

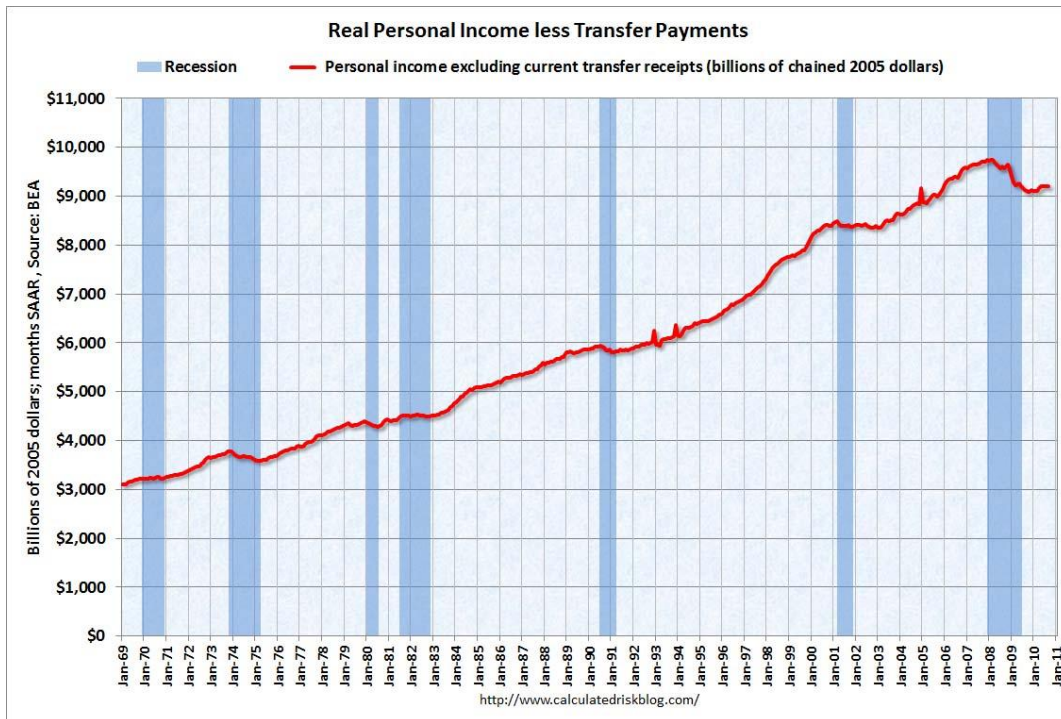
## EXCESS SUPPLY & LIMITED DEMAND EQUALS LOWER RATES WEB BUZZ 2010.11.02

September's personal income numbers declined 0.1% while spending was up 0.2%. Personal income declined \$16.8 billion while disposable income (minus taxes) decreased \$20.3 billion. These numbers fluctuate from month to month, but a look at the following chart gives one an excellent idea of the trend.



Adapted from Hussman Funds

Personal income over a longer period is expressed by this chart.



Adapted from [calculatedriskblog.com](http://www.calculatedriskblog.com)

We see nothing in the economic future that would lead us to believe that this trend will soon move upward. Again, the indicators we follow tell us that things, in all likelihood, will trend flat to downward from this point forward. Last quarter's real GDP came 70% from a build in inventory, not final sales. The present quarter should have little, if any, inventory build, thus leading to a flat to negative GDP number.

Annualized GDP deflator came in at +0.6% during the second quarter. Using historical spreads, this means the 30-year government bond should be selling at 2.7% as opposed to the 4.0% it is at currently. If it was selling at this historically modulated level, the gain from here would be 26%. Where we think it might go would be 45%.

The recent decline in price occurred as another inflation scare caused traders to pare back their holdings. As in the past, this too shall pass as the multitude of unused resources limits the passing along of any increases in commodity prices.