

## Green Shoots?

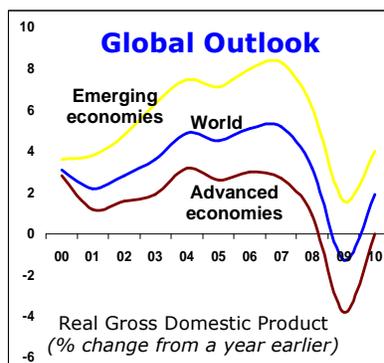
We are suffering the harshest economic winter in over 50 years. Precipitated by the U.S. subprime mortgage crisis, the global economic landscape has been frozen so deeply that some forecasters don't see a thaw until the end of 2010. However others searching for any good news in this bleak economic environment, believe that, although sparse, there has been evidence of the emergence of a few "green shoots" of recovery. The stock market finally has produced some "green shoots" after a deep freeze for the last six quarters. Yet, our economy is still very fragile and could relapse back into winter.

In economics, the statistics don't lie and they are still chilling. Macro Economic Advisers, as reported in a Wall Street Journal article, predict that our Gross Domestic Product will contract by a 1.3% annual rate in the second quarter. This is a definite improvement from the prior back-to-back declines of about 6.0% which marked the U.S. economy's worst performance in a half-century. Even though growth is still negative, the pace of the contraction is slowing, which may signal an inflection point that portends a warming of the economy and a bottom of the recession which have already iced up our emotions and our pocketbooks for a year and a half.

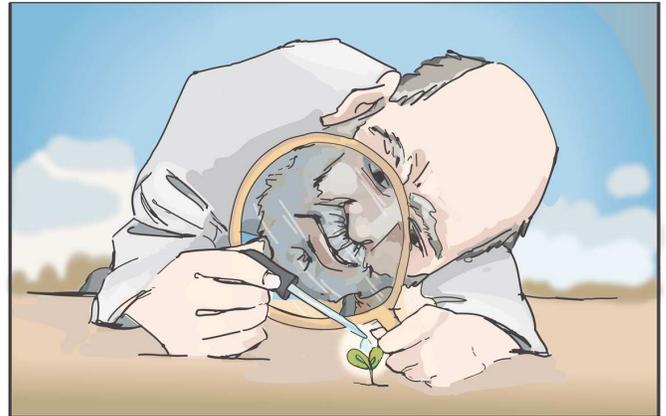
The International Monetary Fund's (IMF) World Economic Outlook—**Crisis and Recovery** report last April documented the cold, hard facts for world output. The IMF tabulates these arctic economic conditions, "the global economy is projected to undergo a deep and prolonged recession in 2009 with growth only returning at a gradual pace in 2010." The IMF graph

shows the actual history of world growth and the IMF's forecast of the beginnings of a recovery in late 2010. Although experts disagree on when the recovery will start, most do agree that growth will be at a gradual, but let's hope not at a glacial, pace.

The unprecedented bailouts and enormous economic stimulus helped to halt the economic free-fall that began last September, according to Peter Orszag, White House budget chief. Our economy can't regain strength until (1) the financial system stabilizes and (2) home prices stop falling. You have to hit the bottom before growth can resume and the Federal Reserve will mandate an exceptionally low (near zero) federal funds rate and flood the financial system with \$1.5 trillion, calculated to unthaw the credit markets, keep mortgage rates low and prop up home prices.



First, this quarter has been a period of healing for the large banks as confirmed by their strong performance in the government's stress tests documenting that they have "significant cushions" of capital and will probably not require any additional taxpayer money beyond those already committed TARP funds. The ability of many big banks and brokerage firms to tap the capital markets, rather than governmental programs, to raise cash to shore up their bal-



ance sheets provides further evidence that the big banks and financial institutions are not on an icy slope. However many big banks still hold toxic, mortgage-backed securities which were at the heart of the downturn freezing the credit markets.

Second, home prices appear to be stabilizing with only a 0.6% drop in April according to the S&P/Case-Shiller index. Also, the \$8,000 first time home buyer credit may boost the market in the lower priced homes flooding the market. But rising unemployment and mounting foreclosures could threaten to stall a housing recovery, which breaches the whole economy as evidenced by the GM bankruptcy.

Every time "green shoots" of recovery emerge, there always seems to be an impending hard freeze which could delay the start of growth. In the depths of the recent market bottom in a mid-March "60 Minutes" interview, Federal Reserve chairman Ben Bernanke concluded with these final words to the American people, "I do. I do see green shoots - not everywhere... I have every confidence that this economy will recover and will recover in a strong and sustained way. The American people are among the most productive in the world... I just have every confidence that as we get through this crisis, that our economy will begin to grow again and it will remain the most powerful and dynamic economy in the world."