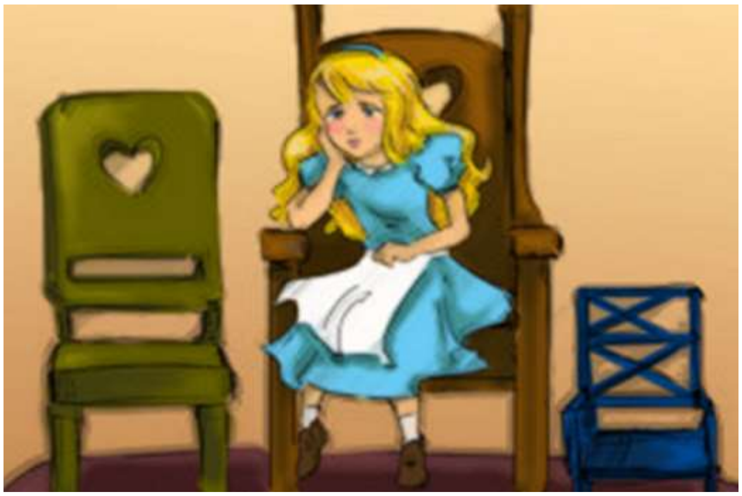

THIS ECONOMY'S NO FAIRY TALE

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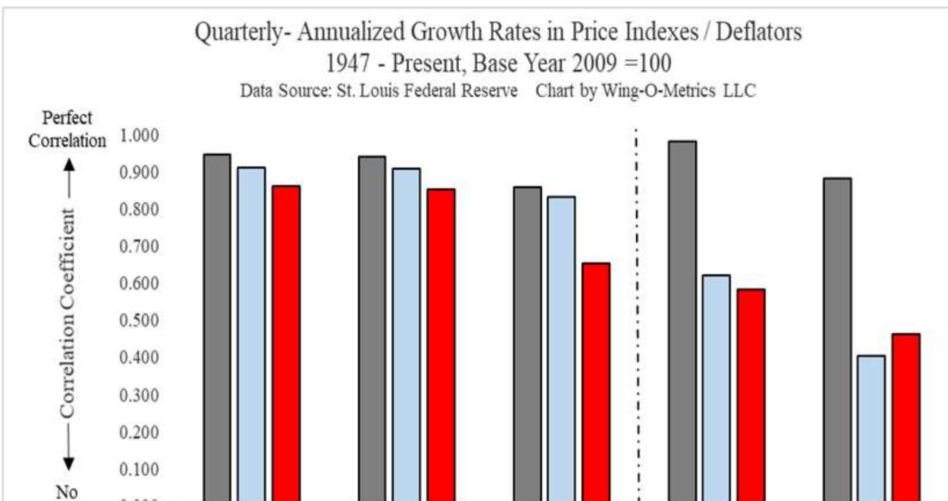
Once upon a time, it was relatively easy to replace a boring narrative of consistent GDP growth by calling it Goldilocks. Referring to the famous 19th century fairy tale first recorded by poet Robert Southey, a Goldilocks' economy represents an economy that is growing "just right". Or, in other words, consistently expanding GDP that is neither too hot or too cold. Economists play on this simple story in order to parlay the over-ridding theme of finding balance; discovering a pocket of economic stability and safety in an otherwise chaotic and violent world. Typically, they will therefore use the analogy to admonish their audience into accepting the current state of the economy for what it is, quixotically reverting to: "yes it (economic growth) could be better, but it could also be worse." This is as sloppy a technique as it lazy and, of course, becoming a more popular adage to fall back on by the current troupe of economic storytellers. It bears noting, though, that the current state of the U.S. economy is not a fairy tale Goldilocks, rather it is the exact opposite.

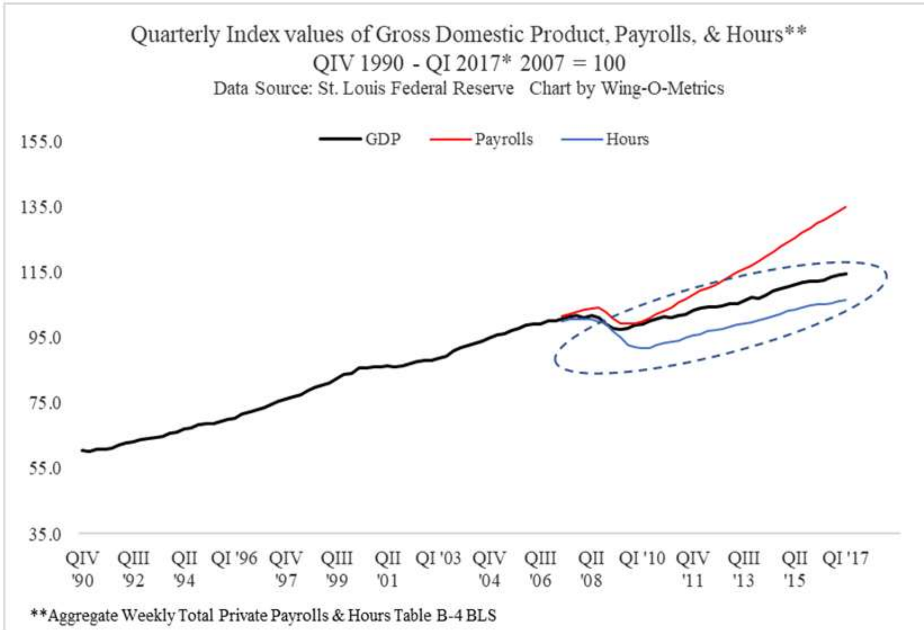
By "just right", a Goldilocks' economy simply means that the economy is consistently growing within an acceptable degree of its current long-term potential. Unfortunately, due to the accumulating levels of inert or surplus productivity, the difference between what the economy can do and what it is doing (aka the output gap) is getting wider, resulting in an economic procession that is insulating the overall economy from both positive and negative shocks. If anything, the current state of economic growth is 'just wrong" evident by the reversal of roles by the story's main characters.

The telling of a real Goldilocks' economy, subsequently, was during the 1980s and 1990s. Although academic economists now refer this period of U.S. economic activity as the Great Moderation, reading the overall story-line again it becomes clear that this was a tale dominated by two main characters: stable prices and full employment. However, the in the current edition, price stability has been replaced by price volatility as both the CPI and PCE price deflators are now statistically independent of the GDP price deflator, engineering substantial price volatility for those at the intersection of the economy and the consumer (i.e. businesses). The price of every bowl of porridge, in this economy, is just wrong. Similarly, every chair of full employment is uncomfortable due to the fact that surplus productivity makes proportionally cheap relative to the output it produces. So although payrolls climb and unemployment falls, actual work completed (as measured by aggregate hours) is stymied. Economic fact, mind you, can be stranger than fiction.



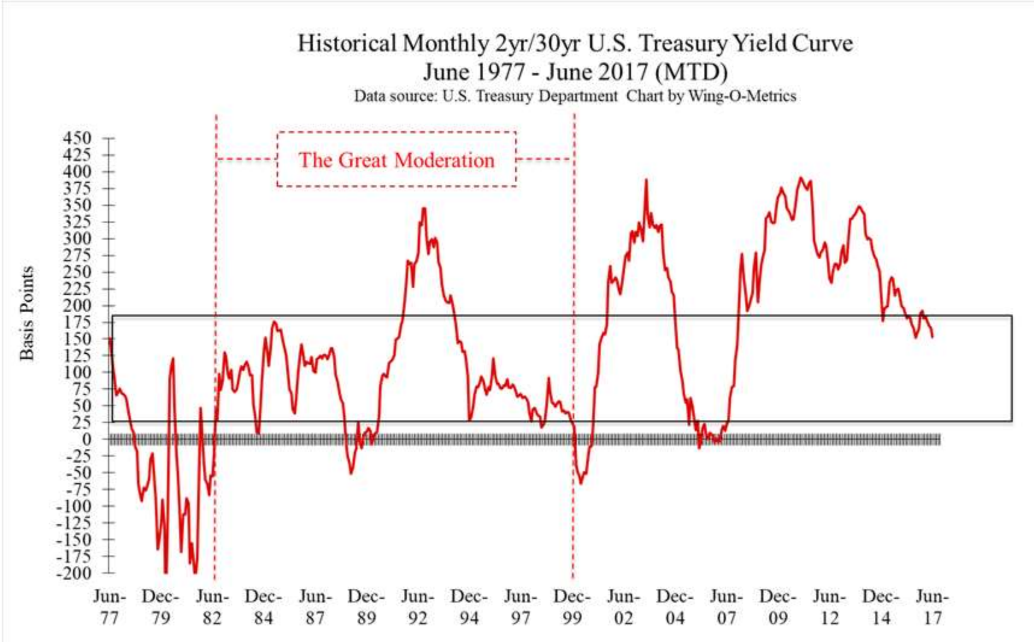
	1947 - 1964	1965 - 1982	1983 - 1999	2000 - 2008	2009 - Present
CPI-PCE	0.947	0.940	0.858	0.981	0.881
PCE-GDP	0.911	0.907	0.832	0.622	0.404
CPI-GDP	0.860	0.853	0.653	0.581	0.463

Although GDP growth is tame, the general behavior of prices at the consumer level to that at the economy level have never been more distorted in modern economic times.



Although payroll or 'job' growth has expanded rapidly over the last 10 years, hours or 'work' has increased only slightly. Surplus productivity's impact on the labor market is most evident here as GDP tracks actual work completed and not jobs added.

It is the fact of a widening output gap, though, that the behavior of the U.S. Treasury curve reads into the most. Rather than being lulled into a nap, the 2yr/30yr Treasury curve's - the curve that best represents the real-time relative health of the U.S. economy- resistance to buy-into the Goldilock's story is more than plainly told. For when an economy is growing within an acceptable degree of its potential, the spread on the curve will spend an inordinate amount of time in a 150 basis points range (between 175 and 25 basis points), just like it did during the Great Moderation. Like turning a page, though, the advent and subsequent growth of surplus productivity in 2000 and beyond as turned this behavior upside-down with the 2yr/30yr spread now mostly tossing and turning anywhere but that comfortable 150 basis point range bed. And those rare times it does find a comfortable place to rest its weary head, it finds itself tumbling out of the range just as fast as it fell into it.



During the Goldilocks' economy days of the 1980s and 1990s the spread between the 2yr and 30yr Treasuries was mostly between 175 and 25 basis points. Since 2000, however, that spread has mostly been anywhere but in that range (and when in the range now, it tends to move quickly out).

By now, it is not a spoiler to understand how this story is ending. Although the conclusion is far from reality, the prospects of the further continuation of the current economic procession is no childhood lore of whimsy. In fact, the insular economy is a reality of professional tragedy, wrought with suffering and woe. Economic potential, like that of energy, is neither created nor destroyed, rather it is used or wasted. Obviously, therefore, economic potential is being wasted more than used these days and the economic and social impact is harrowing. Due to the fact that surplus productivity is still an invisible force, the aggregate yet individually unique disconnect between professionals and their economic potential remains mostly unrectifiable, thereby destroying relationships of all sorts as people tend to internalize the damage. (If a person is having increasingly difficult time relating to their own station in life, how can they possibly empathize with someone else who is ironically going through the same thing but with a different set of circumstances because everyone's economic potential is unique unto themselves?)

It is no wonder, therefore, that suicide and over-dose rates are skyrocketing among professionals of all characteristics these days as they desperately try to escape the economic reality of a continually under-performing economy. It is careless and dangerous, therefore, for economists to broadcast that the economy is "just right" when in fact it is the opposite. Although this story doesn't set up to have a happy ending, the book isn't finished or written in stone for that matter. For those in trouble please reach out for help. SAVE.Org (Suicide Awareness and Voices of Education) is just one of a number of sources that are available to everyone. The pain is real but the outcome can get better.

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