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U.S. still at front end of another recession

By: Lawrence Kudlow | 10/06/11 8:05 PM

That stronger-than-expected ISM Manufacturing Index reading for September might normally suggest that the economy, at least for now, has dodged a recession bullet.

After zero jobs and zero real consumer spending in August, which put the stalled economy on the front end of recession, the ISM number is the first major September reading.

But economist Michael Darda says hold the applause: Inside the ISM, new orders and order backlogs either flat-lined or declined and remain below 50, the DMZ recession marker on the index.

Darda believes weak data in the United States, plus the ongoing European crisis, plus the China slowdown, plus widened corporate credit spreads and stressful financial conditions all point to a declining economy and additional stock market drops.

Lakshman Achuthan of the Economic Cycle Research Institute is also on the bear side. He has a falling weekly leading index that signals recession is inevitable. "It's either just begun, or it's right in front of us," he told CNN Money.

Tough stuff.

But another deepening economic problem is a lack of confidence. Scott Rasmussen, one of the nation's best political pollsters, also publishes important and accurate consumer-confidence indexes.

On a monthly basis, he is showing a huge confidence drop of 26 percent, from 88.3 last January to 65.6 through August. His reasons? There are several.

First, the majority of Americans believe we are still in recession and that the recession is dragging on. Second, the housing market is a killer (for the economy, as well as consumer sentiment).

According to Rasmussen, fewer than half believe their homes are worth more than their mortgages. Only 23 percent expect their home values to go up this year. And with the market still at fall 2008 levels, people are obviously much less well off than they used to be.

And there's more. Today, only 29 percent rate their finances as good or excellent. The night before Lehman collapsed, 43 percent rated their finances as good or excellent.

And on the political front, while people are rejecting Obama, they are also rejecting both political parties and the entire political process. According to Rasmussen, 73 percent don't expect any deficit reduction before the 2012 election.

Folks want any deal to include mostly spending cuts, but expect it will include mostly tax increases. And if tax increases are agreed to, 62 percent say the money will be spent on new programs rather than deficit reduction.

On top of all that, economist Alan Reynolds reminds us that the president's so-called jobs plan proposes large and permanent increases in the highest income-tax rates in order to "pay for" a small and temporary cut in payroll taxes.

Reynolds goes on to say that permanently higher tax rates on income to pay for temporarily lower tax rates on payrolls is not stimulus by anybody's definition.

And of course, taxing millionaires and billionaires -- especially the Warren Buffett plan to raise the minimum tax rate on capital gains -- demonizes success and makes war on capital formation. New Jersey Gov. Chris Christie calls this a demoralizing message.

So for now, I'll stay with my take: We're still on the front end of a recession.

Examiner Columnist Lawrence Kudlow is nationally syndicated by Creators Syndicate.