

## DOES THIS LOOK LIKE A RECOVERY?

### WEB BUZZ 2011.10.24

First of all, in our opinion we really have never had a recovery from the recent recession. Yes, the National Bureau of Economic Research, the official designator in charge, has termed the period 12/2007 through 6/30/2009 as such, but please note the following:

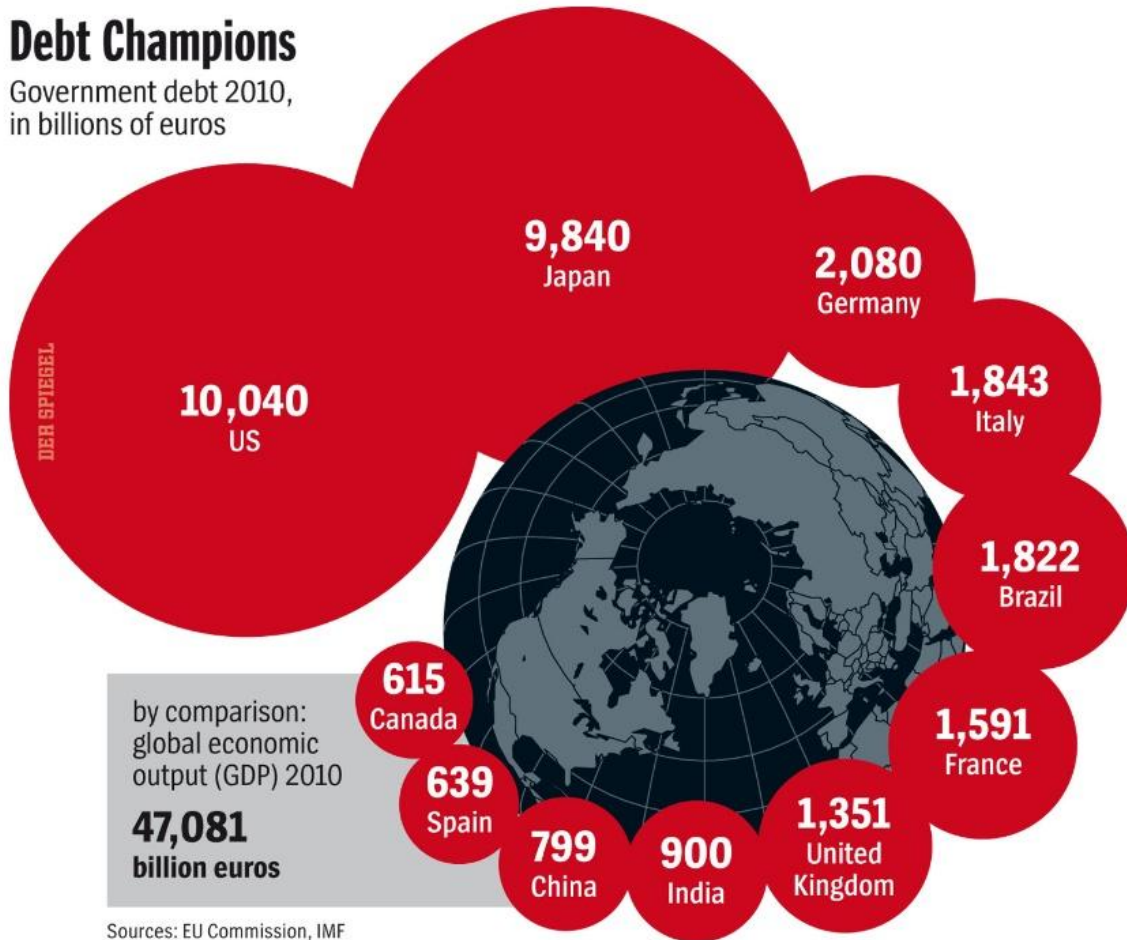
1. U.S. output shrunk over 12% in 2008 and 2009 and has yet to come back to its level of 2007.
2. Furthermore on output, when adjusted for inflation and per capita, we are at the same level as 2005. That's approximately six years and no change.
3. Over the last four years we have lost 6-8 million jobs, even though our working age population has increased 3%.
4. Personal income is down 6.4% since 12/2007.
5. Housing starts are down 70% from the peak.
6. Home prices are down 35% from the peak.

One could go on and on, but the picture is perfectly clear - we are mired in a long depression-like economy. Every once in a while some see a light at the end of the tunnel, but it always turns out to be a mirage.

When will it change? Not soon, in our opinion. Again debt is the problem and only when it has been reduced to manageable proportions will we have decent growth (i.e. 3%) on a sustained basis. Please note the following chart which depicts government debt only.

## Debt Champions

Government debt 2010,  
in billions of euros



Adapted from ritholtz.com

It now stands at 67% of GDP as termed in Euros. This is getting close to the 90% mark which Reinhart and Rogoff termed the flash point for slow to no growth. The reason we say close is that sovereign debt continues to grow at an alarming rate - for example, 20.2% in 2010 for the United States. It has slowed since then, but remains extremely high.

We continue to be hammered for always being so bearish. You know what, when the fundamentals change we will also. In the meantime, caution is the name of the game. Stocks remain overvalued and government bonds are screaming for a buy after backing up above 3%.