The Uncertain Economic Outlook for 2013

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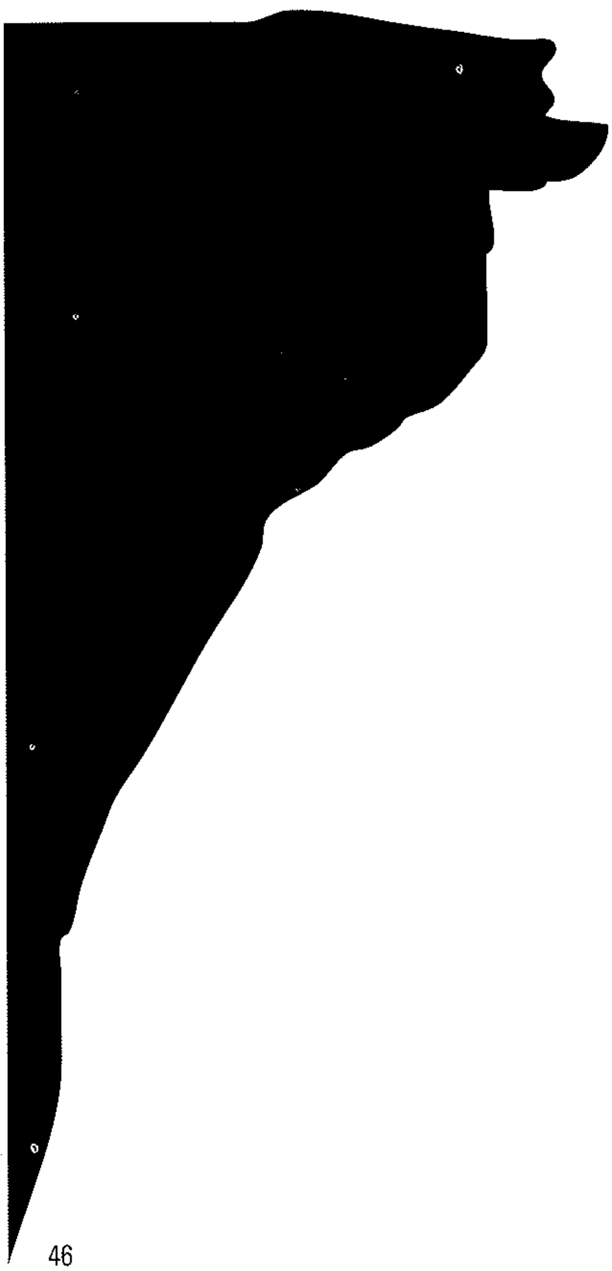

Not since the Great Recession of 2007-2009 has the economic outlook been so uncertain. During 2013, the economy could grow by 3.5 percent, the unemployment rate drop to the low range of 7 percent and black unemployment fall to the low range of 12 percent. However, it is also possible for the economy to enter a new recession. Three factors will make the difference: 1) **How strong the economy is today**; 2) **How badly will the aftermath of Hurricane Sandy affect the general economy;** and 3) **Whether Congress reaches a compromise that will allow us to avoid the fiscal cliff**.

Current State of the Economy

Prior to Hurricane Sandy, the economy was gaining tremendous forward momentum. In fact, the last four months were the first time that economic indicators across the economy all moved in a positive way. For example, housing starts are up significantly, home prices increased nationally, and new home sales and existing home sales are also up. Along with this, automobile sales are strong, consumer confidence is higher, and so is consumer retail spending. Finally, oil prices declined and labor productivity increased.

These positive changes lead to the creation of 170,000 jobs monthly for five months running and as a result; overall unemployment dropped to 7.8 percent. Also, black unemployment declined to 13.4 percent in September 2012. The unemployment rate increased in October, but it was the result of approximately 600,000 workers coming back into the labor force as they were optimistic about finding work. Interestingly, 70 percent of the re-entrants to the labor market were African American. Keep in mind that people who drop out of the labor market are not counted among the unemployed. However, they are counted when they re-enter; this is why black unemployment climbed from 13.4 percent in September to 14.3 percent in October.

Had Hurricane Sandy not occurred (and holding aside, for the moment, the fiscal cliff issue), we would likely have been looking at a growth rate of 3-3.5 percent. That would have been strong enough to generate more than 200,000 new jobs each month and lower the unemployment rate to below 7 percent for the first time since the recession occurred. It would also have lowered the black unemployment rate from its current level of 14.3 percent to the 12 percent range. However, Sandy did occur, and we are now assessing the aftermath of the damage.

Unknown Effect of Hurricane Sandy

The hurricane did not just hit hard, it shut down the central nervous system of the world's economy for almost a week, which is having a tremendous ripple effect through the economy. We recently saw a huge increase in new claims for unemployment insurance and a slowdown in auto sales. We'll likely see an increase in the unemployment rate, decrease in the number of new jobs created and decline in retail sales in November.

The best way to think about the hurricane is this: It is a negative stimulus on the economy. Furthermore, even though the federal government is helping with the reconstruction effort, its contribution will never replace the economic activity displaced by the storm. It is folly to believe, as some have maintained, that the reconstruction expenditures will ultimately leave the area better off.

The disaster spending will never replace the spending that would have occurred in the absence of the storm. Furthermore, it means that consumers, businesses and the government must direct their spending and scarce resources to fixing up, rather than moving ahead. Simply put, rather than buying a new house, one must currently replace or repair the existing house. In effect, the economy will have one house rather than two. Another way to look at it is this — New Orleans has been repaired significantly since Hurricane Katrina. However, it is not the same city that it once was. Further, many people who once lived in New Orleans, or would have moved there, have relocated elsewhere.

Although we're still waiting to assess the damage of Hurricane Sandy on the economy, it is likely to raise the unemployment rate by .2 percent, forcing it back over the 8 percent threshold, and will also cut into GDP growth, perhaps by .3 percent. Most importantly, Sandy has weakened what was a robustly growing economy and made it more vulnerable to an economic recession, if Congress does not address the fiscal cliff.

The Fiscal Cliff

Had Sandy not hit the economy, we could have survived the fiscal cliff without going into a recession. Now, it is not so clear we can. In lay terms, the fiscal cliff means the budget deficit will be cut automatically by $607 billion if nothing is done. This is because Congress was unable to come up with a budget compromise 1 1/2 years ago during the debate over raising the debt ceiling.

As a result, their solution was to force a compromise. They sought to do this by making it impossible to stop the expiration of tax breaks (i.e. the Bush era tax cut, payroll tax cuts), and also put in place automatic spending cuts (Medicare, military, veterans benefits). Their thinking was that those measures would be so severe that Congress would have to compromise. Well, thus far Congress has not.

If Congress fails to compromise on the debt issue, and we hit the fiscal cliff, look for a maximum GDP growth of .5 percent to 1 percent during 2013. This would mean that overall unemployment would increase to 8.5 percent or slightly greater and black unemployment would approach 15 percent. Unfortunately, this is an optimistic scenario. It is also possible, given the effect of Hurricane Sandy, that we will re-enter a recession. If that occurs, look for general unemployment to reach 9 percent and black unemployment to go above 15 percent.

Black Business Outlook

No matter what happens, black businesses will encounter a tough market in 2013. Government agencies are still not procuring goods and services as they once did, and a significant percentage of black business sales are dependent of government purchasing. In addition, corporations are continuing to increase the qualification standard of suppliers by demanding they have more scale and capacity, and be able to operate more efficiently. Black business owners who are able to adapt to this new environment will find numerous opportunities. Those who do not will find the going very tough. Let us hope the best of the scenarios described above come to pass. **AT**