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Economy powers up

By GARY GOSSELIN, Of The Daily Oakland Press

The runup was a direct result of tax cuts and business investment, and leaves some stunned, wondering when their personal economic revivals will begin, a dichotomy that is expected but often hard to understand.

"I think that's certainly the case; it seems like there's a difference between statistics and people's personal situations," said Scott Horsburgh, a chartered financial analyst and vice president at Seger-Elvekrog, an investment management firm in Bloomfield Hills. "There are still cutbacks, and businesses don't start to hire until they're sure, and they're not quite sure yet. But, we are starting to see some signs of hiring, but you don't see people going in and asking for raises just yet." The Commerce Department reported Thursday that the nation's gross domestic product grew at a 7.2 percent annual rate in the third quarter, more than double the 3.3 percent rate in the previous quarter. It was the strongest pace since the first quarter of 1984; it also beat analysts' estimates for a 6 percent growth rate.

Meanwhile, the Labor Department reported that new jobless claims last week declined by 5,000 to 386,000, signaling a slowdown in layoffs. "These are great numbers, and it's an indication of Mr. (President) Bush's tax cuts," said David Littmann, chief economist at Comerica Bank, Detroit. "I think it's a combination where the tax credits and (tax) rate reductions resulted in two growth factors - business and consumer spending. As usual, tax cuts work."

As good as the numbers are, he said, Michigan is pretty much six months behind the rest of the country in recovery, and, he added, don't expect employment to drastically improve until probably next year, at the soonest. "We're some six months behind because it's a structuring recovery; we're shedding jobs that aren't being picked up by some other business," Littmann said. "We're not as competitive statewide as we need to be, plus it takes two consecutive quarters for business to stabilize and to anticipate hiring in the next year."

He said it does not necessarily require two quarters of 7.2 percent growth, but it does require strong growth. And, he added, a lot of the jobs lost - mainly in manufacturing - have gone overseas permanently and some of that void will have to be filled with other jobs, as in technology, service, pharmaceuticals, leisure and travel businesses.

Year over year, the Michigan economy is down 2.2 percent while the U.S. economy is up 2.6 percent, Littmann said. That's almost a 5 percent swing that has to be gapped. The Oakland County area, however, bucked the state trend and is up 2 percent, closely mirroring the country in general.

"**You know that movie 'The Perfect Storm?' " asked John Rutledge, economist and independent economic adviser to the White House, referring to the movie that depicted a number of events that contributed to a killer storm. "This (GDP growth) is the opposite of that - it doesn't get any better than this. If you don't like this, you don't like anything. The real question is, after we all applaud, then what?"**

Expect fourth quarter growth to be about half of this quarter, said Rutledge, who is also chairman

of Rutledge Capital, a private equity investment firm that has invested more than $150 million in manufacturing, distribution and service companies.

He said Bush would like to see two-thirds of the 3 million jobs lost in the last three years come back to help re-election efforts, but don't expect that to happen, Rutledge said, meaning the regular Joe will still have a hard time, probably well into next year, in feeling the same euphoria felt Thursday by economists and analysts across the country.

The nation's payrolls did grow by 57,000 in September - the first increase in eight months - but analysts have said a 150,000 monthly increase would signal a true recovery felt by all workers.
Much like the 1984 GDP jump, this one is also closely connected with the tax cuts, Littmann said. Marginal income taxes were cut by 5 percent in 1982, and 10 percent in 1983 and 1984. The problem, what slowed economic growth in the following years, Littmann said, were at least five different tax increases from 1984 through 1987.

"And it slowed the economy down, so it'll be very important that the politicians don't start taking away these tax cuts," Littmann said. If politicians start backsliding on tax cuts even as soon as next year, "just as the economy is getting traction, they would take it away," he admonished.
Investors remained wary, sending the Dow Jones industrial average up 12.08, or 0.1 percent, at 9,786.61, following a three-day gain of 192 points. Earlier in the day, the blue-chip average advanced as much as 64 points and lost as much as 20 points.

But the broader market declined modestly. The Nasdaq composite index lost 3.87, or 0.2 percent, to 1,932.69. The Standard & Poor's 500 index fell 1.17, or 0.1 percent, to 1,046.94.
But, armed with Thursday's news, which built upon numerous previous reports of improving economic conditions and confidence, Horsburgh was somewhat bullish on the coming 12 to 18 months.

"I hope next year, with the momentum in the economy, and tax cuts and also some pent-up demand, we could be setting ourselves up for some good economic growth, above average," Horsburgh said. "And as investors get more confidence, I think that will translate to an increase in the market. I would like to think a number above 10,000 would be a part of a healthy number and not too far out there."

There is a lot of money in play that people don't even think about, Rutledge said, noting investors are realizing $2 trillion more in investments, which would translate into $300 billion in unrealized tax payments. In addition, personal taxes have dropped $100 billion, and disposable personal income for the quarter was up $190 billion.

But, he said, the Bush administration has to help keep the momentum going. They have to convince banks the refinancing boom is over and that they need to make their money now in business capital improvement loans and business. And, he said, the FCC needs to untie the regulatory bonds in the telecommunications industry, which is hampering a new round of investments providing small businesses and residential customers with the latest technology, improving productivity and creating more investment