

Economic Commentary



Central Plains Advisors, Inc. • 200 W. Douglas Ave., Ste. 100 Wichita, KS 67202 • Economic Consulting & Investment Management

March 31, 2011

Where's the Recovery?

This quarter's economic commentary will be a review of the points we made at our recent economic seminar held on March 8, 2011.

Where We Are Now—Era of Tribulation

	Peak 1999/2000	Today 2010/2011
Unemployment	4%	9%
% of Population Working	64%	58%
Government Spending	\$1.8 trillion	\$3.8 trillion
Surplus/ (Deficit)	\$236 billion	(\$1.6 trillion)
Debt % of GDP	57%	94%

It has always been our opinion that the long bull market in stocks peaked out in late 1999. At the same time, the long secular boom in our economic condition also came to a close. Please note that there has been absolutely no real advancement in the U.S. economy over this entire 10 year timeframe. What little improvement that took place was occasioned by an increase in federal government debt from 57% of GDP to 94% - a 65% increase. That doesn't seem like much progress to us.

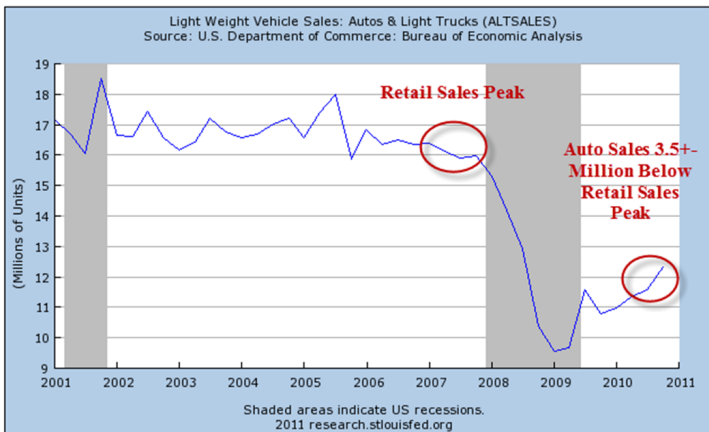
Where We Are Now—Comparison to Recovery from Last Recession

1. GDP was up an average of 6.4% from the prior peak at this point in the last two cycles, and only 0.2% now.
2. New home sales were up 23% then; down 47% now.
3. Retail sales were up 14% then, 1% now.
4. Industrial production was up 2.5% then, down 5.6% now.
5. Non-farm payroll employment was down 0.1% then, down 5.2% now.
6. Personal income was up 11% then, 4% now.
7. New orders for durable goods were up 6.2% then, down 2.2% now.
8. Initial weekly unemployment claims were down 8% then, up 22% now.

Adapted from Comstock Funds

The recovery from 6/30/09 to date has been the weakest of any by far. Two trillion dollars of government stimulus spending has essentially been for naught. From all appearances, the housing market is just now entering its second leg down. Construction spending is very weak, retail sales are very slow, and personal income is lagging. Only Wall Street and the Washington, D.C. area are booming. The rest of us are sucking wind.

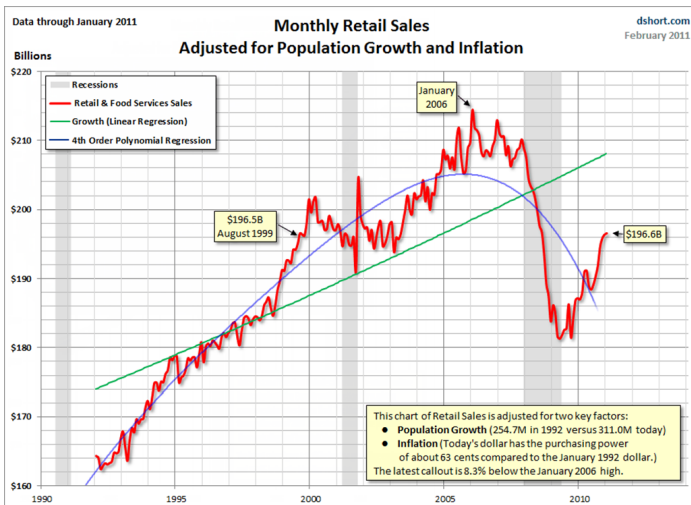
Where We Are Now—Auto Sales Example



Adapted from Mish's Global Economic Trend Analysis

There has been much ballyhoo for car sales. No doubt it has been one of the few bright spots; however, you can note from the chart that it has only returned to replacement size, which is estimated to be 12,000,000 cars per year. Nothing to write home about.

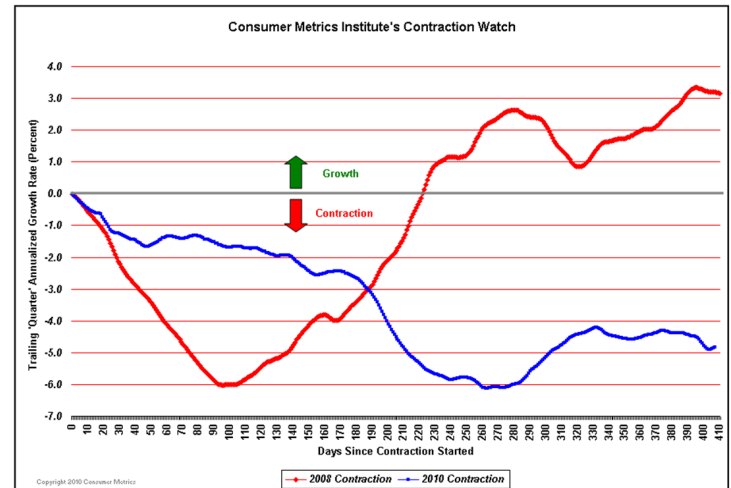
Where We Are Now—Retail Sales Example



Adapted from Mish's Global Economic Trend Analysis

Although retail sales on an unadjusted basis have now reached the highs from before the onset of the recession, one can see from the chart that when adjusted for population growth as well as inflation, sales are well below their peak of January 2006.

Where We Are Now—Online Discretionary Spending



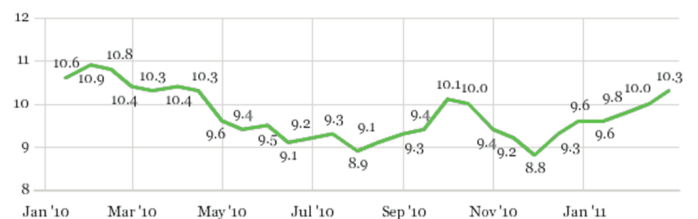
Adapted from Consumer Metrics Institute

This is one of the most telling of all the charts that reveal the slowness of this recovery and expansion. This chart reflects the day over day online discretionary spending of generation X and generation Y individuals (1960-1990 births). These represent only 10% of the spending public, but trace the more educated, most hip if you will, of our population. These folks have been in a contraction purchase program for well over a year. This after having exercised a strong spending pattern even during the last half of 2009. This makes us very suspicious of the government's reporting models used to determine retail sales.

Where We Are Now—Gallup Unemployment Statistics

Gallup's U.S. Unemployment Rate, 2010-2011

30-day averages[^]; not seasonally adjusted



[^] Numbers reflect rolling averages for the 30-day periods ending on the 15th and the last day of each month from January 2010 through Feb. 28, 2011

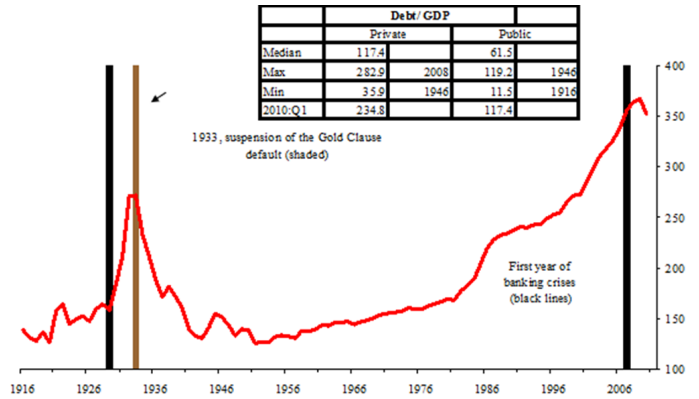
Gallup Daily tracking

GALLUP

Adapted from Gallup.com

The Commerce Department unemployment numbers are somewhat flawed in that they do not include the workers who have given up and are no longer looking for work. The Gallup numbers shown in the previous chart count these people. We believe the latter is more accurate. Bottom line—whenever the headlines shout 9%, the real number is closer to 10%. Over the last year, there has been no improvement in this number, but, of course, we have saved Wall Street at least for now.

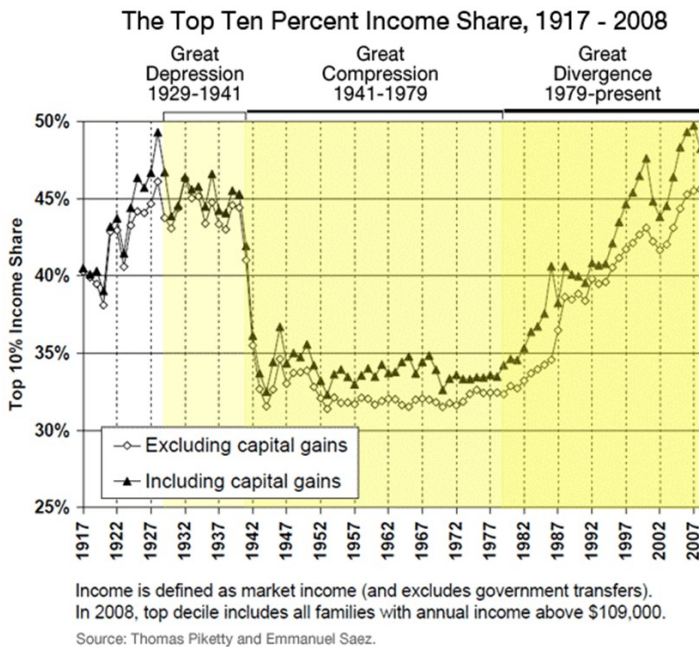
Problems—Growth of Total Debt



Adapted from VoxEU.org

This is a huge problem. We are in a necessary period of deleveraging, which can only result in slow to no growth.

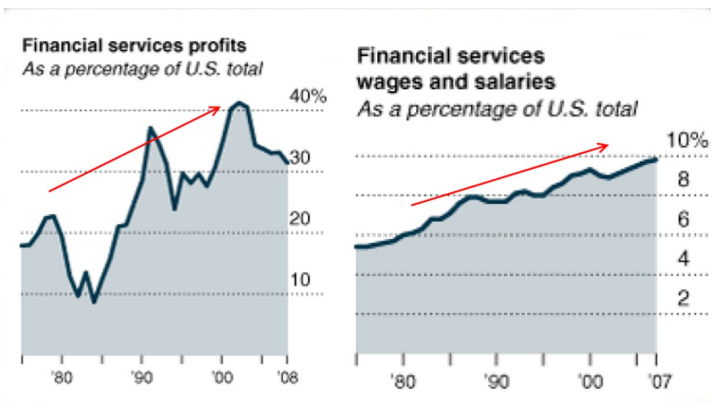
Problems—Inequality of Income



Adapted from Slate.com

As public policy has saved the big boys and let the rest of us to twist in the wind, we have 1929-like inequality of income. This brings no good to the social structure of our country. We wonder—could middle east unrest come to our shores?

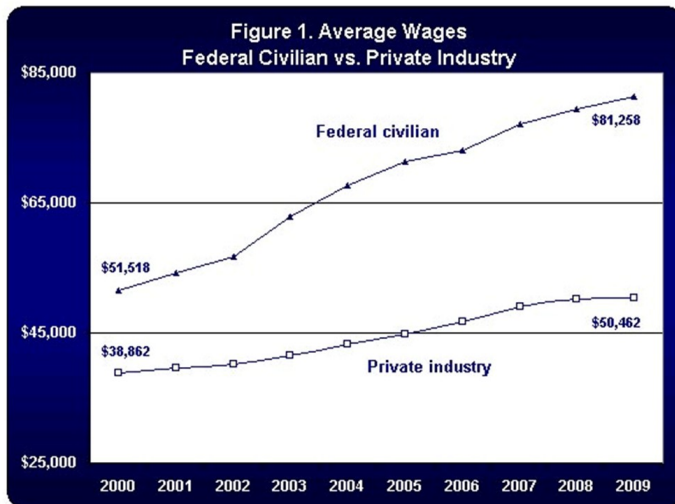
Problems—Growth of Financial Sector



Adapted from MyBudget360.com

While the real economy has grown little, the financial paper shufflers have taken over. The help has come from their friends in Washington, D.C. We suggest that this cannot go on forever. This economy needs real economic activity growth.

Problems—Wages: Public vs. Private

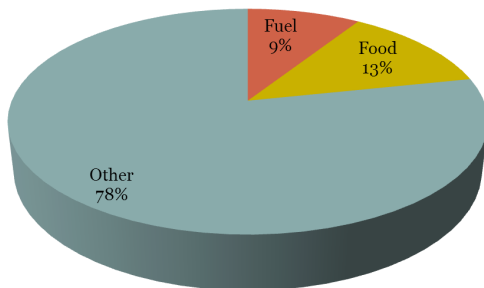


Adapted from FinancialSense.com

The private sector pays for the public sector. Does this look right to you? Strong organic growth can only come from a reversal of this trend.

Problems—Food and Fuel

Food and Fuel Expenditures as a % of Wage and Salary Income
November 2010



Adapted from Bureau of Economic Analysis

The Federal Reserve's monetary policy has led to speculation in oil and other commodities. This acts as a tax on an economy as demand for these items is inelastic. In other words, no substitutes.

Future—The Fourth Turning

The best book written on long social and economic cycles is *The Fourth Turning* by Strauss and Howe. We would urge all to read this book. There is an updated version to the 1997 published edition.

Their analysis fits perfectly with recent academic work done by Reinhart and Rogoff as well as Baro and Romer. The bottom line—we are in a long crisis period of weak economic performance and social unrest. Caution is the word.

Conclusion

We have not faced such daunting economic problems since the 1930s. We believe monetary and fiscal policy on the part of our government is simply horrible. It may be that a change in fiscal policy is coming (away from tax and spend). Hopefully there will not be another quantitative easing on the part of the Fed. If both of these changes come to fruition, there can be a light at the end of the tunnel.



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