LAREDO CHAMBER OF COMMERCE HOSTS MODULE FOR THE BUSINESS DEVELOPMENT CERTIFICATION PROGRAM

Laredo Chamber of Commerce President & CEO Gabriela Morales hosted the 5th module for the Business Development Certification Program. This certification ensures small businesses are empowered with the toools and knowledge to grow. This module featured "Hire and Retain Employees -HR Employment Law with Ms. Kerri Reisdorff.

Courtesy photo/Laredo Chamber of Commerce

BUSINESS NEWS

Economy shows resilience despite mounting recession fears

By David J. Lynch
THE WASHINGTON POST

If there is a recession brewing in the United States, it would be news to Doug Johnson.

The president of Marion Manufacturing Co. in Cheshire, Conn., Johnson is enjoying some of the best times in his company's 76-year history. Sure, he's heard the negative chatter about rising prices, sinking stocks and mounting risks from trouble overseas. And he's seen the polls showing that most Americans think the economy is headed for a tumble.

But as Johnson looks out over his 30,000-square-foot operation, all he sees are busy workers racing to keep up with new orders for a variety of vital steel and copper components, including those used in electrocardiograms and cable television hookups. His biggest problem is finding enough labor to handle all the metal-bending work that is coming his way.

"There's so much pent-up demand, and everybody I talk to - our suppliers and our customers - says the same," he said. "We're up 40% over last year and climbing. This month, we were up 100% over last year. It's incredible."

Johnson's upbeat view stands in stark contrast to more prominent figures' deepening gloom. On Wednesday, Jamie Dimon, chief executive of JPMorganChase, warned that "a hurricane" is bearing down on the U.S. economy.

Tesla chief Elon Musk and Lawrence Summers, a former treasury secretary, also have warned of a looming recession. In a Quinnipiac University poll last month, 85% of Americans agreed a downturn was either "very" or "somewhat likely" in the next year.

Yet Marion Manufacturing's good fortune - echoed by continued strength in consumer spending and signals from Wall Street - suggests that such dire assessments may be wrong. On Friday, the Labor Department said the economy gained 390,000 jobs in May, beating analysts' expectations, while the unemployment rate remained at 3.6%.

"I'm not sure what's driving all the talk of recession," said Johnson. "There's a lot of negativity out there that's not well founded."

The Federal Reserve's recent change of course on monetary policy is the biggest source of recession fears. After repeatedly assuring investors last year that inflation would prove "transitory," Fed Chair Jerome Powell this year has steered the central bank on a path of interest rate hikes designed to slow the economy and ease pressure on consumer prices.

The Fed's about-face already has been bad news for financial markets. Lifting interest rates from near zero caused investors to rethink their portfolios, sending stocks plummeting and cementing the notion that something about the economy has gone seriously awry.

But recent indicators suggest that the two-year-old expansion - while slowing from an unsustainable pace of annual growth near 7% late last year - shows little sign of slipping into reverse. The labor market is churning out "help wanted" signs faster than employers can add workers. Consumers and businesses are flush with cash. And by some measures, the bond market appears less worried about inflation than do many pundits.

"After a rocket-like rebound from the pandemic, there has to be some moderation in growth," said Ian Shepherdson, chief economist for Pantheon Macroeconomics. "But there's an important distinction between moderation and recession."

Economists describe recessions as a widespread decline in activity affecting output, income, industrial production and retail sales. The term is generally understood to involve two consecutive quarters with falling gross domestic product, although there is no official definition.

Despite Americans' sour mood, economists surveyed by Bloomberg in May expect the economy to expand at an annual rate of 2.7% this year. That's down from the 3.3% forecast in April, but far from a recession.

In April, layoffs hit their lowest level since the Labor Department began keeping track in 1999. The economy has added an average of 408,000 jobs in each of the past three months. And first-time jobless claims, though up from their all-time low in March, are running at roughly half their average over the past 50 years.

Continued economic strength is a double-edged sword. It means more people who want work will probably find it. But it raises the chances that the Fed, which already has raised rates twice and signaled plans for two additional half-point increases, might overdo it and trigger a recession.

Summers, a Democrat who has been critical of the Fed, told a Washington Post Live event this week that rates need to rise faster and higher than the central bank plans. Inflation won't be brought under control without "higher unemployment," he said.

Dean Baker, senior economist at the Center for Economic and Policy Research, said the Fed's initial rate increases are working. Financial markets' response to the Fed's actions are further tightening financial conditions and may reduce the need for additional rate hikes.

"I'm ordinarily not the big optimist," Baker said. "But things are generally going the right way. I don't see the basis for a recession."

Even before the Fed began increasing rates in March, financial conditions were growing tighter. First, banks started charging more for mortgages. On Thursday, the rate for a conventional 30-year home loan was 5.39%, up more than twopercentage points since January, according to Bankrate.

Then, stocks stumbled. The technology-rich Nasdaq index this year is down more than 20%, which may help slow the economy as chastened investors retrench on spending.

At least for now, investors also seem to be siding with the Fed over Summers. Wall Street expects annual inflation of 2.76% over the next 10 years, down from more than 3% in late April, according to one popular market gauge derived from the yields on 10-year U.S. Treasury securities.

That's a signal that investors believe the Fed will quell inflation before expectations of future price increases harden into a self-fulfilling prophecy. The central bank's preferred inflation measure, the core personal consumption expenditures price index, also has declined for two straight months.

"The path may be narrow. But we believe the Fed still can thread that needle to a soft landing," said Michael Pond, Barclays' global head of inflation-linked research.

Americans are less sanguine. The University of Michigan's monthly consumer confidence reading for May sits at an 11-year low.

It's not difficult to see why consumers are unhappy. The retail price of gasoline appears headed for $5 per gallon. Persistent supply chain headaches have left shoppers facing a rotating series of product shortages, including for critical items such as baby formula. And even where wages are rising, they aren't keeping pace with prices.

The economy also faces an unusually complex mix of risks.

The war in Ukraine drove up the price of key global commodities, including wheat and oil, and increased the chances of recession in Europe. Meanwhile, China's inflexible zero-covid policy has triggered repeat lockdowns that disrupted factories in the world's top export nation and left global supply chains shrouded in uncertainty.

These geopolitical forces are immune to higher interest rates, which could leave the Fed in an awkward spot if inflation remains elevated even after a significant increase in borrowing costs.

Further shocks from the European war or snarled Asian production networks also could drag the United States into a slump.

But, even as surveys show that consumers and executives are worried about recession, they are spending as if they expect good times to last. In late May, Macy's raised its profits forecast after reporting that net income in its most recent quarter had nearly tripled compared with the same period last year.

Though Americans have begun dipping into their savings to support their spending, they still have more than $2 trillion in reserve. That should put a floor under growth, economists said.

"Fears of declining economic activity this year will prove overblown unless new negative shocks materialize," Goldman Sachs economists concluded in a May 30 client note.

At DHL's North American supply chain unit, CEO Scott Sureddin said he detects no sign of a downturn. The company has been adding new warehouses and working around the tight labor market by filling them with autonomous forklifts and smaller, package-grabbing robots. This year, it will spend hundreds of millions of dollars on such efforts.

"We're still seeing good growth. We're still making major investments in technology," he said. "There's nothing slowing down that's having us stop investing."

Indeed, the financial imbalances that often precede a recession are absent. On the eve of the 2008 Great Recession, for example, consumers were struggling to pay their bills, devoting the largest share of their income in history to their monthly loan and credit card charges. Today, Americans' debt service payments consume just 9.3% of disposable income, near a 41-year low, according to the Federal Reserve.

Corporate debt burdens also are remarkably light. Two decades ago, interest payments ate up almost 25% of nonfinancial businesses' cash flow, according to Moody's. Today, the figure is less than 10%.

At Marion Manufacturing, Johnson this year is spending several hundred thousand dollars on new factory equipment to turn stainless steel and beryllium copper into a variety of industrial parts. He sees no reason to reconsider those plans.

"Our business as a whole has never been as robust as it is now," Johnson said. "We're pretty bullish."