

Are We Fiddling as “Rome” Burns?

March 6, 2006

The two tax deductions, which amounted to approximately \$780 Billion, are gone. As most of those deductions went to individuals, 2003 and 2004 personal incomes were appreciably enhanced. That’s over, but what isn’t is the Federal Reserves raising of interest rates. These rates are really beginning to bite. The Central Banks of the world are raising interest rates pretty much in unison. Financial speculators who have made millions over the last several years are possibly headed for disaster. In sum only the very few that have made any real income over the last 4 years are soon to join the rest of us in fighting for our very economic existence. Here is an example; disposable personal income increased 3.4% in 2004. Last year, 2005, it was up only 1.4%. The years 2006 and 2007 will have a massive increase in variable rate mortgage payments while at the same time there is little indication that employment is about to pick up anywhere close to the amount needed to continue any kind of organic growth. Note the chart below.

While all of the above is going on, Wall Street and the Bush Administration have been glowing about the prospective 5% increase in real GDP growth in the current quarter. This will be the make up for the 1.6% “aberration” in the fourth quarter of 2004. The bulls are banking on the +2.3% increase in retail sales for the month of January. The problem is this January was the warmest in 110 years and without seasonal adjustment retail sales were actually down \$90 Billion. Who knows what a “normal” January might have been. February on the other hand has looked weak so far, but them again most are blaming this on the terrible weather in the northeast.

The only thing we are absolutely sure about is Wall Street has an extreme conflict of interest selling us product that flavors their everyday outlook.

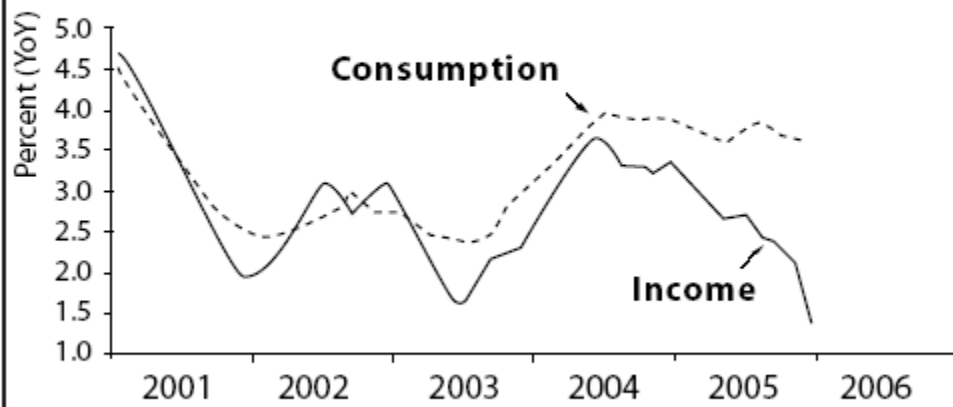
Talking about Wall Street we have huge Kudos for Merrill Lynch.

Two things:

1. They sold their asset management business to an independent investment advisor for a near 50% equity interest. They have finally realized that those who can distribute do not make very good asset managers. How can you tell? Performance.
2. They have gotten away from the Don Regan culture, which always maintained that Merrill Lynch was bullish on America regardless of the facts. Their Chief Economist David Rosenberry at the end of February came out with a very comprehensive review of the economy, which was quite bearish. Bearish and correct in our opinion. We wish to thank our friend and client Jeff Pieters for turning us on to this report.

The ugly sign of protectionism is once again showing up in Washington DC. We are absolutely embarrassed to listen to the voices of those who represent us. They are childish and clearly void of good economics and common sense. “Portgate” is the best example we have ever seen of not understanding how the real world works.

Growth in Real Consumption and Disposable Income, with 12mav



Source: Thomson Financial Datastream