



Written by [Bob Adelman](#) on July 4, 2012

## Economy Tipping Over Into Recession, Again

When shipping and supply managers were quizzed about their current outlooks by two separate reporting agencies, their answers were the same: Orders are slowing and so is production of manufactured goods. The Purchasing Managers' Index (PMI), released in late June, and the [Report on Business](#) of the Institute of Supply Management (ISM), which was released on Monday, each showed significant slowing. The PMI's manufacturing index came in at its lowest level since last July, while new orders for durable goods (autos and appliances) fell sharply in June, continuing a trend downward since early spring. It also showed a decline in the backlog of orders, the first since last September.



According to the ISM, its index fell below 50 for the first time since July 2009, indicating continuing contraction in the manufacturing sector of the economy and echoing the PMI's report. What was startling in the ISM's report was the decline in new orders: down by an astonishing 12.3 percentage points in the month of June. ISM's production index also declined severely, by 4.6 percent, and was down by 10 percent since the end of March.

Retailers' inventories are climbing as well, indicating lack of demand by consumers. More troubling was ISM's index of new export orders, which has tumbled nearly 12 percent since March, the first month of contraction since June 2009.

The release of the Philadelphia Federal Reserve Bank's [survey](#) showed sharply lower numbers as well, bordering on disastrous. Its index of current activity dropped from an already negative 5.8 in May to a minus 16.6 in June, with nearly 40 percent of the firms in the survey reporting declines in activity compared to just 22 percent reporting increases. New orders and shipments in the Philadelphia region covered in the report fell 19 and 17 percent respectively, in just one month.

The Economics Group at Wells Fargo looked over the numbers and concluded that "today's report[s] will certainly cause the market to question the sustainability of the economic recovery."

Even more unsettling than the sharp decline in these numbers was that the so-called "experts" never saw it coming. Bloomberg surveyed 70 economists prior to the release of the ISM report, and not one of them got it right, with the average of their estimates predicting the ISM index to come in at 52. The actual number of 49.7 was a huge miss.

The United States' economy is being hindered further by weakness in Europe, where manufacturing has declined now [for 11 straight months](#), while its unemployment rose to 11.1 percent, the highest since 1995 when such statistics were first recorded.

Auto and light truck sales also declined to a 13.7 million annual rate in May, down from April's 14.4



Written by [Bob Adelman](#) on July 4, 2012

---

million pace and [the lowest for the year](#). By comparison, the auto industry sold nearly 17 million units every year between 2000 and the start of the Great Recession.

The reason these numbers are important is not because manufacturing represents such a large part of the American economy (about 13 percent) but because of what they say about consumers' attitudes and behavior. As economist Gary North put it:

Why is [the PMI] a leading indicator? Because it indicates customers' willingness to buy new stuff, as distinguished from continuing services. Buyers can more easily defer buying hard goods than services....

Manufacturing declines tell us that customers are lightening up. The fall in new orders says they are tightening sharply.

When shipping and supply managers were quizzed about their current outlooks by two separate reporting agencies, their answers were the same: Orders are slowing and so is production of manufactured goods. The Purchasing Managers Index (PMI), released in late June, and the [Report on Business](#) of the Institute of Supply Management (ISM) which was released on Monday, each showed significant slowing. The PMI's manufacturing index came in at its lowest level since last July, while new orders for durable goods (autos and appliances) fell sharply in June, continuing a trend downward since early spring. It also showed a decline in the backlog of orders, the first since last September. Lakshman Achuthan's call [back in September](#) is turning out just about as he predicted. The co-founder of Economic Cycle Research Institute (ECRI), Achuthan has had his hands full responding to doubters and scoffers at his prediction that not only had the economy already entered a new recession but that "it's going to get a lot worse." At the time he added:

The vicious cycle is starting where lower sales, lower production, lower employment and lower income [leads] back to lower sales.... You haven't seen anything yet....

A new recession isn't simply a statistical event. It's a vicious cycle that, once started, must run its course.

As the economy appeared to rebound a little bit, Achuthan defended his bearish call. [In March](#) he reiterated:

Since our recession call five months ago the definitive hard data [we] used to determine official recession dates have gotten worse, not better, despite the consensus view [that] things have been improving.

Other indicators support ECRI's call. For instance:

- Consumer spending was revised downward in April to its lowest level in six months;
- Home prices appear to be [poised for further declines](#);
- The commercial real estate market [continues to languish](#);
- Corporate profits declined for the first time in four years, from \$16.8 billion in the fourth quarter of last year [to a minus \\$6.4 billion](#) in the second quarter, the largest decline since the third quarter of 2008;
- Job growth is disappointing, having fallen sharply this spring, with expectations that [Friday's report](#) will show job growth at 100,000, way less than needed just to absorb new workers entering the workforce.



Written by [Bob Adelman](#) on July 4, 2012

---

George Vrba, at [AdvisorPerspectives.com](#), has refined ECRI's predictive model on the economy [even further](#) and has concluded that the U.S. economy has already entered a recession. But it will take the National Bureau of Economic Research (NBER) — the official statistical group in charge of announcing such events — several months to catch up with reality and declare, just in time for the election, that, yes, the U.S. economy has been in recession since May.



## 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](#)