

TRICKLE DOWN ECONOMY 06.18.2007

As we have written many times, the longer the Fed keeps short-term interest rates at 5.25%, the lower long-term interest rates will go—long-term government interest rates, that is. Paul Kasriel, SVP & Director of Economic Research for the Northern Trust Company, penned much the same on June 5th when he wrote, “The more the Fed delays cutting, the more we cut—our GDP forecast.” This assumes, of course, there is some correlation between the economic and financial markets.

Ben Bernanke seems to have lost sight of the intense deflationary pressures that confront all countries in general, and the U.S. economy in particular. Is it possible we are now outsourcing brains along with everything else? He continues to worry about inflation (price levels). At the wholesale level, it has been a bit of a problem—at the retail level, not so much. The U.S., being the consumers that we are, is more concerned about recent retail price inflation than wholesale. Gasoline, food, and rental prices have been the largest problems. Personal consumption expenditures inflation less food and energy are now at the 2% level. If we include food and energy, it’s just a bit above.

The housing recession is spreading to other areas, and there is no reason to believe that the downturn is over. Please note the following two charts. Ben re-emphasized that they don’t expect it to metastasize; we disagree. If he is right, it will be the first time since the end of World War II that housing has not done so. We shall see. As mentioned last week, it does appear we’ll witness better than a real GDP of 0.6% in the second quarter, but we don’t expect that to commence a trend upward.

Total Light Vehicle Retail Sales {Imported+Domestic}

SAAR, Mil. Units

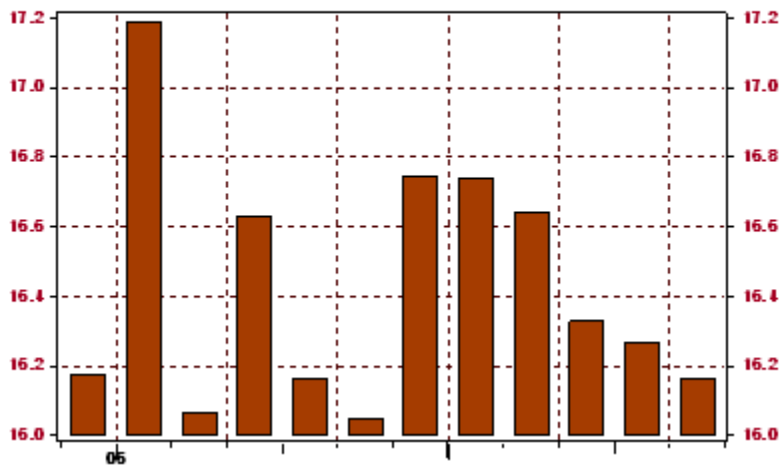
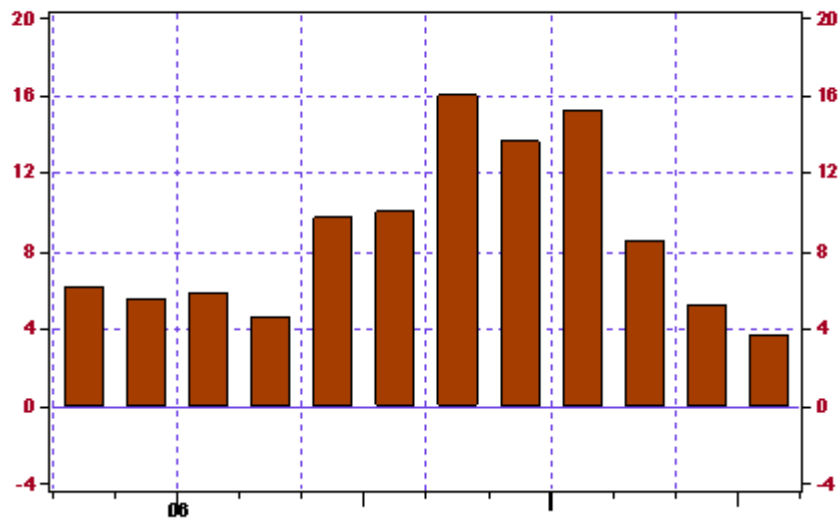


Chart Taken from www.financialsense.com

Real PCE: Durable Goods: Furniture & Household Equipment

3-month % Change-ann SAAR, Mil. Chn. 2000\$



Source: Bureau of Economic Analysis /Haver Analytics

Chart Taken from www.financialsense.com