

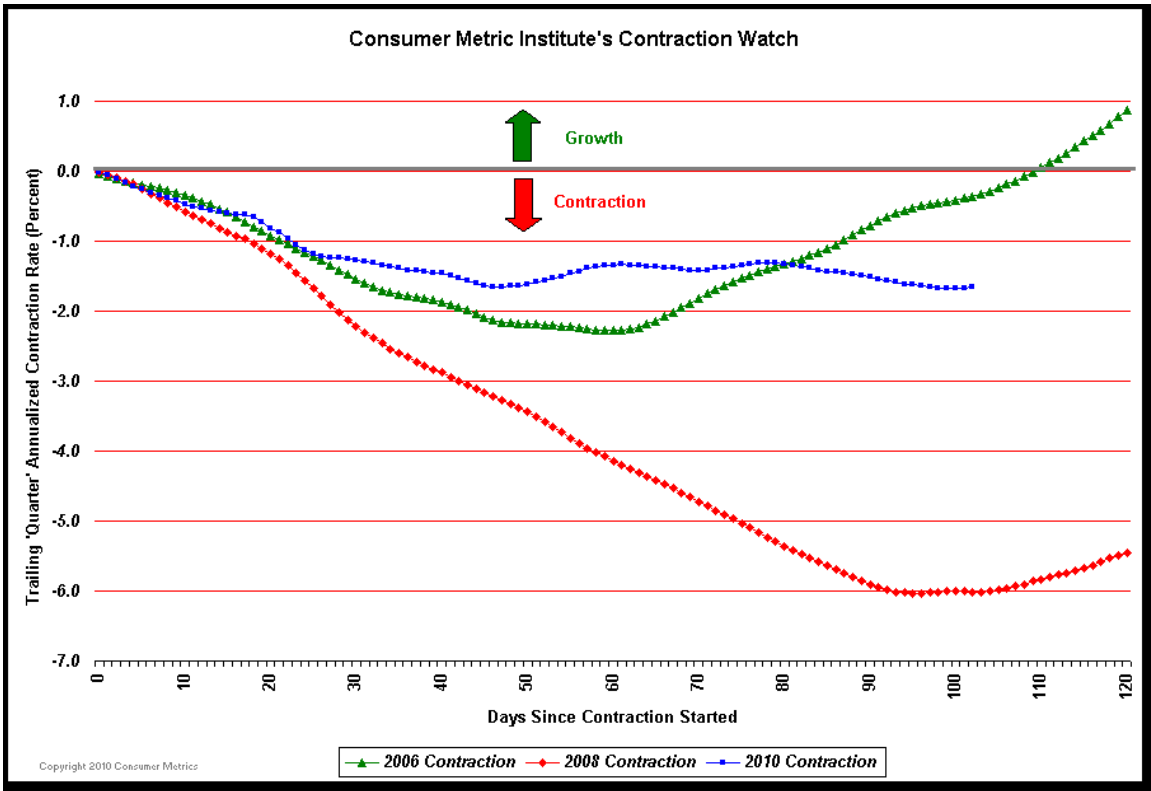
THE RECOVERY REMAINS EXTRAORDINARILY WEAK

WEB BUZZ 2010.05.03

The economy's 1Q10 GDP came in at a real GDP of 3.2% as opposed to 5.6% in 4Q09. Our estimate was for 2.5%, thus the economy did better than we expected, but worse than most expected. The major headlines that the press used in describing the quarter were centered around the huge increase in consumer spending. We believe that one should have concentrated on some other sector. The increase in personal consumption went from 1.4% in 4Q09 to 3.6% in 1Q10. Great, but real personal income, less transfer payments, were flat and only by decreasing savings was there any increase. Here is a number for you - personal consumption increased \$130.7 billion; government social benefit to persons increased \$61.1 billion. Somewhere around 50% of consumption came by way of the government borrowing money to help the unemployed.

It is estimated that 1,000,000 people have now run out of unemployment payments. Housing, which is the "normal" sector to increase handsomely after a recession, is flat or getting worse, and there is no compelling reason to add to industrial plants and equipment. Manufacturing capacity remains around 70%.

The fact of the matter is that the consumer remains up to his eyeballs in debt and unemployment may go down, but only very, very slowly. It takes 3.0% real GDP just to keep from adding to unemployment levels. There is no engine of growth in sight. Our guess, at this time, is 2Q10 will be less than 3.2%. Again, as someone said, the recession is over, but the depression continues. Please note the graph below, which estimates consumer spending. We are doing better than 2008, but not as well as the 2006 contraction.



Adapted from ConsumerIndexes.com