



Written by [Bob Adelman](#) on February 1, 2010

Latest on the Economy: Heading Up, or Head Fake?

When the Bureau of Economic Analysis announced that “the output of goods and services...increased at an annual rate of 5.7 percent in the fourth quarter of 2009,” the usual suspects in the kept media could hardly restrain themselves. ABC News’ headline trumpeted, “Economy Grows...Fastest Since 2003” which was “fueled by companies boosting output to keep stockpiles up.” Their announcement explained that “Growth exceeded expectations mainly because business spending on equipment and software jumped much more than [was] forecast.”



Christine Romer, Chair of the President’s Council of Economic Advisors, was ecstatic: “Today’s GDP report is the most positive news to date on the economy. The data show that the total output of the U.S. economy increased strongly in the fourth quarter of 2009. The change from the first quarter of 2009...is truly extraordinary.” Larry Summers, Director of the White House’s National Economic Council, was [equally ebullient](#). It was the dramatic moves [taken] by the administration “that pulled the economy back from the brink of a depression, and created a basis for economic growth.”

Bloomberg news claimed that the economy’s expansion in the last three months of 2009 was because “factories cranked up assembly lines and companies increased investment in equipment and software.” The estimate by the BEA “exceeded the median forecast of economists” that Bloomberg surveyed prior to the announcement. John Silvia, chief economist at Wells Fargo Securities, [agreed](#): “The economy is still healing and improving. I think this is a sustainable recovery.” Following the Fed’s meeting, policy makers joined in the chorus, saying that the economy is recovering and that business investment “appears to be picking up.” And Stephen Stanley, chief economist for RBS Securities, said that the increase in capital spending “was driven mainly by a sharp rise in tech outlays, consistent with much of the chatter from IT companies reporting fourth-quarter earnings recently. We have long anticipated a substantial and accelerating rebound in business spending in 2010, and it appears to be arriving a little earlier than we expected.”

However, pulling back the curtain a little bit reveals a much less sanguine picture of the economy. Even the BEA itself, in the fine print, reveals that “the fourth-quarter advance estimate released today is based on source data that are incomplete or subject to further revision. [Our] second estimate for the fourth quarter, based on more complete data, will be released on February 26, 2010.”

The BEA estimate, it turns out, was driven primarily by manufacturers rebuilding inventories, and not by consumer demand. This [graph](#) illustrates the cause of all the excitement. A close look indicates a very slight “bump” upwards which began late last year, reflecting a rebuilding of inventories after a disastrous decline over the previous two years. The *Wall Street Journal* explained what happened: “Production collapsed during the recession as companies sold from their existing inventories but didn’t order new goods, because of uncertainty about future customer demand. These inventory declines



Written by [Bob Adelman](#) on February 1, 2010

dragged on [the] GDP [numbers] for six consecutive quarters, the longest streak on record since 1948.”

How is the consumer doing? The BEA report estimated that consumer spending rose at a 2 percent (annualized) pace in the fourth quarter, which was down from 2.8 percent in the third quarter. Bloomberg said that the “slowdown in consumer spending last quarter is a reminder that 10 percent unemployment is causing Americans to hold back.” As pointed out [elsewhere](#) on this site, even the 10-percent unemployment number is suspect, with more realistic estimates coming in at 20 percent unemployment and even higher.

Any rebound in the job market isn’t evident with payrolls falling by 85,000 last month. The November gain of 4,000 new jobs was the first increase in almost two years. According to Bloomberg, the U.S. has lost 7.2 million jobs in the current recession, the most recorded since the end of the Second World War. Bloomberg admitted that the uncounted “jump in the number of discouraged workers leaving the labor market” is the only thing that “kept the [unemployment] rate from rising.”

Robert Macintosh, Chief Economist for Eaton Vance, said that “since this is the advanced report it is subject to some pretty significant downgrades as they get real numbers on both exports and inventories. I doubt it will stay this high once they revise it twice.” Lou Brien, a market strategist with DRW Trading Group put it succinctly: “When you take out the inventory [numbers], that throws into question the sustainability of any kind of growth.”

Although admitting that the BEA report could be adjusted downward in the next month or two, economists still estimate that the GDP will grow between 2.5 percent and 3 percent in 2010. Even if that happens, ABC News [says](#) “it won’t be fast enough to significantly reduce the unemployment rate. Most...expect the rate to keep rising for several months and remain close to [the spurious] 10 percent through the end of the year.”

BEA estimates for GDP in the third quarter were for a 3.5 percent growth rate in its first estimate, was revised downward to 2.8 percent in its second estimate, and the final “real” GDP was reported to be just 2.2 percent.

Addison Wiggin, in his 5 Minute Forecast from Agora Financial, found another “cause for caution.” He said: “The real test comes next quarter. Will all [of] this new inventory be headed out of the warehouse, or will it be piling up because consumers are still too worried about their jobs and the debt burdens?”

Wiggin reminded his readers that if customers do increase their purchases in the future, much of those purchases will have to be shipped by rail. Wiggin asked, “What do we see in the latest weekly rail traffic data? Yikes.” Here is the Rail Traffic [graph](#).

Wiggin [concluded](#) his comments: “Rail traffic plummeted in the fourth quarter and now sits very near the low it set around a year ago. The trend going forward is anything but certain.”

Peter Schiff, an Austrian school economist and author, [commented](#) about the economic outlook expressed by President Obama in his State of the Union speech:

The President spoke optimistically about the future, but in reality there is little evidence to support such an upbeat outlook. He began his speech by assuring us that the worst of the storm had passed. General Custer may have said something similar when the first wave of Indian attacks ebbed at Little Big Horn.

Here’s the “heads up” on the economy: It could be a head *fake*.



Subscribe to the New American

Get exclusive digital access to the most informative, non-partisan truthful news source for patriotic Americans!

Discover a refreshing blend of time-honored values, principles and insightful perspectives within the pages of "The New American" magazine. Delve into a world where tradition is the foundation, and exploration knows no bounds.

From politics and finance to foreign affairs, environment, culture, and technology, we bring you an unparalleled array of topics that matter most.



What's Included?

- 24 Issues Per Year
- Optional Print Edition
- Digital Edition Access
- Exclusive Subscriber Content
- Audio provided for all articles
- Unlimited access to past issues
- Coming Soon! Ad FREE
- 60-Day money back guarantee!
- Cancel anytime.

Subscribe