The "S" word

July 1. The economic recovery, which began in June 2009, according to the official scorekeepers, passed its second anniversary with a spate of bad news. Unemployment increased in May; the housing sector remained weak; and uncertainty over the financial crisis in Greece cast a pall over the Euro Zone. Nearly half of the respondents to a CNBC poll in June said that they believe that the country is headed into another recession already. Economic observers began using two phrases that date back to the Carter administration of the late 1970s. The first is "stagflation," the phenomenon of stagnant economic growth coupled with rising inflation. Gross Domestic Product numbers have been coming in below expectations. Fed Chairman Ben Bernanke said, "We don't have a precise read on why this slower pace of growth is persisting."

The second unwelcome returning phrase is "misery index," coined by economist Arthur Okun. It is the sum of the unemployment rate and the inflation rate, two economic indicators without a direct relationship to each other. Under President Carter the misery index peaked at 21.98. As inflation was tamed, and employment surged in the 1980s, the index retreated steadily. It averaged 7.8 during the Clinton Presidency, 8.11 during that of George W. Bush. Now the index is at 10.37 and rising.

In fact, some have argued that changes in the measurements of both inflation and unemployment since the Carter years make the comparison misleading. Under the 1970s definitions of those indices, the misery index already could be over 20.

Jobs

In February 2009, shortly after President Obama took office, 141.7 million Americans had jobs. For the most recent month available, May 2011, just 139.8 million were working. Although that's better than the 137.9 million who were employed at the recession's low point, it is obviously not good enough.

- Over 14 million are unemployed.
- About 3 million have stopped looking for work.
- 6.2 million have been unemployed for six months or longer.

The Federal Reserve Board has kept interest rates at historically ultra-low levels, while the federal government has engaged in nearly unprecedented deficit spending. The weakness in employment remains a puzzle to policymakers.

Home prices

From 2000 to July 2006, home prices in the U.S. doubled, according to the S&P/Case-Shiller home price index. In the aggregate, homes have lost 33% of their value from the peak, and we now are back to 2003 prices. A new low was set in May, suggesting that a double dip is under way in the housing market. How long might the downturn last? There is no way to predict, according to Robert Shiller, co-creator of the index, because the current situation is unprecedented. He was quoted by Bloomberg News as saying that an additional decline in prices of 10% to 25% over the next five years "wouldn't surprise me at all."

Bright spot for investors

One hopeful sign for investors to keep in mind is that, according to Standard & Poor's, 50 top companies are sitting on a $1 trillion pile of cash. That cushion should enable those companies to navigate through any future financial storms. On the other hand, the reason that the companies are hoarding cash instead of reinvesting their profits and creating jobs may be that they don't see demand for their products picking up in the near term. Two alternative uses for company cash should appeal to shareholders: increasing cash dividends or buying back shares, thus raising stock prices.

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