

Economy's Spring Has Not Yet Sprung By Adam Legge

There has been a lot of talk lately about an economic recovery, or the infamous “green shoots.” Yet, on May 8, 2009, we received April labour force data showing that Calgary experienced one of its worst months of job losses in a decade on a seasonally adjusted basis - approximately 8,000 jobs lost – driving the unemployment rate up to 6.3 per cent. February 1997 was the last time that we were at that unemployment rate.

On the same day, analysts hailed a loss of 539,000 jobs in the U.S. as a good thing. Or at least not as bad as they expected. Correct me if I'm wrong but isn't the fact that people are losing their jobs generally a bad thing? I think a better time to hail recovery or turnaround might be the day when, oh, I don't know, we see an end to the losses, or, heaven forbid, actually see a gain in jobs. I know, crazy notion.

The Economist magazine's April 25 issue got it right when it focused on *A Glimmer of Hope – the Perils of Optimism*. We go forth at our own peril if we wish to turn these “signs” of recovery into some signal that we have turned the corner. I think that for a number of reasons.

First, simply because bad news isn't as bad as we think, doesn't mean it stops being bad news. The global and Calgary economies are still experiencing job losses, slowing sales, increasing bankruptcies, increasing mortgage arrears and increasing demands on social agencies. Let's breathe a sigh of relief when those reverse. When we actually see good news. And a trend of good news. One month of good news won't convince me. A quarter or two quarters will be making more headway.

Second, because we haven't seen the worst of it yet. Some forecasts suggest that developed economies will experience double-digit unemployment by 2010. With rising unemployment will come increasing defaults on loans, mortgages, and a variety of other impacts to the financial sector as a result of decreased employment.

Finally, we would be absolutely kidding ourselves if we actually thought we did it. To actually think that we solved this complex financial monstrosity would be a hallucination. It would be folly, and ultimately detrimental, for us to think that we have actually found all the toxic assets, dealt with them and are on a stable, healthy and viable road to recovery. Our biggest error would be in thinking we were back on our feet, and casting attention away from what got us here in the first place. If we don't truly deal with the balance sheets of our financial institutions and ensure that we can manage these issues better in the future, we will be rebuilding our foundation on quick sand.

I fear that we are staring so intensely at the economic data on a monthly basis that our eyes are going cross and we are seeing recoveries where they don't exist. Let's not will a recovery into happening when it truly isn't ready. Just because we are hungry, doesn't mean that once our dinner *looks* ready that it is in fact ready. I'm not a big fan of salmonella so I usually wait to eat until I know my food is done.

I agree that we shouldn't be alarmist, fear-mongering or dooms-dayers. The fact is that while 6.3 per cent of the labour force isn't working, 93.7 per cent still is. And while mortgages in arrears rose 121 per cent in Alberta as of February year over year, that only represents 0.5 per cent of the outstanding mortgages in Alberta. But we shouldn't be hallucinators either. Just because the TSX passed 10,000, doesn't mean that the line at the food bank isn't growing. So what do we need to be? Let's be realistic.

Recovery is going to happen. When, no one knows. Balance sheet recessions, like the one we are in, have proven historically to be longer and slower to recover. It might take another 6, 12 or 18 months before we can truly say that the worst might be behind us. And when it does, it likely will be a slow, steady recovery that will look incredibly modest. In the long-term however, more modest growth rates might become the new norm, and ultimately be what we need to keep us honest.

We need to be prepared for and accepting of this kind of scenario. Let's set realistic benchmarks as individuals, companies and governments to tell us when we have set forth on a path to recovery. This might look something like multiple quarters of stability or growth in key indicators; reductions in the demands on our social infrastructure and agencies; resolution to balance sheet related matters; a demonstration of the private sector to get back into spending and investment; and for capital markets to make ready and realistic access to the funds needed to invest and grow.

We need to bring some reality and pragmatism to the whole situation and set up appropriate, accurate and meaningful measures to recovery. Let's not act like the sky is falling. But let's not think we are in a recovery when we aren't.