John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday July 3, 2019

On Monday the first of July, the decade-old U.S. economic recovery reached a new record. The recovery has not only been longer than expected, it has been stronger than expected. Now that there are signs of the economy slowing and comments about cutting interest rates by the Federal Reserve, economists are worrying about the next recession. Given the length of the recovery, and recession worries, the following headline in Reuters on Monday might be a shock: "As U.S. expansion notches record, recovery may have only just begun"

Are the Reuters editors kidding? How can a ten-year old recovery be in its infancy? The answer is that the 2007-2008 financial crisis did more damage to the average worker than the headline data have indicated. According to data uncovered by Reuters, workers are just beginning to recover wages and benefits lost in the last recession. So with inflation low, and the Federal Reserve determined to keep growth alive, it is possible that the recovery will continue until wages have risen enough to finally put upward pressure on inflation.

President Trump tweeted that if only "the Fed had gotten it right," the stock market would be much higher, and we'd have "GDP in the 4's or even 5's". In the 1960s the average annual GDP growth was 4.3%. That history says stronger growth is possible. But there are differences between the economy of the 1960s and today. For example, the labor force was growing in the 1960s as the baby boomers came of working age and female participation in the labor force rose rapidly. Labor force growth is about 1% less today than in the 1960s. It would take a leap in productivity to make up for the slower labor force growth. The San Francisco Federal Reserve points out that productivity growth has also slowed to about 1% since 2004. That means the recent growth of 3% or so will be hard to sustain. The San Francisco Fed thinks that given the slower growth in productivity and the labor force, the sustainable rate of GDP growth is 2% or slightly less. Which in turn means that it may be quite a while before we see enough upward pressure on inflation to make recession a real concern. The Reuters editors could be right - this recovery may have legs.

There has been good news on tariffs and the China talks. President Trump says the talks between the U.S. and China are "back on track" and he has suspended any further tariffs. Before the recent talks China was sending positive signals. China's foreign ministry spokesman Lu Kang - referring to the history of U.S.-China relations - said: "I'm not getting ahead of myself, but communication over four decades shows it is possible to achieve positive outcomes."

Stocks have been doing very well. A positive trade deal between the U.S. and China would provide real support. President Trump's surprise visit to the DMZ in Korea to shake hands with Kim Jong Un is also a positive.

Stocks have been on a roll. The S&P 500 was up 6.9% in June - the best June in 64 years. The Dow Jones Industrial Average did even better, up 7.2%, the best June in 81 years. While it is always better to see stocks going up rather than down, up too fast too soon can be followed by an unpleasant sinking spell. For the year so far, the S&P 500 is up 17% and the Dow Jones Industrial Average s up 14%. Fortunately, neither gain is enough to trigger “euphoria” warnings.

Thomas Sowell turned 89 on June 30. He is without a doubt the brightest of the currently living economists. He has written 22 books and countless articles, all in clear understandable English. Here is one of my favorite Sowell quotes: “The first lesson of economics is scarcity: There is never enough of anything to satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics.”

Comment [Y1]:

Happy Birthday Thomas!!!!

There is economic turbulence on the other side of the Atlantic Ocean. Britain is struggling with a very messy Brexit and at the same time looking for a new Prime Minister to replace Theresa May. Some businesses have already left London for mainland European cities. More will leave unless a smoother Brexit deal can be reached soon. The UK economy is still growing, but slowing. A Brexit induced recession is not out of the question.

Last week Mario Draghi, president of the European Central Bank said the ECB would need to ease policy again if inflation did not head back to its targets, and that there was still “considerable headroom” to do so. Inflation in the euro zone slipped to 1.2% in May, the lowest in more than a year. In response the euro took a beating and President Trump complained. The lower euro makes European goods and services less expensive compared with goods and services from the USA and other US dollar-based economies.

However, President Trump's tariffs and trade battles are part of the problem. The German economy is expected to grow just 0.5% this year and Germany is the strongest in the euro region. The escalating U.S.- China trade tensions were pointed out as doing a lot of damage to investor and business confidence in Germany. Hopefully a positive outcome on the trade front will restore confidence and get the German economy growing at a faster pace.

I am currently in the Bahamas for a few days with family including my youngest grandson. The big attraction here is the Atlantis waterpark. The Chinese built a huge hotel complex a few miles away. It had financial problems, but recently was completed and opened. Now the Chinese say they will build the world's largest waterpark. If they do, then Atlantis will surely follow with an expansion. The current Atlantis waterpark attracts thousands of tourists - families with children and also adults. From Atlantis you can go fishing or travel to marine based attractions on nearby islands. I first came here three decades ago. The economic welfare of the Bahamas has improved markedly thanks to the new investment and tourism. It has been very pleasant to see so many lives improved in so many ways.

I will have the next market review and update for you one week from today on Wednesday, July 10, 2019.

All the best,

John Dessauer

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