

Unbelievable – That’s What It Is

February 2, 2004

It is worrisome that several persistent trends continue to plague this economy as we attempt to sustain a recovery off the business cycle low of November 2001. The following table indicates three of them i.e. financial company profits, manufacturing profits, and retail profits. Please note the last column on the right that measures the latest available profits with the top made in 1997, some 6 years ago. We use 1997 because we believe that is when the long-term structural change commenced as opposed to cyclical changes, which are short-term movements within longer-term cycles.

The points are this: (1) Financial profits are advancing sharply (2) Manufacturing profits are becoming less and less (3) Retail like financial, are becoming a larger part of the total.

These factors represent a higher imbalance, which along with the 7.7 million jobs that should have been added since the recession trough tells us there is little if any sustainability to this recovery. Wall Street’s hype of this recovery is destined to become unbelievable and possibly unforgettable, as Nat King Cole would sing.

Corporate Profits Before Tax And After Inventory Valuation Adjusted* (in billions of dollars)

| Item | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 3rd Quarter 2003 | 97 V. 2003 |
|----------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------------------|---------------|
| Financial ** | \$ 193.00 | \$ 165.40 | \$ 194.30 | \$ 200.20 | \$ 225.60 | \$ 225.10 | \$ 274.60 | 42% |
| Non-Financial | \$ 508.40 | \$ 470.10 | \$ 461.10 | \$ 413.40 | \$ 318.80 | \$ 334.30 | \$ 431.80 | -15% |
| Total | \$ 701.40 | \$ 635.50 | \$ 655.30 | \$ 613.60 | \$ 544.40 | \$ 589.40 | \$ 706.40 | 1% |
| Manufacturing | \$ 209.00 | \$ 173.50 | \$ 175.20 | \$ 166.30 | \$ 54.00 | \$ 73.00 | \$ 97.70 | -53% |
| Motor Vehicles & Eq. | \$ 48.00 | \$ 5.90 | \$ 7.30 | \$ (1.50) | \$ (7.20) | \$ (1.00) | \$ (3.50) | -51.50 B |
| Retail | \$ 64.20 | \$ 73.40 | \$ 74.60 | \$ 70.10 | \$ 71.10 | \$ 76.70 | \$ 84.30 | 31% |

*NIPA Accounts

**In our opinion not economic profits – rather fees for allocating money.

It appears that they are doing a lousy job.