

# Left May Become Right

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The financial markets are acting as if the American Economy is approaching a cyclical peak. This is taking into account the entire economy, not just the GDP number. Without doubt the 3<sup>rd</sup> Quarter of 2003's 8%+ was the peak in so-called real growth. Why do we say this? Please find and look at a chart depicting the action of (1) money supply year over year percentage growth, (2) velocity of money, (3) stock markets world-wide, (4) commodity prices, (5) gold and silver prices, (6) junk bonds / government bond spreads, and (7) the action of REIT's. In our opinion, we are headed for a liquidity crisis, which will precipitate a sharp recession. Hopefully, we will not encounter a financial disaster which might create something even worse.

It is our opinion that at sometime in the future, the recession of 2001 will be revised to what is commonly called a growth recession – less than 1% real growth but not an actual decline. This would then extend the 1990's long economic expansion even longer – with the real recession yet to come. If you may recall, we have made the case that the now considered recession of 2001 did not have the same progression as every other post World War II down turn (please note the table below). Think of it this way, interest rates are moving up in a “spike” fashion (won't last long), there is evidence that the consumer is slowing down (car sales are soft) and it does appear that housing is the next to fall. If so, the left side of the table will prevail.

## A Different Kind of Recession

(In Order of Occurrence)

| <u>“Normal”</u>   |         | <u>2000 – 2001</u> |        |
|-------------------|---------|--------------------|--------|
| Inflation         | Up      | Inflation          | Down   |
| Tight Money*      | Up/Down | Tight Money*       | Up/Up  |
| Housing           | Down    | Profits            | Down   |
| Inventories       | Down    | Capital Spending   | Down   |
| Consumer Spending | Down    | Inventories        | Down   |
| Profits           | Down    | Housing            | Down ? |
| Capital Spending  | Down    | Consumer Spending  | Down ? |

\* Two components – interest rates and availability

## Consumer Income & Spending Increases 2002 & 2003

|                             |                   |     |
|-----------------------------|-------------------|-----|
| Tax Cuts                    | \$256.3B          |     |
| Social Security             | \$189.0B          |     |
| Govt. Wage & Salaries       | \$82.0            |     |
| From Government             | <u>\$527.3B</u>   | 72% |
| Private Wages, Div. & Int.  | <u>\$205.1B</u>   | 28% |
| Disposable Income Increase  | \$732.4B          |     |
| Savings                     | <u>(\$16.1B)</u>  | 2%+ |
| Income Available to Spend   | \$716.3B          |     |
| Consumer Borrowing Increase | \$1,655.6B        |     |
| Total Available             | <u>\$2,371.9B</u> |     |
| Personal Consumption        | <u>(\$700.8B)</u> |     |
| Spent on Housing & Equities | <b>\$1,671.1B</b> |     |