DJC

THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON

MONDAY
May 11, 2009
www.djcOregon.com

One big question: Where do we go from here?

There is some good news amid this economic slowdown,but more is needed from the financial sector

SUMMING IT UP

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Gross domestic product in the first quarter dropped much more than expected, according to the U.S. Department of Commerce. GDP plunged 6.1 percent from January to March, only slightly less than the 6.3-percent drop in the fourth quarter of 2008. Analysts had expected a 4.7-percent decline. These two quarters combined represents the worst contraction in more than 50 years. Exports, home building and business investment all plunged at their fastest rates in decades.

Chrysler Corporation filed for bankruptcy and General Motors teeters on the brink.

Unemployment rates now threaten to enter double-digit territory as more jobs are eliminated and few jobs are created. Many Americans are underemployed.

Banks, after having been profligate in their lending practices, now continue their parsimonious lending ways. Some credit card companies continue to squeeze consumers and small businesses, practices that threaten to undo the government's stimulus efforts and retard any economic recovery.

In addition, we now have the threat of a flu pandemic, which threatens to knock more off the world GDP.

However, there is some good news. Ken Lewis, CEO of Bank of America and one of the leaders in the financial debacle and wealth destruction, lost his job as chairman. The board installed a 10-year member and former college president as the chairman and kept Lewis as CEO, even though his credibility is gone. His efforts to claim the "devil (Federal Reserve Chairman Ben Bernanke and former U.S. Treasury Secretary Hank Paulson) made him do it" did not succeed.

In the meantime, as I predicted, the backlash toward finance companies has gained momentum in Congress. People are finally noticing that taxpayers have been supporting financial firms while they squeeze those same taxpayers. Perhaps some good will come from the financial company lobbyists working frantically to oppose any legislation.

We are not out of the woods yet and will not be for some time if credit lines do not open up. Business needs credit for investment in capital goods, expansion inventory and people. For now, financial firms are undoing efforts aimed at stimulating the economy. This will not continue.

In the meantime, there is some good news. As manufacturing has plunged, so have inventories. The seeds of recovery are in inventories eventually needing to be restocked. The Institute for Supply Management index of new orders increased in March from 42 percent to 47 percent, and production rose from 36 percent to 40 percent.

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Consumer confidence has improved. Consumer spending rose at a 2.2-percent pace in the first quarter in spite of banks' stinginess, and some retail companies are actually seeing light at the end of the tunnel. But how long can consumer spending rise as more people lose their jobs?

Nondefense capital goods orders increased for the second straight month, although orders for the year are 23 percent lower.

Equity markets, right or wrong, are signaling a recovery. Since the March 9 lows, the S&P index is up 32.5 percent – about where it was at its low in November 2008 – and down 0.8 percent year to date.

The Fed is doing its part by keeping interest rates very low, recognizing the problems and pledging to keep rates low for some time. They continue to buy long-term treasury bonds, buoying the economy. They have continued to backstop various bank activities, and work to improve the credit markets. Ten-year treasury yields have risen, suggesting a more optimistic outlook on the economy.

Patience and diversification are still the watchwords for this market. The government has made several inept efforts to improve the economy; someday, some might work. The Fed, within the limits of its authority, is doing the real work. The rest of the financial sector needs to pull on their oars, and then I believe we will work our way out of our quagmire. If we make it in spite of the banks, look for more Ken Lewises. He was just a lightning rod.

William Rutherford is the founder and president of the Portland company Rutherford Investment Management, listed in Barron's as one of the leading separate account managers in the country and recipient of a five-star rating from Morningstar. He is also the author of a critical appraisal of Alan Greenspan's term as Fed chief, "Who Shot Goldilocks?" Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com.