

<<THE FACTIONALIZATION (NEW WORD) OF AMERICA IS BECOMING ABSURD. US NEWS & WORLD REPORTS REPORTED THAT MCCAIN MADE A GREAT MOVE TALKING ABOUT HIS SHOPPING AT COSTCO. POLLSTER ZOGBY SAYS THAT COSTCO'S MAINSTREAM CUSTOMERS ARE MUST-WINS IN THE FALL ELECTION CAMPAIGN. ZOGBY NOTED THAT MCCAIN STILL NEEDED TO WIN THE MORE CONSERVATIVE WALMART SHOPPERS.

THIS FRAGMENTATION IN AMERICA, THE HYPHENATION OF PEOPLE, WILL CONTINUE TO PLAGUE OUR POLITICS AND OUR PROGRESS. IT IS NO LONGER SUFFICIENT TO BE AN AMERICAN, WE MUST BE A COSTCO-AMERICAN, OR A WALMART-AMERICAN. A FAMILY, A COMPANY OR A COUNTRY HAS A FIXED AMOUNT OF ENERGY. THE MORE OF THAT ENERGY THAT IS SPENT IN DISAGREEMENT, THE LOWER THE AMOUNT OF PROGRESS THAT WILL BE MADE (BOSNIA, IRAQ). TOO BAD WE CAN'T SEE HOW MUCH BETTER THE FUTURE CAN BE FOR EVERYONE IF WE ALL BECOME "AMERICANS" AND STOP TRYING TO BETTER OURSELVES (OUR HYPHEN GROUP) AT THE EXPENSE OF OTHERS.

IN SPITE OF THE ALLEGED RECESSION, STOCKS HAVE BEEN DOING PRETTY WELL. THAT'S BECAUSE STOCK PRICES ARE ALL ABOUT THE FUTURE, NOT THE PAST. OVERALL, PROFITS CANNOT GROW FASTER THAN GDP AND RIGHT NOW, GDP GROWTH SEEMS TO BE NEAR ZERO, BUT IT WILL IMPROVE IN THE FUTURE. THINK ABOUT AMERICA AS A COMPANY. TO INCREASE PROFITS, WE NEED TO MAKE AND SELL MORE STUFF,

UNLESS WE CAN REDUCE COSTS, WHICH FOR OUR ECONOMY IS 70 PERCENT LABOR. AND LABOR COSTS ARE OUR INCOME. SO, WEAK ECONOMIC GROWTH IN THE COMING YEAR MEANS WEAK PROFIT GROWTH. OF COURSE SOME FIRMS WILL DO BETTER AND SOME WORSE AND THEIR STOCK PRICES WILL REFLECT THIS. BUT UNTIL THE ENTIRE ECONOMY STARTS GROWING FASTER, THE PROFIT PICTURE IS NOT EXACTLY BRIGHT.

SOME COMPANIES, HOWEVER, ARE GLOBAL, MAKING MORE MONEY OVERSEAS THAN HERE AT HOME. IF GDP GROWTH IN THE REST OF THE WORLD IS STRONGER THAN THE U.S., FOREIGN STOCK MARKETS MAY OUTPERFORM FOR A WHILE. KEEP THIS IN MIND AS YOU DIVERSIFY YOUR STOCK PORTFOLIO. AND REMEMBER, GOLD IS NOT AN INVESTMENT, IT IS A GAMBLE. THERE IS NO PROFIT GENERATING ENGINE BEHIND GOLD LIKE THERE IS AT TOYOTA.

ALTHOUGH MOST OF OUR ATTENTION IS FOCUSED ON FINANCIAL MARKETS SUCH AS BOND AND STOCK PRICES, DIRECT INVESTMENT IS FUNDAMENTALLY IMPORTANT TO ECONOMIC GROWTH. DIRECT INVESTMENT IS THE PRODUCTION OF NEW BUILDINGS AND EQUIPMENT AND KNOWLEDGE, ALL CRITICAL TO THE IMPROVEMENT OF PRODUCTIVITY OR OUTPUT PER HOUR. IF WE DON'T MAKE MORE OUTPUT PER HOUR, WE CAN'T GET PAID MORE PER HOUR IN REAL TERMS.

WE HAVE ALWAYS BEEN BIG INVESTORS OVERSEAS AS OUR COMPANIES HAVE GLOBALIZED. MOST OF OUR

FOREIGN DIRECT INVESTMENT IS IN INDUSTRIAL, HIGH WAGE COUNTRIES, NOT IN LOW WAGE COUNTRIES AS CRITICS CLAIM. EMPLOYMENT AT OUR GLOBAL COMPANIES HAS RISEN, NOT DECLINED, AS OUR INVESTMENT IN FOREIGN COUNTRIES HAS INCREASED.

FOREIGNERS ARE ALSO INVESTING HERE. BETWEEN 1992 AND 2000, EMPLOYMENT AT FOREIGN AFFILIATES IN THE U.S. GREW FROM 2 MILLION TO ALMOST 7 MILLION PEOPLE. FOREIGNERS LIKE TO INVEST IN THE U.S., NOT JUST IN STOCKS BUT IN ACTUAL PLANT AND EQUIPMENT SUCH AS CAR PLANTS AND PHARMA HERE IN OUR AREA. THE MORE FOREIGNERS INVEST HERE IN REAL ASSETS, THE MORE THEY WILL CARE ABOUT OUR WELL BEING, AND THAT'S A GOOD THING!

THE UNIVERSITY OF MICHIGAN CONSUMER POLL INDICATES THAT 90 PERCENT OF AMERICANS THINK WE ARE IN A RECESSION, THE HIGHEST IN THE 50 YEAR HISTORY OF OUR SURVEY. NOW EXACTLY HOW DID THEY FIGURE THAT OUT? CONSUMER WEALTH RECENTLY HIT A NEW RECORD HIGH. THE UNEMPLOYMENT RATE IS 5 PERCENT, ONE OF THE LOWEST READINGS IN THE PAST 30 YEARS. INTEREST RATES ARE HISTORICALLY LOW. INFLATION IS WORSE, BUT HISTORICALLY NOT BAD, SAY, COMPARED TO THE 1970S OR EARLY 1980S WHEN UNEMPLOYMENT WAS OVER 10 PERCENT AND INTEREST RATES OVER 20 PERCENT.

SOME CONSUMERS ARE HAVING PROBLEMS, THIS IS

ALWAYS THE CASE. BUT HOW DID 90 PERCENT OF US GET THE IDEA THE WE ARE IN RECESSION? WELL, THE NEWS, OF COURSE. THE NEWS LOVES BAD NEWS, SO WE ARE SHOWN PEOPLE WHO HAVE LOST THEIR HOMES (THIS HAPPENS EVERY YEAR), SHOWN UNEMPLOYED PEOPLE WORRIED ABOUT HEALTH CARE, HEAR BEN BERNANKE, CHAIRMAN OF THE FED, WARNING OF A PENDING RECESSION AND CUTTING INTEREST RATES TO PROP UP THE ECONOMY. ALL THIS BAD NEWS INFECTS OUR VIEWS AND WE RESPOND ACCORDINGLY. IF A DISASTER IS COMING, WE CUT BACK. BEFORE THE FIRST FED RATE CUT, ONE IN FOUR BUSINESS OWNERS, NET OF PESSIMISTS, EXPECTED THE ECONOMY TO IMPROVE. THIS FELL TO ONLY 5 PERCENT 12 DAYS AFTER THE ANNOUNCEMENT. NO DOUBT ABOUT IT, THE ANNOUNCED ACTIONS OF THE FED GOT US TO PULL BACK, INSURING THAT ECONOMIC ACTIVITY IN THE FOURTH QUARTER WOULD BE LOWER THAN IN OTHERWISE WOULD HAVE BEEN.

WELL, THINGS ARE IMPROVING IN CUBA UNDER RAUL. NOW, CITIZENS WILL BE ALLOWED TO HAVE CELL PHONES, ALTHOUGH THE COST TO GET ONE IS EQUAL TO HALF A WORKERS PAY. CITIZENS WILL ALSO BE ALLOWED TO RENT HOTEL ROOMS IF THEY WANT TO. AND IF YOU CAN AFFORD ONE, THE GOVERNMENT WILL ALLOW YOU TO HAVE A MICROWAVE OVEN OR OTHER APPLIANCES THAT WE ALL TAKE FOR GRANTED. MAYBE CHICKEN RATIONING WILL BE SUSPENDED!

MEANWHILE, FIDEL HAS AN ESTIMATED 800 MILLION DOLLARS STASHED AWAY IN A SWISS BANK ACCOUNT.

WHERE DID HE GET THAT? FROM THE POOR CITIZENS OF COURSE. WHY DOLLARS? BECAUSE NOBODY WILL TAKE CUBAN MONEY OUTSIDE OF CUBA SINCE THEY DON'T MAKE ANYTHING ANYONE WANTS TO BUY, EXCEPT MAYBE CIGARS. WHAT A BUMMER FOR CUBAN CITIZENS.

IN NORMAL TIMES, WE TYPICALLY EXPERIENCE ONLY A FEW BANK FAILURES OUT OF THE 8000 OR SO COMMERCIAL BANKS THAT OPERATE IN THE U.S. THIS TIME AROUND, WE'LL LOSE MORE. THE BIGGIES OF COURSE ARE TRYING TO DIGEST ALL THE LOUSY MORTGAGES THEY MADE. BEAR STEARNS HAS ALREADY BEEN LOST.

ON MAIN STREET, THE PROBLEMS ARE DIFFERENT, BUT OFTEN RELATED TO THE HOUSING BUBBLE. WHILE THE BIG BANKS SCOOPED UP ALL THE MORTGAGES MADE TO BUY THE SPECULATIVE HOUSES, SMALL BANKS WERE MAKING CONSTRUCTION LOANS TO THOUSANDS OF SMALL BUILDERS WHO WERE BUILDING THE SPECULATIVE HOMES. SINCE THE HOMES AREN'T SELLING, THE BUILDERS ARE DEFAULTING AND THEIR BANKS ARE TRAPPED.

IN THE 1989 COMMERCIAL CONSTRUCTION BUBBLE, OVER 500 BANKS FAILED. OF COURSE, DEPOSITORS DON'T LOSE MONEY SINCE THEIR ACCOUNTS ARE INSURED. WE AREN'T LIKELY TO SEE THIS AGAIN, AND MOST OF THE PROBLEMS WILL BE CONCENTRATED IN FLORIDA AND CALIFORNIA WHERE OVERBUILDING

WAS MOST SEVERE. SO DON'T PANIC WHEN YOU SEE MORE NEWS OF FAILURES. IT'S JUST THE MARKET EXERCISING SURVIVAL OF THE FITTEST.

Talking Ourselves Into Recession

In April, 90 percent of the respondents to the University of Michigan's Consumer poll reported that we were in a recession, the highest in the 50 year history of the survey. If we are even in a recession, it is the mildest by far of those experienced in the past 50 years. The unemployment rate is 5%, one of the best readings in the past 30 years, interest rates are low, we employ one of the highest percentages of the adult population in history, inflation is a bit high, but nothing compared to the 1970s or 1980s. So clearly consumers today aren't "hurting" as they would have been in past recessions.

Where did consumers say they got their information? The media, of course. In April, the highest percentage of consumer in the history of the University of Michigan survey reported hearing "bad news" about the economy. The media will report on a person who lost their home, not the historically high percentage of families that own their home today. In the days prior to the Fed's first rate cut and warning of a recession (September 18, 2007), the National Federation of Independent Business (about 500,000 member firms) reported that about one in four business owners expected the economy to improve (net of those expecting the economy to worsen). Twelve days later, this percentage had declined to just

5%. Owners reduced hiring and spending as a result and did so after every subsequent Fed rate cut and warning.

The evidence strongly suggests that warnings about a recession in the news indeed led consumers and business owners to “cut back”, insuring that economic activity slowed in the fourth and first quarters. Certainly the economy was set to slow after the above average growth in the third quarter, but would it have been as bad without all the hoopla about recession? I think not.

ACCORDING TO THE BUREAU OF LABOR STATISTICS, GOVERNMENTS AT ALL LEVELS ADDED 77 THOUSAND JOBS IN THE FIRST THREE MONTHS OF THE YEAR, THE BIGGEST JUMP SINCE 911 AND THE ADDITION OF ALL THOSE PROTECTORS IN THE AIRPORTS. A NORTH CAROLINA STATE ECONOMIST SAYS SUCH HIRING IS AN IMPORTANT CUSHION FOR THE ECONOMY WHEN THE PRIVATE SECTOR FALTERS.

WELL, ASSUMING THAT THE WORKERS WILL PRODUCE SOMETHING YOU WANT TO BUY, THAT MAY BE OK. BUT TOO OFTEN, YOU DON'T REALLY WANT TO BUY WHAT GOVERNMENT WORKERS ARE MAKING AND THEY DON'T EITHER. THEY WANT TO BUY WHAT YOU ARE MAKING. IF THE GOVERNMENT WORKER ISN'T PRODUCING ANYTHING OF VALUE, THEN THE INCREASE IN GOVERNMENT EMPLOYMENT IS NO DIFFERENT THAN MAILING OUT STIMULUS CHECKS OR HIRING PEOPLE TO DIG HOLES AND THEN FILL THEM UP. YOU, THE TAX PAYER MUST PONY UP MORE IN TAXES OR LEND YOUR MONEY TO THE GOVERNMENT

SO IT CAN PAY THESE WORKERS. HISTORY TELLS US THAT THE HIGHER THE PERCENTAGE OF A POPULATION THAT WORKS FOR THE GOVERNMENT, THE POORER WE ALL WILL BE. TOYOTA CAN PAY OFF ITS DEBTS WITH THE CARS IT MAKES, THE GOVERNMENT PAYS OFF ITS DEBTS WITH YOUR MONEY.