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A slow economic recovery puts more focus on elections

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Last month's column, "[Is there any good news among the grim?](#)," cited several instances of progress on the economic front. April has brought more good news, among still grim employment numbers.

The gross domestic product increased 3.2 percent last quarter. Though positive, the number was smaller than expected and barely maintained the jobs necessary to keep unemployment at current levels. GDP needs to grow at least 5 percent to make a dent in unemployment. But even as unemployment remained stubbornly high, new applications for unemployment declined. President Obama said the economy must create more jobs.

The GDP rate is growing slower than after previous recessions. The increase in GDP was largely due more to restoring inventory balances than end-point sales.

The Conference Board's Leading Economic Index increased for the third straight month. Ken Goldstein, economist at The Conference Board, said, "The indicators point to a slow recovery that should continue over the next few months. The leading, coincident and lagging series are rising. Strength of demand remains the big question going forward."

Also, the Conference Board's Consumer Confidence Index, which had rebounded in March, continued to increase in April.

Inflation remained subdued. The Federal Open Market Committee kept interest rates low and indicated that they would remain low for an extended period. Clearly the Fed believes that any recovery we are seeing needs more time to gather strength.

The housing market sputtered after an uptick resulting from federal tax credits for new home purchases. As soon as the credit expired, the market slumped.

The FDIC says that only 200 banks will fail this year, down from their earlier forecast of 300 bank failures.

Equity markets showed strength for the year to date, even as they swooned at the end of April. Nevertheless, April represents the third straight monthly gain for the market, coming on the heels of generally favorable first-quarter profit reports. A criminal investigation of Goldman Sachs, proposed financial regulation and the European credit crisis all weighed heavily on financials. The value of Goldman Sachs itself dropped \$21 billion. Since Greece has agreed to more austerity measure, we may see some lessening of the credit issues, but Spain, Portugal, Ireland and Italy wait in the background.

The S&P is up 6.42 percent this year through April 30, and finance and health care, two beaten-down sectors, are leading the way. Perhaps more significantly, transports are up 13.94 percent - a suggestion that the market sees improvement ahead for the economy.

Eyes are beginning to turn now to the U.S. mid-term elections in November. Polls show President Obama's approval rating slipping even as he succeeded in his health care plan. Since the plan itself was unpopular with the majority of Americans, his victory was Pyrrhic. His apparent successes are not resonating with the man on the street who is more concerned about jobs and the economy than treaties.

President Obama entered office with an approval rating of 69 percent, the highest since JFK, but that number has steadily declined since. His disapproval rating is now nearly 46 percent; 50 percent could be considered a terminal illness for politicians. He was a rock star during the campaign and his inauguration, but it is hard to sustain that momentum. Now, people are more concerned about the basics of government. He must get the economy and employment moving again. Public trust in government is as low as in 1994, when Democrats were routed in mid-term elections. This lack of trust manifests itself in movements like the Tea Party, and Sarah Palin makes the most of it.

In an effort to capture the movement, President Obama has become populist. In a speech at Cooper Union in New York City, the site of one of the most important speeches of his campaign, Obama took Wall Street to task. Next, Congress grilled Goldman Sachs executives for more than 10 hours. A Goldman Sachs employee e-mailed his girlfriend about his dream of creating a product that no one could price, how he had done so, and managed to sell it to widows and orphans. Goldman hung him out to dry prior to the congressional hearing, but that did not spare the executives from the woodshed.

The SEC has brought fraud charges against Goldman, and now the Department of Justice has opened a criminal investigation. In an earlier column I pointed out that after the Savings and Loan scandal, 2,500 bankers went to jail. Until now, no banker had even been charged, let alone convicted, of criminal activity. All this frightens the markets, but does not impact the underlying economy.

We have had hints of how this may all play out in the fall elections. The first shoe to drop, in the backlash against Washington, was Scott Brown. The unheralded Massachusetts politician now fills the Senate seat held by Ted Kennedy for so many years. Now we are seeing more signs that Brown's victory may not have been a fluke.

The Democrats are running scared. They are altering their agenda and trying to get in front of the parade of outrage that is coming from the heartland of America. In that sense, it might be said that the Goldman charges are politically motivated, but even the new CEO of Bank of America admits that banks made mistakes. Perhaps this admission is the first step to redemption. It is certainly an important admission.

Another glimpse into the future of elections came from the U.K., where elections were held May 6, for prime minister. The issues there are much the same as here: loss of trust in the government, bank bailouts and a flagging economy. The Labor party has been in power for years, first with Tony Blair and more recently with Gordon Brown as prime minister. But the assumed winner was David Cameron of the Tory party. Nick Clegg, leader of the liberal Democratic Party, was a distant third. Still, he may well be a kingmaker because the election resulted in a hung parliament with no party receiving enough votes to organize a government. This is yet another example of a dark horse making an impact.

Don't be surprised if this scenario is replayed often this fall. And don't be surprised if the Democrats alter course to get ahead of what promises to be a tsunami.

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