

# A Strong Economy? We Don't Think So.

## December 12, 2005

We have reread the book "Our Brave New World." It has a powerful theme, which we need to continue to explore. As mentioned in last weeks buzz it will be the subject of our year-end Economic Commentary. For those of you who use the Internet we would suggest you go to [www.financialsense.com](http://www.financialsense.com) and click on last Saturdays Radio broadcast, 2<sup>nd</sup> hour. This is an interview with Louis-Vincent Gave coauthor of the above book. This interview is an excellent summary of the high points of their "this time its different" view of the economy.

The table below measures the strength of this recovery and expansion compared to the average of past economic cycles. As you know everyone seems to be in agreement that the US economy is strong and getting stronger. Yet, if one examines closely the various components of GDP, including GDP itself, this recovery is one of the weakest on record. Note that the only sector of greater growth is housing (residential investment). One of the lessons we have learned over the years in analyzing economic numbers is that the difference between 1% and 2% is not 1% but 100%. With that in mind note the percentage difference between the growth percentages of the GDP breakdown.

Item	Average of Past Cycles	Current Cycle	% Difference
GDP	3.5%	2.8%	-20.0%
Jobs	1.8%	0.2%	-89.0%
Income	3.4%	1.8%	-47.0%
Consumption	3.7%	3.2%	-14.0%
Equipment and Software	4.9%	2.9%	-41.0%
Housing	4.6%	7.3%	59.0%

These numbers are not as good as past cycles; Why? Is it due to our moving from an industrial society to a service economy? Is it due to a lack of demand? Is it due to internal as well as external oversupply of goods and services, i.e. too much over capacity? We would suggest all of the above.

As mentioned previously ad nauseam, the worldwide economy has an oversupply of everything except brains. The world's abundance of liquidity is causing rampant speculation in commodities and quite possibly other financial zero sum markets, but not the real economy. This will change to the downside as the next recession rears its ugly head.

### Current Cycle vs. Past Averages

