Armageddon Hypochondria??!

- Banks are Broke!
- Consumers Won’t Spend!
- Government Out of Control!
- Taxes Will Kill Us!!!
- We’ll Never Get TARP Back?
- Socialized Health Care?
- New Killer Financial Regulations?
- Fed “Zero-Policy” Creating Next Bubble?
- High Unemployment Forever?!
- “Everyone Will Walk Away From Their Home?”
- A Run on the U.S. Dollar?
- A Run on the Euro?
- What Does “GOLD” Know?
- What Does “Bond Market” Know?
- Is China in a Bubble?
- Is China Slowing Down?
- Will U.S. Lose AAA?
- Runaway Inflation?
- Runaway Deflation??
- Oil Spill Disaster!
- “BAD” Hurricane Season Coming?!
- Small Companies Can’t Get Credit!
- Greece to End World!!

Federal Deficits... More Cyclical Than Structural?!!

U.S. Federal Deficit vs. Trendline GDP
The U.S. economy remains almost comatose. The slump already ranks as the longest period sustained weakness since the Depression. The economy is staggering under many “structural” burdens, as opposed to familiar “cyclical” problems. The structural faults represent once-in-a-lifetime dislocations that will take years to work out. Among them: the job drought, the debt hangover, the banking collapse, the real estate depression, the health-care cost explosion, and the runaway federal deficit.
"New-Normal" Labor Force Growth!??!

Adjusted for Labor Force... FOURTH Best Recovery Since 1960!!!

Do Strong Recoveries Follow Deep Recessions???
A “Normal” Recovery… Spending Side?!?!

Real GDP During First 8 Quarters of Recoveries

A “Normal” Recovery… Income Side?!?!

Real GDI During First 8 Quarters of Recoveries

Job Market… Still Making Progress?!?

Average Monthly Private Job Gains
In Thousands

Total Private Hours Worked
Annualized Growth In Quarterly Averages

In Thousands
What’s BAD? Borrowing and Housing!!?

- Total Real U.S. Bank Loans*
  *Total U.S. bank loans adjusted for definitional change in March 2010. Adjusted for inflation by the CPI Index. Shown as a ratio of level at the end of each recession.

- Real Residential Investment Spending*
  in First 7 Quarters of Recoveries
  *Current Level as a ratio of level at Recession End.

What’s GOOD? Profits, Investment, and Manufacturing!!?

- Real U.S. Corporate Profits*
  During First 7 Quarters of Economic Recoveries
  *Total Corporate Profits deflated by GDP Price Deflator Index. Real Profits shown as a ratio of level at end of each recession.

- Real Nonresidential Investment Spending**
  In First 7 Quarters of Recoveries
  **Current Level as a ratio of level at Recession End.

- Industrial Production Recoveries***
  1991, 2001 and Current Recoveries
  ***Current Level of IP Index as a ratio of Level at each Recession End.

Federal Reserve Following Playbook of Last Two Recoveries!!?

- Federal Reserve Policy Response
  Fed Funds Rate
  1991 Recovery

- Federal Reserve Policy Response
  Fed Funds Rate
  2001 Recovery
Momentum Headed Into Panic!??

- Initial Weekly Unemployment Insurance Claims
- Rolling 2-week Moving Average
- Johnson Redbook Same Store Sales Index
- Weekly Index—YOY Growth Rates
- S&P 500 Retail Sector Stock Price Index
- Relative Price Performance
- U.S. Total Bank Loans Adjusted for FASB Accounting Change
- Rolling 4-week Moving Average
- Natural Log Scale
- U.S. Industrial Production Index Real U.S. Personal Consumption Spending
- Economy Self Medicated!!?
  - Mortgage Yields Down 1%
  - Crude Oil Off 25%
  - U.S. Dollar Down 12%
  - M2 Money Supply Surging Since June
  - Japan Is Bouncing
- A Soft Patch RENOVATION!!!
  - 60% Improvement in Job Growth!
  - Credit Creation Emerging!
  - Emerging World Soft Landing!
  - Surging Commodity Prices Arrested!
  - Surging Energy Prices Stopped!
  - “Dollar Dump” Paused!
  - Improved Money Supply Growth!
  - Lowered Bond Yields!
  - Extinguished Bullishness!
  - Revalued Stock Market!
  - Japanese Bounce!
Corporate Dry Powder!!?

U.S. Corporate Net Cash Flow to Capital Spending Ratio

Restoring Household Capabilities!!??

U.S. Household DEBT Burden


Could Declining Productivity be a Catalyst for Jobs???

Productivity and Jobs

Shown on a natural log scale.
Like the Last Two Recoveries… Confidence Slow To Improve?!

Consumer Confidence Index* and Recoveries

*The Conference Board's Consumer Confidence Index.

Shown on a natural log scale.

Shaded areas represent recessions.

The U.S. Inflation Cycle!!?!

CRB Raw Industrial Price Index

Core Consumer Price Inflation Rate*

*6-month annualized rate, 3-month moving average.

Core Produced Price Inflation Rate*

Average Hourly Earnings (Wage) Inflation Rate*

*6-month annualized rate, 3-month moving average.

A New Commodity Price Cycle??!

CRB Commodity Price Index

Natural Log Scale.
An Abnormally, “NORMAL” Fed?!!?

Federal Reserve YIELD CURVE*
*10-Year Treasury Bond Yield Less Target Fed Funds Interest Rate.

Real Fed Funds Interest Rate*
*Target Fed Funds Rate Less CPI Annual Inflation Rate.

Annual Growth in REAL U.S. M2 Money Supply

Crisis Probability?!?

Bloomberg U.S. Financial Conditions Index*
*The Bloomberg Financial Conditions Index combines yield spreads and indices from the Money Markets, Equity Markets, and Bond Markets into a normalized Index. The values of this index are z-scores, which represent the number of standard deviations that current financial conditions lie above or below the average of the 1980-June 2008 period. Rising (Falling) values suggest improving (worsening) financial conditions.

A “Crisis-Phobic” Culture?!?

Percent of Stock Market Volatility Explained by the Changes in the Bloomberg U.S. Financial Conditions Index*
*R-Squared estimated from a rolling 1-year regression of the daily percent changes in the S&P 500 Index on the daily changes in the Bloomberg U.S. Financial Conditions Index. The R-Squared is a measure of the percentage amount of the volatility in the dependent variable (i.e., stock market) explained by change in the independent variable (i.e., financial conditions index).
The “Perception” of High Risk Makes the Reality “Low Risk”!!?

U.S. Stock Market Excess Return Per Unit of Risk*
Rolling 27 Month Periods
*Rolling 27-month calculation of Sharpe Ratio. Excess average monthly return of S&P 500 above 3-month risk-free Treasury bill divided by standard deviation of excess returns. 27 months is the time since the March 2009 low in the stock market.

Stock Market Valuation—Mania to Mania!!?

Stock Market Environmental Valuation*

Mania to Mania!!?

New-Era → Mania of OPTIMISM
New-Normal → Mania of PESSIMISM
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