

# E NEWS

THE ECONOMIC NEWSLETTER OF EAST STROUDSBURG UNIVERSITY

SPRING 2009

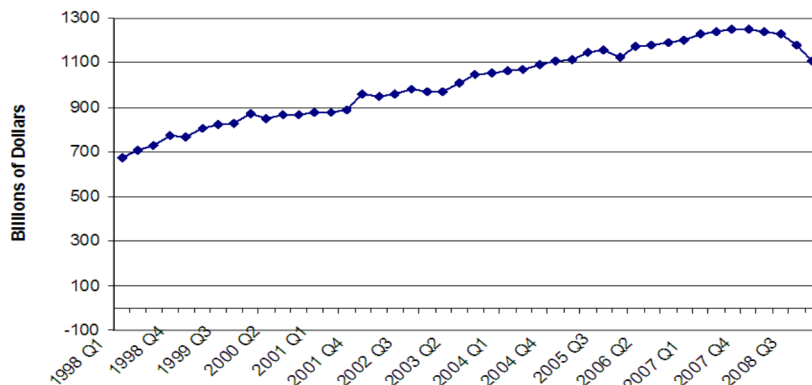
## The National Economy

By: Rich Petersen

The broadest measure of national economic performance is GDP. Over the past ten years real GDP has constantly increased until the third quarter of 2007, then remained relatively constant until it decreased approximately by 170 billion dollars from the second quarter of 2008 till the present. The largest component of GDP, personal consumption expenditure, has incurred a dramatic decline as the second quarter of 2008 was 154.4 billion dollars more than that of the fourth quarter of 2008. Consumer spending on services has been constant and nondurable goods experienced a slight decline, but the reduction in consumption is primarily associated with the 145 billion dollar decrease in purchases of durable goods. Furthermore gross private domestic investment which has been decreasing since the second quarter of 2006.

In the third quarter of 2007 investment increased slightly but, since then gross it dropped by 190 billion dollars. Furthermore, the net decrease in investment was approximately 300 billion dollar within the last two years. Though all components of gross private domestic investment have reduced significantly, investment in residential structures have decreased by nearly 50% in 3 years from 602 billion dollars, in the first quarter of 2006, to 330 billion in the fourth quarter of 2008. Despite a constant 3 year down turn in residual structures, the collapse of the housing market is evident as roughly 200 billion dollars of 272 billion decline is from the first quarter of 2007 till the present. From the first quarter of 2006 till the last quarter of 2008, fixed investment in general decreased by 14%, most of which occurred in 2007 and 2008. The

Consumption of Durable Goods



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### Attention Readers:

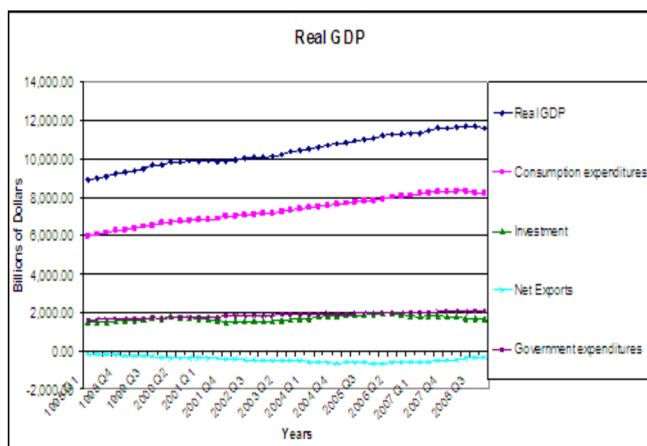
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Thank you,  
*E-News Staff*

significant losses in the housing and securities markets led to decreases in disposable income and further decreases in business investment.

The only positive economic news is the increase in export of US goods and services. The lower value of the dollar has made American goods and services appear less expensive. Imports of foreign goods still exceed exports, but the trade deficit is -356.4, which was the lowest it has been since the first quarter of the year 2000.

The last component of real GDP, government expenditures, was 2097.7 in the fourth quarter of 2008. State and local government, spends more than the federal government and their expenditures have been rising steadily. At the federal level, national defense has had the largest growth rate increasing 100 billion dollars within a year and a half while nondefense expenditures increased in spending. Government spending as a whole is the second largest component of GDP averaging, 17% to 18% of GDP.



## Unemployment and Earnings

By: Philip Vidal

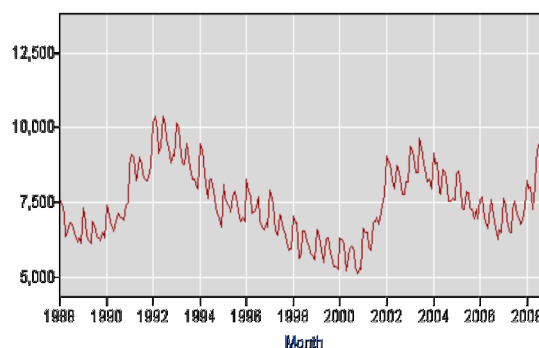
The US labor department reported this past year that consumer prices rose 1.1 percent in June, the highest one month rise in 26 years, and the 12 month inflation rate at 5.0% the highest since May 1991. Testifying before Congress, Federal Reserve Chairman Ben Bernanke suggested that inflation would go higher. This information was disseminated to us last year, now with the President Obama and the House of Democrats proposing an \$825 billion dollar economic stimulus package, coupled with the remaining half of the \$700 billion bailout, this totals 1.175 trillion in government aid in 2009 and \$412 billion in 2010. One can only wonder where does inflation fit into the mix and how will it affect consumer spending.

The table below depicts how the national unemployment rate has risen since 2005. Both the number of unemployed persons (11.6 million) and the unemployment rate (7.6 percent) rose in January of this year. Over the past 12 months, the number of unemployed persons has increased by 4.1 million and the unemployment rate has risen by 2.7 percentage points. The unemployment rate continued to rise in January for adult men (7.6 percent), adult women (6.2 percent), whites (6.9 percent), african-americans (12.6 percent), and Hispanics (9.7 percent). The jobless rate for teenagers was unchanged at 20.8 percent. The unemployment rate for Asians was 6.2 percent in January, which was not seasonally adjusted. From December of 2008 to January 2009 600,000 people had lost their jobs. Over the past 12 months, the number of long-term unemployed was up by 1.3 million.

**Labor force status:** Unemployed

**Type of data:** Number in thousands

**Age:** 16 years and over



## 2008 Employment According to Industry

By: Amelia Kahler

According to the Bureau of Labor Statistics, from December 2007 to December 2008, the total number of mass layoff events was 23,485. The total number of mass layoff events and initial claims were at their highest levels as of December 2008, since 2001 and 2002.

Among twenty-one major industry sectors, six registered series highs for both mass layoff events and initial claims for all of 2008—construction; transportation and warehousing; finance and insurance; real estate and rental and leasing; management of companies and enterprises; and accommodation and food services. In December 2008 the manufacturing sector accounted for 41% of all mass layoffs and the construction industry accounted for 16% of mass layoff events.

The ten detailed industries, contained within the industry sectors, with the highest number of mass layoff initial claims were temporary help services; school and employee bus transportation; food service contractors; professional employer organizations; automobile manufacturing; motion picture and video production; highway, street, and bridge construction; light truck and

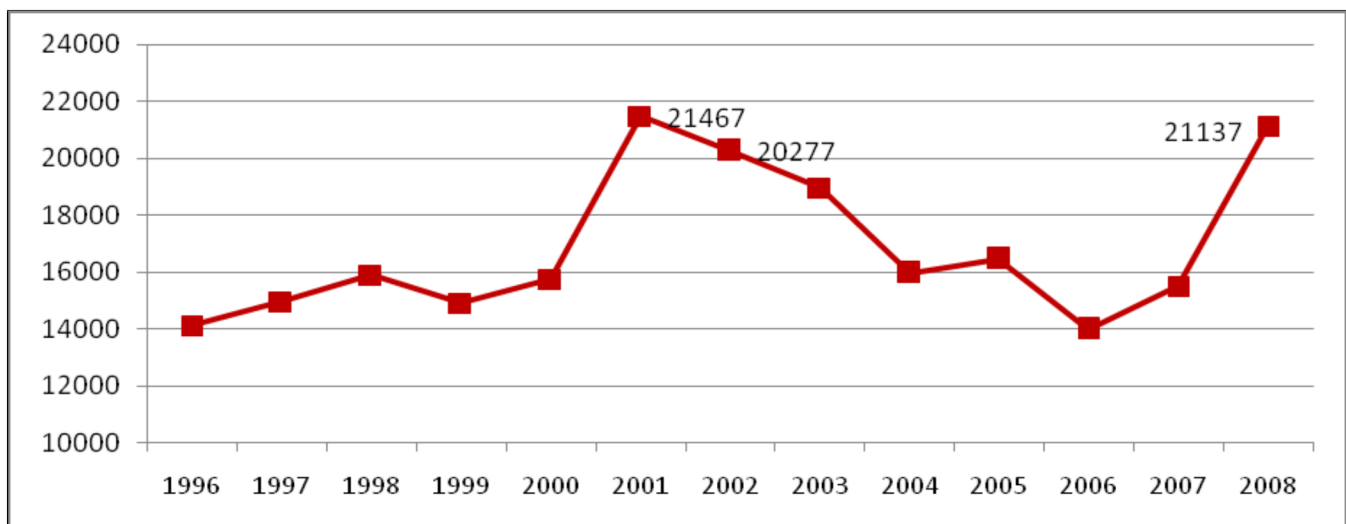
utility vehicle manufacturing; heavy duty truck manufacturing; and elementary and secondary schools. The ten listed industries alone accounted for 26 percent of the total mass layoff initial claims for 2008.

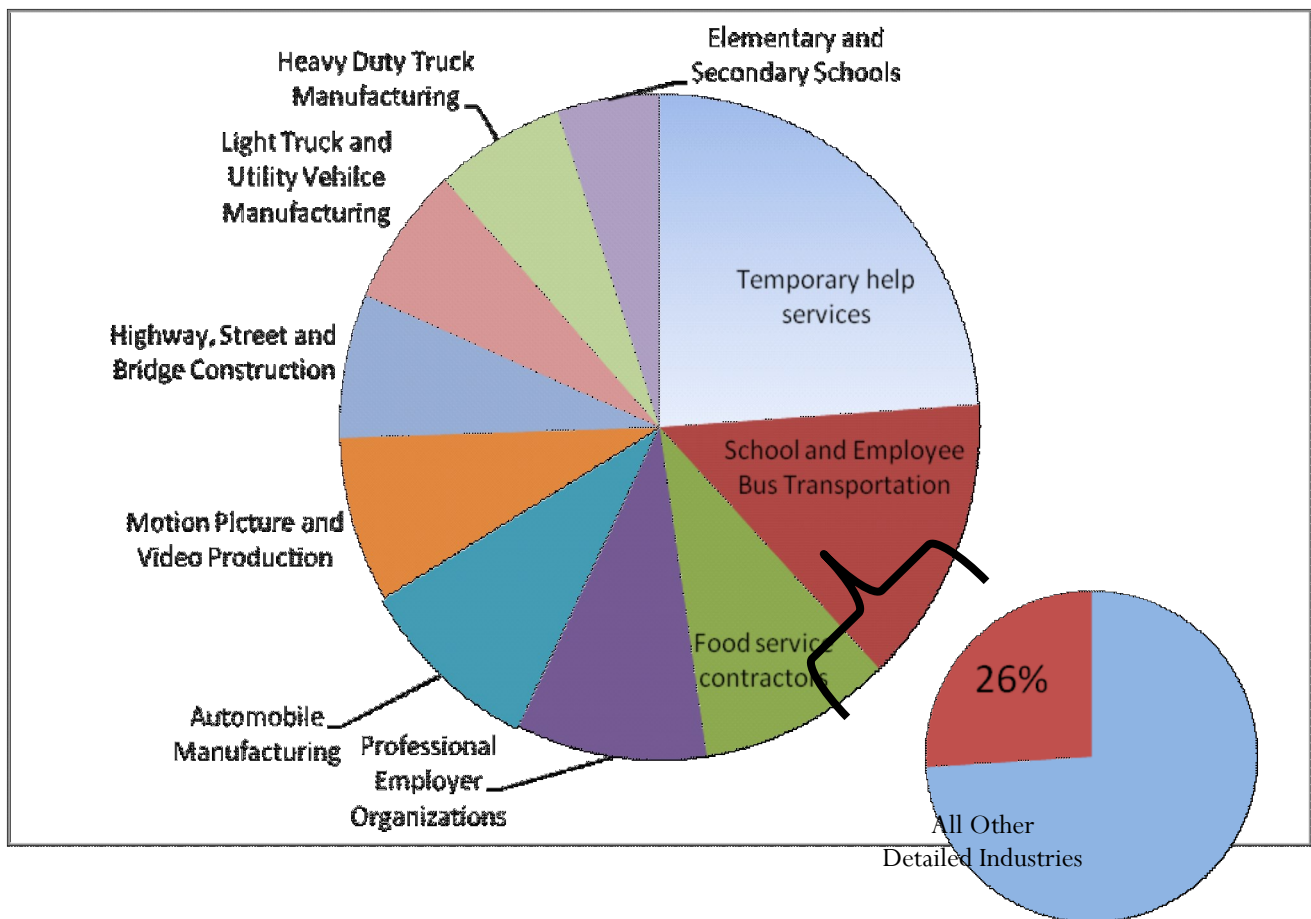
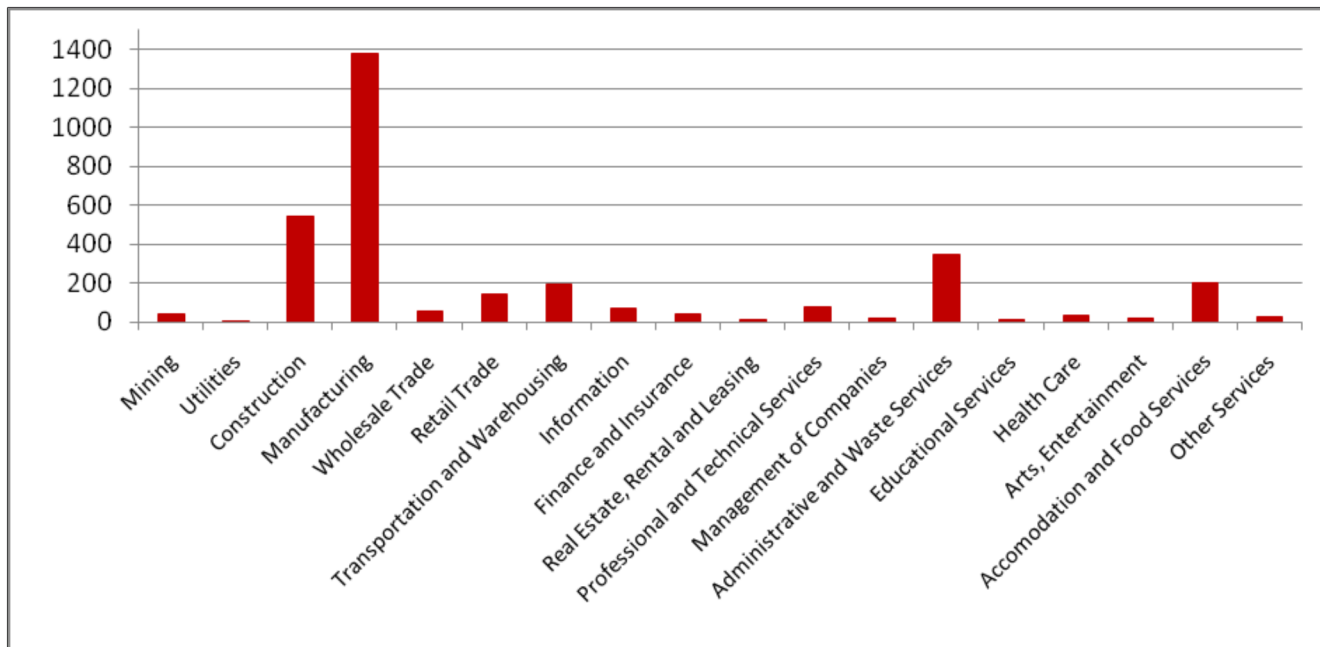
In the chart, the manufacturing detailed industries are noted by a dotted outline, in which all accounted for 41 percent of the initial claims filed in 2008.

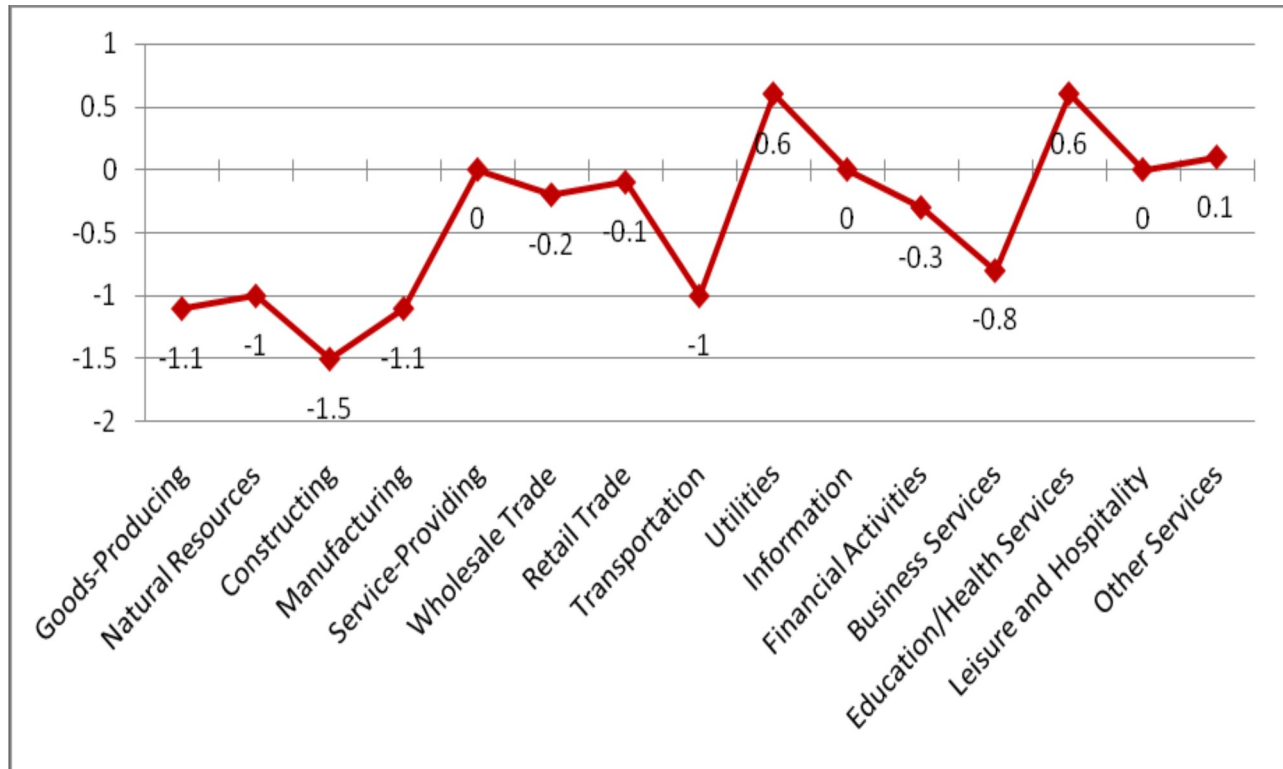
As of March 2008, the top three industries with the highest gross job loss, as a percent of employment were construction; goods producing; and manufacturing; all with at least 1.1 percent decrease in employment. The only industries that had gross job gains, as a percent of employment were education and health services; utilities; and other services; all with at least 0.1 percent increase in employment.

As compared to March 2007, the industries with the largest gross change in employment were professional and business services, with 150% increase in job losses; construction, with 140% increase in job losses; and goods producing, with 91% increase in job losses. Of all of the industries listed, the only industry with an increase in job gains was utilities.

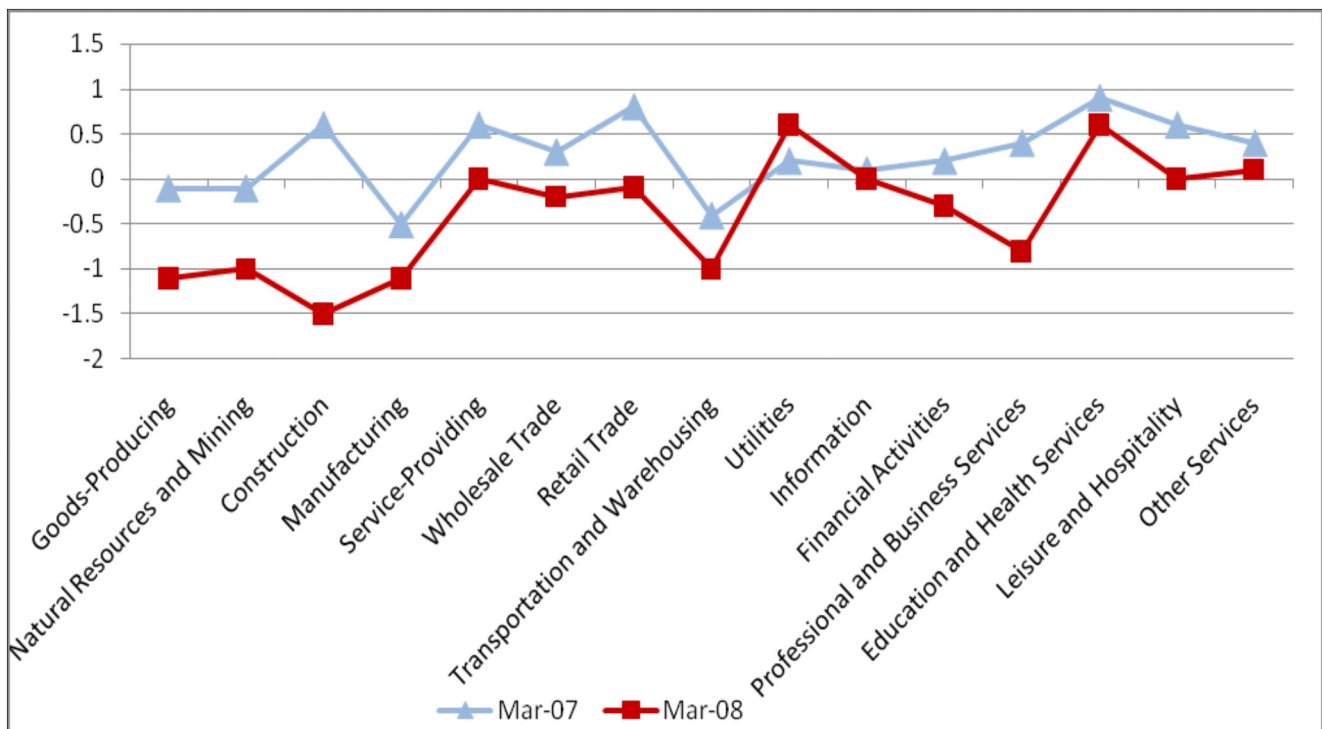
**Chart 1: Number of Annual Mass Layoff Events, 1996-2008**







**Chart 5: Private Sector Gross Job Gains and Losses by Industry (as a % of employment), March 2007 and March 2008**





## The Global Economy

By: Jonathan Bamat

For the first time in over 50 years, the global economy is expected to contract by an estimated 0.4%, after following an average annual growth of 2.0% since 1960. The Institute of International Finance has recently stated that “the global economy has been hit by the unholy trinity of economic disasters”. Banks everywhere suffering big losses, inadequate capital to cover these huge losses, and the inability to raise the necessary funds have “snow-balled” into what may result in one of the worst global economic catastrophes in history. As one might presume, largely developed countries are taking the brunt of this much felt worldwide problem. However, this is not to say that emerging countries are by any means sheltered from this storm of fiscal irresponsibility that has cultivated over the past 18 months resulting in the necessary stimulus packages being implemented worldwide.

In the U.S. the Federal Reserve has taken nearly every step possible in an attempt to avoid a full blown depression, which is still not unattainable. Another recent cut in the fed funds interest rates has resulted in the lowest recorded level in history, a 0- .25% target range. This was clearly a last-ditch effort to unseize the frozen credit markets and hopefully restore confidence among consumers and lenders. With the U.S. auto industry in jeopardy, more and more actions are being taken to help prevent the bankruptcy of some of our nations’ largest companies. Despite all these drastic steps being taken by central banks and governments everywhere, the global economy is far from being stable and according to the IMF (International Monetary Fund), “industrialized nations need to take more steps to stimulate the economy otherwise a global recession is inevitable”. The IMF represent more than 375 of the world’s largest banks and is strongly stressing the need for an increase in fiscal spending after the recent drop in interest rates failed to boost European and Asian stock markets (despite the temporary boom on Wall-Street).

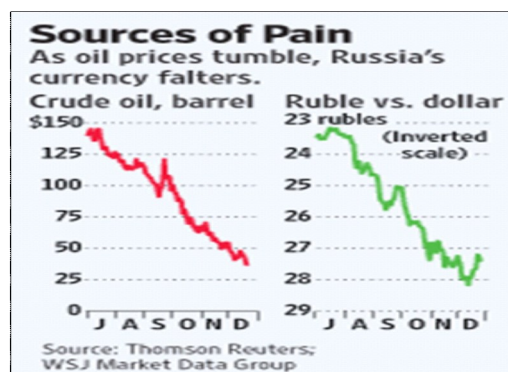
Thus far, the U.S. has endured the financial meltdown relatively well in comparison to the rest of the world’s “superpowers”. Europe is facing essentially the same financial dilemmas as the U.S. and, consequently, is following the necessary bailout blueprints that every developed nation finds themselves implementing. Europe’s auto-industry has been hit equally as hard, according to JD Power, with a 25.0% drop in sales for the fourth quarter. Germany, one of the world’s major exporters and the euro-zone’s largest economy, is considering an additional stimulus package for early January to supplement the previous “insufficient”

stimulus package. With stock markets plummeting and unemployment rates skyrocketing, there is little light at the end of the tunnel. In addition, the sudden drop in food and energy prices has put European economies, as well as the U.S., at high risk for de-inflation.

Despite all the economic turmoil, many are optimistic about Europe’s economic future. Some economists are speculating, based on Germany’s IFO index, that Europe may have hit the bottom of this financial rollercoaster. Some evidence is being seen to support such a notion. Europe’s housing bubble was much smaller and therefore had only a small burst compared to the explosive bubble in the United States. The drop in oil prices and other commodities have also given consumers more purchasing power. A weak euro may help boost exports assuming the dollar does not decline as well. Interest rate cuts by the European Central Bank will hopefully revive lending and restore basic credit. Regardless of observing some positive strides, a recession is expected to continue into the first quarter of 2009.

For many parts of the world, the recent decline in oil prices has been nothing short of a nightmare. With a barrel of oil selling for less than 1/3 of last year’s price; Gulf-oil exporting countries, Russia, and even Latin America are all feeling the pain. This week, oil hit a 4 ½ year low by selling for \$36 a barrel as rumors about declining global demand circulated. Russia, whose main source of revenue is oil, has been hit extremely hard by the sudden drop in prices. This is creating an enormous problem due to Russia’s 2009 budget being primarily based on expected oil profits.

To give an idea of how closely correlated Russia’s economy is with oil production, the following graph represents a nearly direct relationship between the price of oil and the currency exchange rate for the *ruble*. As one would expect, all of this economic turmoil has taken its toll on Russian citizens. Recently, there have been a number of protests resulting from the governments’ action to raise tariffs as well as increase prices for public transportation. For much of the



crisis, the Russian government has done everything possible to keep negative information from reaching the media and more importantly the people. However, this week the Kremlin was forced to speak publicly and answer questions concerning Russia's outlook. At this point, it is impossible for the government to continue downplaying the current crisis and has decided to be more open with the public.

The Asian superpowers have recently joined forces in an attempt to dodge the bullet that other countries have been hit with directly. For the first time in seven years, Japan has posted zero monetary growth.

After 30 years of the largest growth of any country, China is likely to only grow 6.5% compared to the 9.3% in 2008. Although not taking nearly the economic hit as some other countries, China and other Asian countries are implementing similar economic stimulus packages to avoid sinking into a recession. Adding to the instability, the people of China are insisting on political reform aimed at a more effective system to equally distribute the nations' wealth. Many respectable Chinese officials are filing petitions in hope of eradicating the "one-party" rule that has governed China for such a long period of time.

Countries in Africa and South America that are less integrated in the global financial market have still felt the negative impact of this crisis. Declining prices in commodity exports and diminishing investment capital have combined to stagnate emerging African economies. In addition, politics have taken center stage during a time when reform is likely to take place. Huge political risk and upcoming elections have put a tremendous amount of pressure on these governments to perform. In South America, countries are taking a proactive position to help make trade with other countries more appealing. Many countries are making strides to improve their port infrastructures as well as roads and other methods for the transportation of domestic goods.

The ripple effect that began on Wall-Street has been felt across the globe, affecting everyone everywhere. Because trade is the backbone of any countries economy, no one is immune to this virus that has rapidly spread throughout the world. There is no question that the world's biggest economies are taking the largest blow, but even some of the smallest detached countries have in some way been impacted. Many economists have forecasted when they believe this global downturn will be resolved, however, no one can be certain when the last domino will fall and stability will be restored.

## **Germany under Recession**

By: Bassam Jouny

The growth in Germany's economy is now expected to drop by as much as 2.5 percent this year. The average annual growth for the German economy over the last 10 years was about 1.07%. The German economy started contracting in the second quarter of 2008, and entered officially into recession in the third quarter. The annual GDP growth was 1.4% for 2008. In the beginning of 2009, Germany's inflation rate fell to the lowest level 1.1% since October 2, 2006. The inflation in Europe's largest economy is falling, as a result of the recession and the European central Bank has lower interest rates.

Unemployment rose to 7.6% due to the industrial slowdown. The number of those seeking employment in Germany rose by 18,000 in last December. The Federal Statistical Office reported that the number of employed persons in Germany was 40.83 million in November 2008, up by 500,000 persons in the same month a year earlier. This increase was around 1.2% the lowest rate of growth since December 2006. In January 2008, the relative increase was 1.7%; this indicates that the economic downturn is beginning to spread in the labor market. German exports fell by 0.6 percent. The total exports in November dropped to 12 percent year, while imports fell 5.6 percent on the month and 0.9 percent from a year earlier. The trade surplus decreased to 9.7 billion Euros from 16.4 billion Euros in October. The current account surplus was down to 8.6 billion Euros.

The German Government established an economics plan to boost the economy of Germany. That will place responsibility the banks' shareholders rather than the government and the taxpayers. The government will provide the necessary funds for the banks that lack equity. This would make government the major shareholder in the German banking sector. The government will have more than double the €80 billion (\$104 billion) of capital injection included in its first bank rescue package. The experts at the Finance Ministry expect that the troubled banks will require up to €200 billion additional capital. The German government is more likely to face criticism from economists for considering bailouts for individual companies, like ball-bearing maker Schaeffler-Conti or Airbus. The government's bailout plan involves many small troubled banks, which has received widespread support.

Under the new plan the government will not simply take on the banks' risks. Instead, that will become the responsibility of the shareholders. Finance Minister Peer Steinbrück hopes that this approach will generate more support from the public. The federal government will not acquire the worthless assets of a bank, but instead would invest in its promising aspects. The banking system is still deeply contracted due to the collapse of the US real estate market in 2007, when millions of mortgage loans lost their value. Since then, these assets have crippled banks' ability to do business virtually worldwide. Because the banks do not know how much of their losses they can write off on their balance sheet anymore, they prefer not to assume any new risks. As the banks continue to issue fewer loans, companies lack the necessary funds for investment, causing the economy to slow down even more.

The 18 largest banks are carrying €305 billion (\$397 billion) in troubled assets on their balance sheets, less than a quarter of which have already been written off. The International Monetary Fund (IMF) estimates that worldwide losses could total \$2.2 trillion (€1.7 trillion). The Germans see the American approach as inequitable. Why should the government buy up billions in worthless securities and take all risk off the hands of those responsible for the crisis in the first place.

Sources:

CNN, BBS, SPIEGEL ONLINE 2009

## **Innovation is the Key to Success**

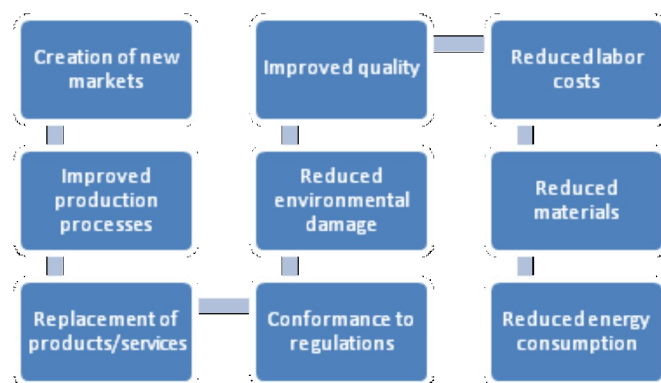
By: Yuliya Lynch

Today in our fast paced world of business, companies rely on innovation to survive and grow. New ideas, described both as radical and incremental, become a necessity. Radical changes often reshape the industries despite their original mockery. The arts, business, government policies and economics are examples of how a new perspective can reshape the entire industry. In economics, the change must directly affect the producer or customers' values. Innovation, which is usually a positive change, leads to an increase of profits and temporary competitive advantage.

Schumpeter brought a variety of innovations to the economics theory through his first book "Capitalism, Socialism and Democracy" which was first released in 1942 during World War II. Schumpeter opens the book with a treatment to Karl Marx in which he critiques Marx's labor

theory and how it does not account for values in exchange except on special and unrealistic assumptions. The transformation that Marx mentioned from capitalism to socialism could not occur the way he envisaged. There would be a growing crisis of legitimacy, due to the progress of rationalization, instead of economic crisis. This great scientist emphasized the immense strength of capitalism. About Socialism he said, that it could work in a democratic form. In his other publications "The Explanation of the Business Cycle" and "The Theory of Economic Development: An inquiry into profits, capital, credit, interest and the business cycle" he may have made his most important contributions to economic analysis - the theory of [business cycles](#) and development. He inspired many young economists to develop his ideas and their own, to make new openings for the greatness of progress. Joseph Schumpeter was one of the most renowned innovators in the economic theory. Austrian economist, Joseph Schumpeter (1883- 1950), made great contributions to the science community. It is common for companies and organizations to spend a significant amount of funds on invention. The amount of investment can vary from as low as a half percent of marginal profit for organizations with a low rate of change to anything, and over twenty percent of marginal profit for organizations with a high rate. This depends on the company size, management policy, and abilities to invest in inventiveness. In general, the average of investment across all types of organizations is four percent. This amount will be spread across various functions including product design, marketing, information systems, quality assurance and manufacturing systems. Of course, the investment may vary by market positioning and by industry. Effective investment in ingenuity may lead companies to significant profits and as well as financial growth.

For productive innovation, it is important to understand why companies and organizations decide to look for new notions. The chart below shows the main factors that drive companies to create new ideas:





While goals may vary from company to company, one myth remains the same. The myth is that innovation deals only with new product development, has been dispelled. Most of the goals could apply to any organization. For example, it can be a marketing firm, manufacturing facility, hospital or government.

Creativity is one of the most important parts in ways to succeed for any company. And, without this process no company could survive with current high competition. As invention becomes more of a preoccupation, its focus is changing. Gone are the days when innovative ideas were acquired from experts outside the company and then installed like a new piece of equipment. The competitive value of a fast and effective new concept engine has never been greater.

An example is the American company Apple. In January 2007, Apple stole the limelight by introducing the new iPhone. With powerful and well established major competitors, like Motorola and Nokia, Apple introduced a new touch design which captured a significant market share. The launch in July 2007 was itself an example of Apple's skilled marketing prowess, and the results have again boosted Apple's image as an innovative leader. The global race to develop better products and services will demand sustained original ideas, and will determine future leaders.

Creativity is developing new ideas. Innovation is implementing creative ideas into valuable or profitable solutions. "It's important for Western companies to compete on innovation since they can't successfully compete with the East on price," said Panos Kouvelis, professor of operations and manufacturing management at the Olin School of Business at Washington University, in St. Louis. "The best way to infuse invention into a company is not by hiring creative people. That's not effective. Organizations need to manage new creations in a systematic way to get employees to think outside the box." Effective innovation is the timely and efficient implementation of new ideas that result in significantly increased revenues and profits.

To help ensure success, companies need to equip staff with the right tools to respond quickly to changes, access the information they need to make critical decisions, and focus on strengthening and expanding profitable business relationships. Fresh notions stems from a culture that encourages and breeds consistent business value improvements. In our new, fast-moving global environment new ideas is the key to generating growth and success for the companies and for the country's economy.

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## Monroe County Is Among The Hardest Hit

By: Andrew Towers

East Stroudsburg University Feb. 3 - The Pennsylvania Department of Labor and Industry has released its newest data for the month of December 2008. As indicated in its report, unemployment rose to 6.7 percent for Pennsylvania, a .9 percent increase from October 2008. Since the official start of the recession, December 2007, 76,200 nonfarm workers have lost their jobs.

Pennsylvania's seasonally adjusted civilian labor force -- the number of people working or looking for work -- rose to 6,442,000, in December, up 23,000 from November. Employment fell by 15,000 from November to December 2008 as unemployment rose by 39,000.

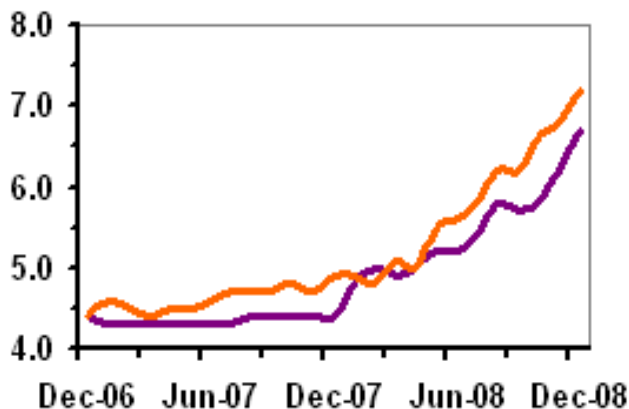
Monroe County is among the hardest hit counties in Pennsylvania. Civilian labor fell to 84,700, a difference of 2,200 from August 2008. Unemployment in the county increased from 6.8 in October to 7.7 percent in December.

Comparatively, Pike County's unemployment rate rose to 7.6 from 6.0, a 1.6 percent increase from November to December. Its civilian labor force rose by 400 to 27,400, unemployment increased 500 to 2,100.

Construction, Retail Trade, Leisure and Hospitality are the Monroe and Pike County sectors hit hardest by the recession.

### Unemployment Rates

**Black:** Pennsylvania      **Grey:** United States



## Governor Ed Rendell's Response:

"The national recession continues to take a heavy toll on working families across the United States and here in Pennsylvania," Governor Rendell said. "During the first week of December, the nation saw the highest number of initial claims for unemployment benefits filed in 26 years; in Pennsylvania, initial claims are up 12 percent from one year ago. Citizens facing difficult times need to know we are doing everything possible to help them while we also work to stimulate economic growth that will create new jobs."

"...Citizens facing difficult times need to know we are doing everything possible to help them while we also work to stimulate economic growth that will create new jobs."

-Governor Ed Rendell

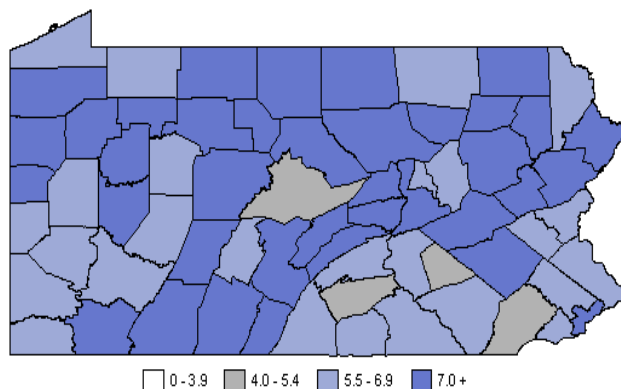
According to Rendell, the Pennsylvania Department of Labor and Industry will expand unemployment compensation services to accelerate and strengthen assistance to Pennsylvanians who have lost their jobs by extending the federally funded compensation for an extra seven weeks.

According to a press release Pennsylvanians have received a total of \$370 million in emergency unemployment benefits, averaging \$313 per month a family.

### **Sources:**

U.S. Bureau Department of Labor  
 Pennsylvania Department of Labor  
 Pennsylvania Center for Workforce Information And Analysis

December County Unemployment Rates, Seasonally Adjusted



## The Local Housing Market

By: Isaac Teeple

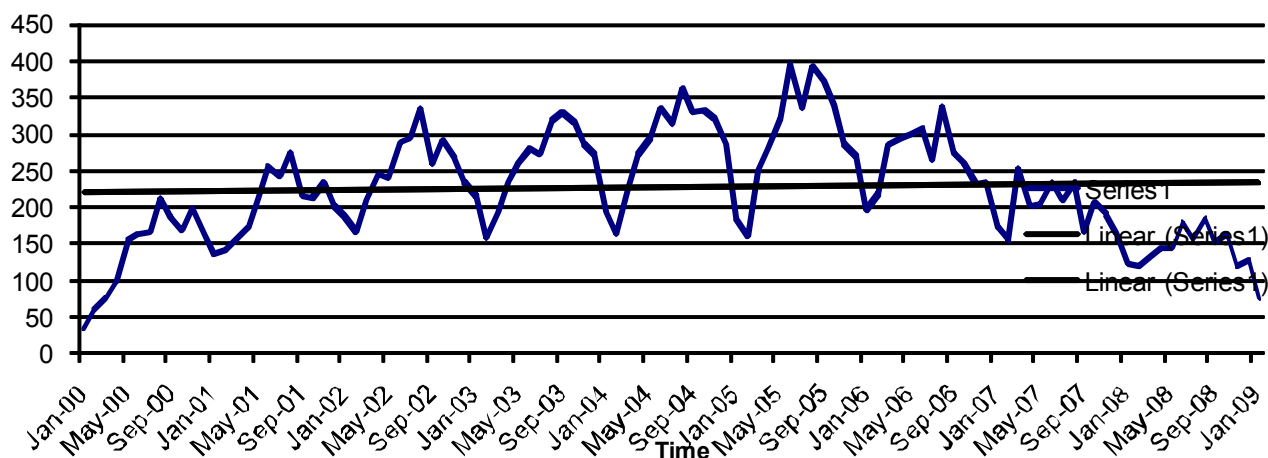
This article will address Monroe County's housing market along with unemployment claims and building permits. Annual and monthly figures of the housing market are reported from January 2000 – January 2009, including units sold, volume, average sales price, and average DOM (days on market).

Included in the graphs are trend lines to show the overall movement of the time series. Figure 1 shows the obvious seasonality in units sold and the effects of the business cycle. There is a peak between May and October, a trough in January and February, an increase in March and April, and a decrease in November and December. The volume (Figure 2) also shows seasonality but there is an upward trend. Average sales price does not have an apparent

seasonal change and has a somewhat steady increase. In the last eight months or so, there has been a decrease but prices are still above the average sales price of just four years ago, which means the national crisis does not heavily damper the average sales price. The average days on the market (DOM) (Figure 4) seems to be affected by recessions and expansion periods. During the 2001 recession, DOM increased from around 80 to about 130. Between July 2003 and October 2008, DOM was below the trend line of approximately 95. Since then it has been above the overall average but seems to be coming down in the past month.

Monthly and annual data for unemployment claims and annual data for building permits are reported by the Pennsylvania Department of Labor and Industry. Figure 6 illustrates the seasonality of unemployment claims. Figure 7 shows continuing for unemployment claims issued.

**All Sold Listings (Fig 1)**



**Volume Of All Sold Listings (Fig 2)**

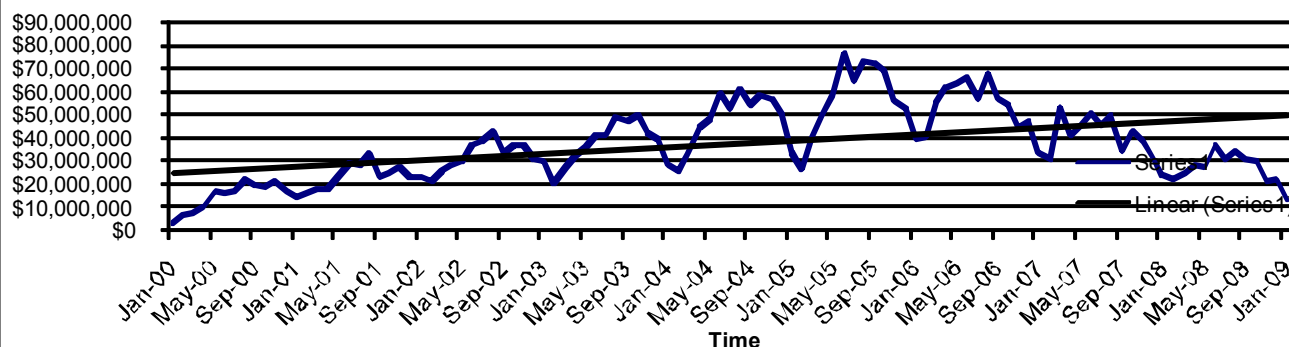
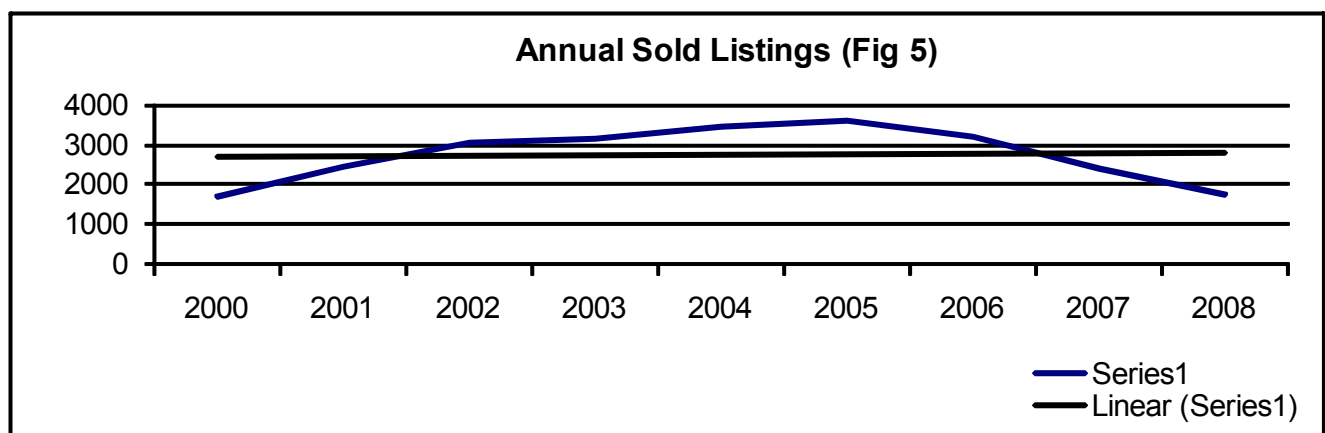
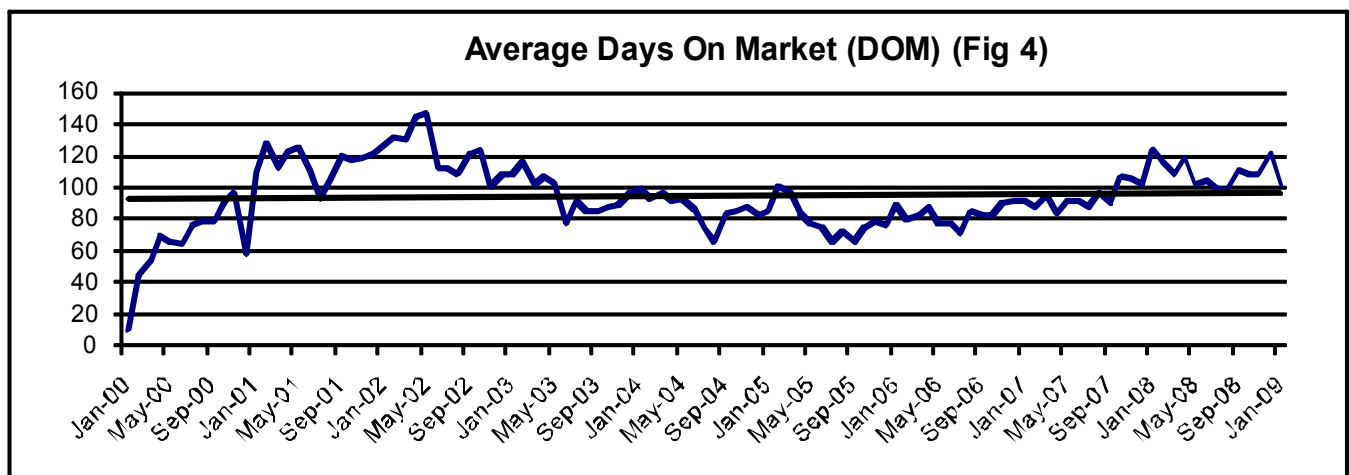
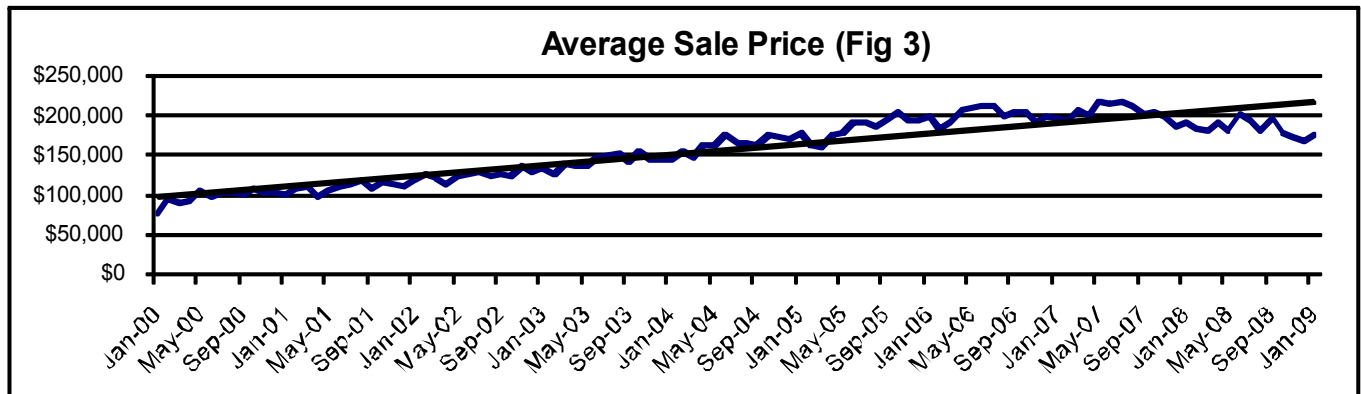
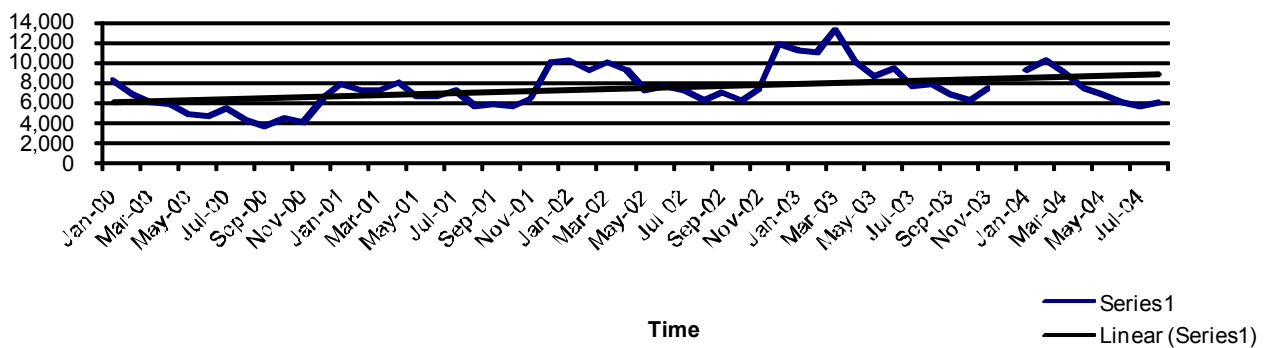


Figure 8 shows the annual data for building permits. This graph clearly reflects the recent crisis in the building industry. From 2000-2004, building permits increased as construction grew. Since 2006, it is very clear that the building industry has declined. The current recession has obviously contributed to the decline.

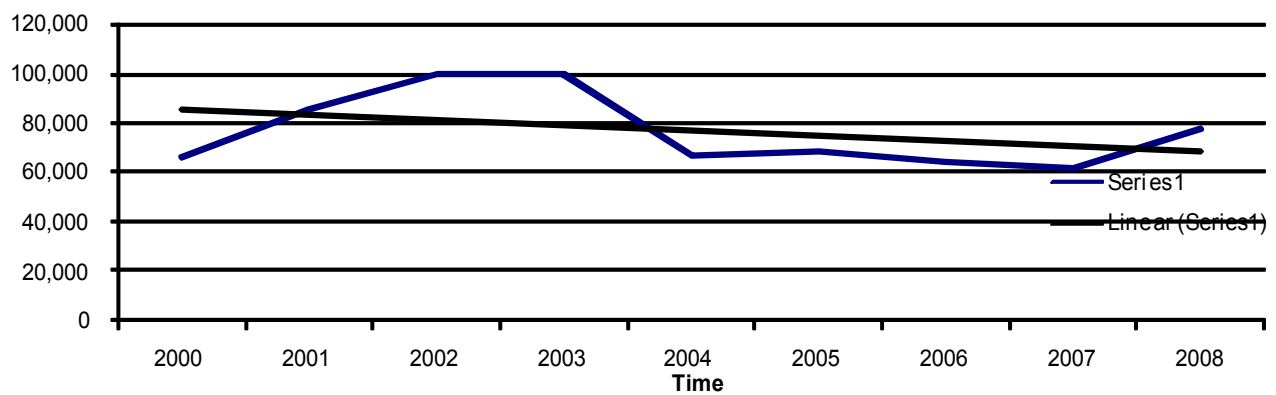
All three economic indicators appear to project the same message that the local economy is suffering the consequence of the national recession and the housing crisis. As the construction industry of the nation has virtually collapsed so has the building industry in Monroe County. As the unemployment rates for the U.S and Pennsylvania raised so has the local unemployment rates for Monroe and its neighboring counties of Pike and Wayne. What is particularly alarming is the 50% decrease in building permits from 2007 to 2008 with no signs of improvement in the horizon.



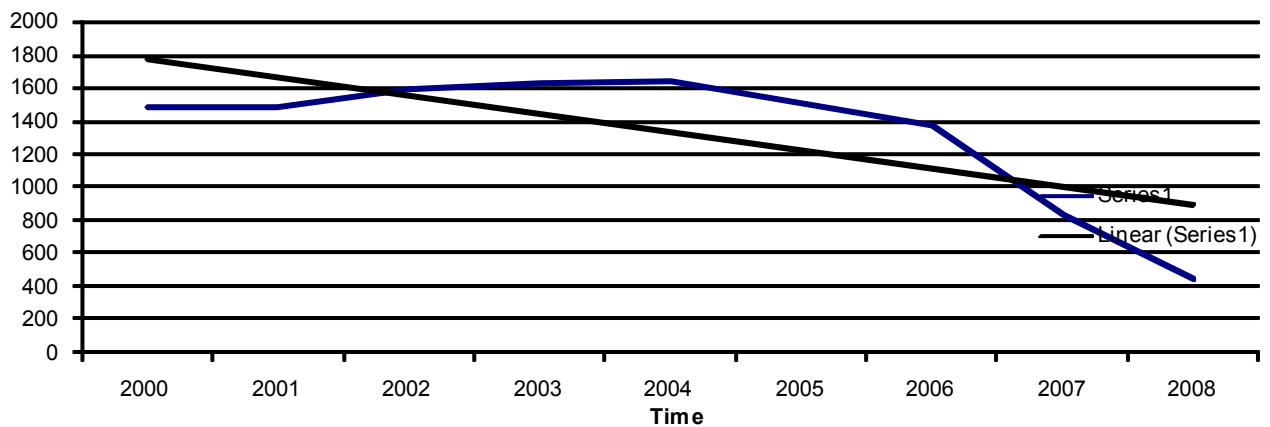
Unemployment Claims (Fig 6)



Unemployment Claims (Fig 7)



Building Permits (Fig 8)



## **Econ Department News**

Four members of the Economics Department attended the National Association of Business Economists 25<sup>th</sup> Annual conference of Economic Policy in Washington D.C. on March 1-3. This year's conference was devoted to the Restoring of Financial and Economic Stability. The various sessions ranged from housing policy to the auto industry in transition, economic stabilization policy, tax policy and a report from the new Chair of the President's Council of Economic Advisors.

Professors Behr, Booser, Christofides and Neelakantan are members of NABE and the Association of University Business Economic Research and regularly attend the annual policy conference in Washington, D.C.

The Department of Economics will conduct a formal presentation of their Washington experience for the benefit of ESU and the community at a forum entitled: "Restoring Financial and Economic Stability: A View from Washington," on April 6 at 5:30 p.m. in the Beers Lecture Hall.



## **Omicron Delta Epsilon**

**The Alpha Xi Chapter of Omicron Delta Epsilon, the International Honor Society of Economics, will be held on April 23, 2009 at 4:00 p.m. at P&J's Lounge. Outstanding ESU students who have attained an overall GPA of 2.99 and above in both Economics classes and the their overall studies will be inducted.**

**Our congratulations to all of the well-deserving honorees!**



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