts	2.7	6.4
Boston*	1.7	5.4
Rhode Island	- 5.9	9.1
Metro New York*	16.8	N.A.
United States	- 2.1	7.7

**Sufficient data weren't available*

Economic Esoterica: Did you know that the economy weighs less than it used to? (I sure wish I did!).

In the late 1990s, Former Federal Reserve Chairman, Alan Greenspan, was sure that the economy was undergoing major structural change and that productivity was accelerating faster than the official statistics were showing. If correct, Greenspan felt there would be less potential for inflation and, therefore, more room for expansionary monetary policy. His belief was one of the factors paving the way for the now controversial period of very low interest rates that prevailed a decade ago.

As part of this inquiry, Greenspan calculated that the economy was five times larger than it was 50 years earlier but the output (real GDP) was only a little heavier. (Sure beats counting sheep to get to sleep!) Airplanes are lighter than trains and ships. Your online newspaper weighs nothing but the hard copy could get pretty hefty. The shift from manufacturing towards services also makes for a lighter economy.

Now you can wow your friends at the next summer barbecue.

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FN01211 04/13

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