

Spring?

The arrival of Spring has been so elusive this year that we sometimes feel stuck in a permanent deep freeze, just like our economy! But then again, the US stock markets have **sprung up all over** with equity investors enjoying a warm spring breeze. These mixed signals have fooled the most skillful experts. Even Punxsutawney Phil blew it this year fraudulently predicting an early Spring which earned him a criminal indictment and potentially the death penalty. Phil's handler, Bill Deeley, president of the Punxsutawney Groundhog Club's Inner Circle, took the fall testifying that he misinterpreted Phil's "*groundhog-ese*" and that Phil actually had correctly predicted six more weeks of winter.

As Phil and Deeley learned, valid predictions of the weather are as hard as ever, while predictions of the markets and the economy have proven even more tenuous given these contradictory, "*unusually uncertain*" times. The unforeseen surge in the stock markets could be a harbinger of spring, but these gains must ultimately be upheld by more robust economic growth. Old Man Winter was a very tough old man back in 2008 when we suffered through the harshest economic winter in over 50 years. The global landscape was frozen so deeply that emergence from this deep economic freeze has proven even more problematic than the prognosticators predictions themselves.

In March of 2009, at what turned out to be the depths of the economic winter, Fed Chairman Ben Bernanke peered into his crystal ball and saw the first "*green shoots*" of economic recovery. Back then the economy was so fragile that these "*green shoots*" could have been snuffed out by a bitter cold snap. Now four long, hard years later economists are still searching for those elusive signs of a warming economy on the path to a solid recovery.

Most economists feel things are getting better here at home. They say the US economy has been growing, albeit slowly, since the "*green shoots*" first appeared from beneath a blanket of snow. Other experts have a bleaker view conjecturing that the Great Recession has inflicted permanent damage and precipitated a Great Stagnation in the US economy. However, everyone agrees that this recovery has been slower, longer and more frail than any in the past.

The Federal Reserve Chairman, Ben Bernanke, in his speech last November took on both sides. First he hypothesized how the Great Recession could have caused permanent damage to US growth resulting in the disappointingly slow pace of the economic recovery by saying -

- ⇒ Extraordinary severe job losses caused a mismatch between available jobs and skills and the high level of long-term unemployment has led to loss of skills, both resulting in a higher "normal" level of unemployment.
- ⇒ Productivity gains have been restrained due to risk aversion and uncertainty coupled with tight credit.
- ⇒ Housing bubble, delinquencies, excess inventory, and underwater mortgage borrowers have all contributed to a frozen housing landscape.
- ⇒ Damage to the banking sector has caused damage to the credit and capital markets that hasn't been fully repaired.

Second Bernanke looks to the bright side, he says -

- ⇒ The slow growth can only be partially attributed to longer lasting effects of the crisis and these should fade as the economy heals.
- ⇒ Only modestly higher unemployment should exist after the substantial slack in the labor market tightens once the chilling headwinds to growth subside.
- ⇒ Home sales, prices, and construction have all heated up which should be a source of economic growth and new jobs for the next couple of years.
- ⇒ The condition of the banking sector suggests gradual but significant progress has been achieved since the crisis.

The economic statistics are still chilly, but has the spring thaw begun? We've recently weathered all our government

can dish out—the Fiscal Cliff, the payroll tax increase, and Sequestration. Even though, our ongoing federal deficits and political gridlock will continue to chill the US economy, those warm spring breezes may nurture the slow warming trend. However, we must be patient.



Mother Nature may test

our patience with an unexpected spring snow or potholes after the thaw, but we've weathered the blizzards in the past and dealt with even bigger bumps in the road. Hopefully, the surge in equity markets forecasts that the "*green shoots*" have finally taken root giving rise to a more solid recovery.