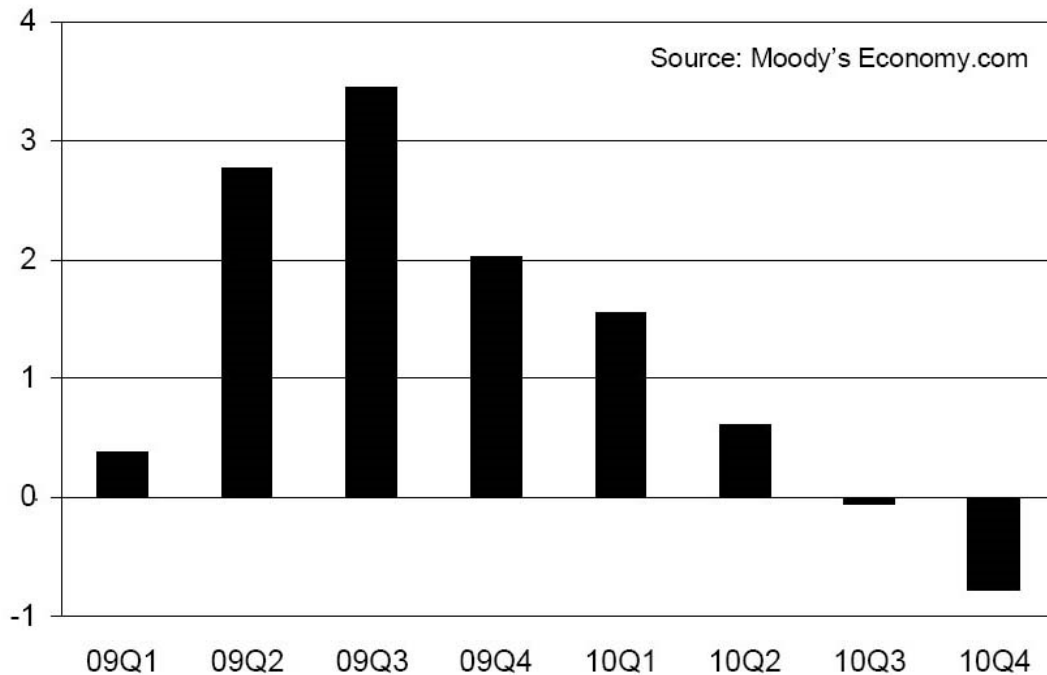


# THEY ARE FROM THE GOVERNMENT AND ARE HERE TO HELP US

WEB BUZZ 2009.11.16

Is the recession over? We doubt it. Note the following chart.

Chart 1: Recession Ends as the Fiscal Stimulus Kicks in  
*Contribution to real GDP growth, ppt*



Adapted from CalculatedRiskBlog.com

Yes, the third quarter real GDP came in at 3.5%, which is right on the long-term trend for the U.S. However, as mentioned previously in other Web Buzzes, it was driven almost 100% by federal stimulus, which, as the chart shows, will have a steadily decreasing impact on GDP moving forward, to the point of being a drag on growth in the second half of 2010. Note the following percentage increases: durable goods (autos) +22.3%, residential +23.4%, and federal spending +7.9%. These areas saw their increases because of federal stimulus efforts. Take that away and you have little or nothing. The road to

real growth comes from non-residential fixed-income investment (capital spending) in the private sector. Without growth in this area, we will have little to no increase in employment and incomes. How did capital spending perform in the third quarter? It was -2.5%. The only real positive increase came in the export area which was +14.7%.

It looks as if the Cash for Clunkers program will be extended, as well as tax credits for home buyers. Both of these programs will help the fourth quarter, but keep in mind that they borrow from future sales and come about through government borrowing. All the government intervention is nothing other than forcing the consumer to continue to borrow when he desperately needs to save and pay down debt. Think about it - one gets a tax credit for a down payment, which he will have to pay later by way of tax increases, and then will have to borrow the rest from private lenders, many of whom have received funds from the government to repair their balance sheets.

What kind of economy is this? Tell Washington to close up shop and go home. Please, please just get out of the way.