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US Economy Could Recover Much Sooner Than Expected

Source: CNBC.com

You've heard all the gloom and doom about this recession. Now here's some good news: the economic recovery could happen much sooner—and be much stronger—than anyone thought possible.

Though the latest economic data is still giving a mixed picture, a small but growing group of economists is disputing the idea that the recession will drag on for months and that the rebound will be as weak as those following the 1991 and 2001 downturns. “Too many people’s idea of recession have been formed by the last two recessions,” says Robert Brusca of Fact & Opinion Economics, referring to the 1991 and 2001 periods, which were both short and shallow. "I think that's mistaken.”

“People have been talking about an L-shaped recession,” adds Michael Mussa, senior fellow at the Peterson Institute for International Economics. “The record shows you come back sharply from deep recessions” like the current one.

These economists and others see a V-shaped pattern, similar to that of the recession-recovery periods of the 1970s and 1980s. And they say there is ample evidence to support it. Among the reasons for the new optimism: a significant easing of the credit crunch, improvement in consumer spending, a potential bottom in housing, a less-grim jobs picture and expectations that the government's massive stimulus spending could start boosting economic growth sooner than later.

Even the Federal Reserve is signaling some optimism. After its regular two-day policy meeting ended on Wednesday, the central bank said that weakness in the economy appeared to be slowing. "Information received since the Federal Open Market Committee met in March indicates that the economy has continued to contract, though the pace of contraction appears to be somewhat slower," the Fed said in a statement, suggesting it had detected an improvement in the outlook. "The tone seemed to have been a bit more optimistic than in the previous meetings," said Greg Salvaggio, vice president for trading at Tempus Consulting in Washington.

And on Thursday, the Economic Cycle Research Institute said that the recession will probably end before the summer is out. The research group, whose leading indicators have a solid track record of predicting turns in the business cycle, said enough of its key gauges have turned upward to indicate with certainty that a recovery is coming. "The economy is on the cusp of a growth rate cycle upturn—a cyclical acceleration in economic growth," ECRI said in an emailed statement. "In other words, U.S. economic growth...which is still plunging deeper into negative territory, will start becoming less negative in short order."

So far, the data is showing continued weakness, though there are signs the economy is turning the corner. On Thursday, the government reported that the number of U.S. workers filing new claims for unemployment benefits fell last week. Several economists say that jobless claims typically peak six to eight weeks before the economy recovers. Since that peak now appears to have been reached in March, that would signal the recession could be ending as soon as May. "Job losses tend to be very bad at the end of a recession,” says Bank of Tokyo-Mitsubishi’s chief financial economist Christopher Rupkey.

Consumer spending also declined in March, the government said Thursday, as the weak job market continued to pressure incomes. But overall consumer spending, which makes up two thirds of the US economy, rose in the first quarter compared with the final quarter of 2008, another sign that Americans are slowly beginning to buy again. No one, of course, is saying the recession is over yet. But the end may be closer than people think.

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Since March 9th Low

	3/9/2009	5/8/2009	Change
DJIA	6,547	8,574	+30.96%
S&P 500	676	929	+37.43%
NASDAQ	1,268	1,739	+37.15%

Remember Your Strategy

While things appear to be riskier today than 18 months ago, the economy is receiving more help and stock prices are much more attractive. The combination of these two factors might drive good equity returns in the future for investors.

It may help to forget for the moment what the value of your portfolio was at the high point of the market. And remember that short-term losses do not signify a bad long-term strategy. The market has historically caused unpredictable and significant swings to even the most prudent and carefully crafted investment plans. While it makes sense to periodically reassess your risk tolerance and to ensure that your approach matches your needs, you may not need to change your strategy entirely.

Look through the windshield rather than the rearview mirror. Projecting current conditions into the future is likely a mistake and could make you incorrectly change your investment approach.