Not sure where the economy is headed and how that will affect business and your training budget?

Join the club. *T+D* talked to those in the know.

If you're a typical American, you're somewhere between confused and befuddled about the state of the economy. Politicians and policy wonks are saying that it's slowly getting better. But then you look around and you see people losing their jobs or struggling to find consulting work or having more trouble than ever trying to pay the monthly bills.

What to make of it all?

What's Next?

By Chris Taylor

We thought we'd talk to a few top economists to find out what's really going on. And though it's said that when you ask 10 different economists the same question, you're going to get 10 different answers, it turns out that the ones we talked to are all pretty much on the same page.

The gist: There's still some ugliness, but the fundamentals are improving. If that trend continues, the positive data should be trickling down soon into real people's real lives in the form of more hiring, more business spending, and more wages. (Knock on wood.)

"It's not perfect yet, and there are still some bumps in the road," says David Wyss, chief economist for Standard & Poor's. "But everyone's getting more confident that this pickup really is happening."

Many of us have been focusing on terrorism, political unrest, and even war for the past couple of years, so maybe it's time to check under the hood and see how the economic engine is performing. After all, when it comes to affecting people's workaday lives, nothing has perhaps greater influence than the economy. As Bill Clinton advisor James Carville famously quipped, "It's the economy, stupid."

The number of indicators is a bit overwhelming, so we broke the mass down into the job market, housing, and the business environment.

Job market

Let's get the nastiness out of the way first. Unemployment is a lagging indicator; that is, it takes a while into an economic turnaround before companies become confident enough to start hiring again. And that's exactly what's happening: The most recent figures have U.S. unemployment at 6.1 percent, one of the highest rates in recent years. "Even though the economy is growing, it's going to take a while for the unemployment rate to come down," says Gus Faucher, a senior economist at Economy.com. "And it will probably move up through the first part of 2004."

Faucher sets a target of 6.5 percent as a ceiling before unemployment starts to shade back down. Not pretty, especially because the last time unemployment was up in the 6 percent range was way back in the summer of 1994.

"But the September job numbers, happily, finally provided a welcome boost. "Nonfarm payroll employment added 57,000 jobs," says Sharon Cohany, an economist at the federal Bureau of Labor Statistics. "It's not hugely significant yet, but it was a break from the previous months of job losses."

Unfortunately, that's still barely a dent in the 2.6 million jobs lost since January 2001. And there are some conflicting messages out there, like the almost 172,000 layoffs recorded in October by outplacement firm Challenger, Gray & Christmas, though these are slightly offset by new hires.

If any recovery is going to be long-lasting, experts say, it's going to have to include steady jobs for Main Street. No work means no consumer spending, and then all of the other economic indicators are in trouble. "For things to fully stabilize, the employment figures need to start increasing. Otherwise, there won't be a permanent turnaround," says Faucher.

Housing market

The housing market is the one area that has kept the economy going even during the bleakest periods of the past few years. The stock market was tanking and the Iraq war was wreaking havoc on business confidence, but the housing market kept blooming like everything was sunshine.

People kept buying new homes, or refinancing their current ones, in record numbers. The result: a 9.1 percent increase in value for this September over last year, long after pundits had been saying that the housing market was in for a major crash. "[In the United States], we're not in a price bubble," says David Lereah, chief economist for the National Association of Realtors. "The economy is recovering, and the housing market is still in pretty good shape."

That said, there are some storm clouds on the horizon to keep an eye on, Lereah advises. Rising interest rates always spell trouble for the housing sector, and those rates have spiked recently—up 1.5 percent since June. Throw in an end to the refinancing boom, accounting troubles at lenders such as Freddie Mac, and high jobless figures and foreclosure rates, and the picture isn't as rosy as it has been.

"Stir all of those ingredients for a bad housing market into a pot, and does it mean home prices are going to come tumbling down?" asks Lereah. "My answer is that it's not a perfect storm for the housing market, but it might be a drizzle."

If there's any silver lining, it's that the housing market really takes a hit only when interest rates hit double digits. In fact, rates are still fairly low, historically. Economy.com's Faucher notes that the 30-year fixed mortgage rate will hover around 6.2 percent for the

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rest of the year, increasing slightly in 2004. "We've already seen a big jump in the past couple of months, so we shouldn't see the same type of thing again soon," he says. "[Rates] should hold roughly stable."

Business environment

Here's where the future is looking its Sunday best. U.S. GDP numbers are up by a stunning 7.2 annual percent in the third quarter of 2003. Corporate earnings are up by about 12 percent compared to a year ago. That, in turn, has fueled the stock market's run, bringing the Dow approaching 10,000 and the Nasdaq inching toward 2000 territory again. Inflation's well under control, so much so that some economists are musing about the dangers of deflation. And productivity numbers are pretty spectacular: 6.8 percent for the second quarter.

"Almost [all indicators] have been coming in a bit better than expected," says S&P's Wyss. "Retail sales are up, consumers are out spending their tax cuts, and we're starting to see early signs of a manufacturing turnaround."

The caveat: That hasn't yet translated into huge business spending, whether on new equipment or outside consulting services. Companies seem to be content to be getting fabulous productivity out of their slim workforces, without wanting to fork out big dollars on new capabilities. "Business spending is the wildcard," says NAR's Lereah. "We've been waiting two years now for businesses to gain confidence and start spending money again, but that hasn't happened."

It's a viewpoint shared by trainers on the ground, to whom it's no surprise that big companies are trying to get more and more from less and less. "It's frustrating," admits Ray Halagera, president of Scranton, Pennsylvania-based training firm Career Systems International. "[Training professionals] are looking for ways to reduce the amount of time [workers] are away from their jobs and the expenditure…for any training. It's driving us in the industry nuts."

Thankfully for Halagera and others, early signs indicate that's about to change. The latest numbers show corporate investement rising a healthy 11.1% in the third quarter. Faucher points out that the last few quarters have finally seen some small up-ticks in certain business investments, such as software. And defense firms are on a major buying splurge because of the focus on Iraq and terror, he adds.

If that tenuous trend holds, it could mean that after U.S. consumers have kept the economy going for so long—which they're still doing, with personal consumption rising recently—businesses will finally be carrying part of the load. That's what trainers such as Bill Stieber hope. Stieber, owner of Orchestrated Dynamics in Newtown, Pennsylvania, notices that while larger firms are still doing belt-tightening, "with mid-size firms we're starting to see some turnaround," he says. "They're finally planning for more training, which they haven't been doing for the past couple of years."

If you're not used to economic jargon and such data as consumer confidence figures, get ready. As the 2004 election draws nearer, you'll be hearing a lot more from Bush's team and Democratic presidential hopefuls as they prepare to do battle.

The economists we spoke to are planting themselves on cautiously optimistic ground. They're encouraged by some positive economic signs, finally, after years of terrible news. They're not overly concerned about the growing deficit—projected at US$455 billion—provided it is hauled back under control when the going gets good. And, maybe most of all, they're praying that these baby steps towards economic recovery are going to turn into giant strides.

"[The economy's] still sluggish, but we're seeing signs of strength," says Lereah. "The stock market has made a comeback, productivity has been spectacular, corporate profits are up, and business spending is turning the corner. "Let's just say we're keeping our fingers crossed—and our toes, too." TD

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