

Better Make That a Double

October 13, 2003

In our recent Economic Commentary, we spent a good deal of time discussing the different types of spending and their significance as they apply to the size of our economy. The distinction was made between productive and exhaustive outlays. This is such an important distinction that we felt it necessary to bring it up again.

If you will recall, productive spending includes business-to-business expenditures and exhaustive being the purchase of final goods and services. The former enlarges the economic pie and the latter maintains the status quo. Over the long run, there is a balance, which is optimal for growth. Since the middle 1980's we have been seeing ratios well below a balancing point, which is not good. Of particular concern is a sharp drop from 2000. The year over year difference in the size of the drop on a percentage basis was just a hair larger than 1974-75 and 1981-82 - as you may recall, both of these period embroiled quite severe recessions. This tells us that a double dip recession is very much in our future. Do not allow Wall Street to convince you that happy days are here again! They are 800,000 strong and can move markets in the short run, but fundamentals prevail over the long term.