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Economic Rapture?

Radio-host Harold Camping predicted the Biblical end-times (specifically, the “rapture”) would begin on May 21st. Forget the theological meaning of all this. For most people, Camping’s prediction was simplified to mean the “end of the world” as we know it. Obviously, that did not happen. Or, did it?

Let’s imagine that the world really did end. Let’s imagine that we’re now living in an artificial world. Federal Reserve Chairman Ben Bernanke is making the sun rise with monetary policy. Federal spending is generating oxygen and enormous increases in federal debt are making water. Everything seems relatively normal, but it’s all ultimately just a mirage, created by artificial means, and it can’t last forever.

Of course this is an extreme example, but that’s what it seems many believe about the economy today.

It all goes back to 2008 when the economy crashed, supposedly all by itself, in what was called “the worst crisis since the Great Depression.” The pundits said capitalism had failed. Many predicted the complete collapse of the economy, a worthless dollar, and a “new normal” – it was the “end of the world” as we knew it.

And while the economy could be doing better, real GDP has expanded for seven straight quarters – we’re now in the eighth. Corporate profits are at a record; the S&P 500 is up 100% from the bottom; consumer spending is \$450 billion above its pre-panic 2008 peak, and private sector payrolls have expanded for 15 straight months.

So, which is it – fake, or real? Did the economy crash and burn, only to be supported in an artificial state by government actions? Or, was all that “end of the world” talk a prediction that did not come true? Are all the same old real world things – like creative destruction, supply and demand, innovation, or trial and error – still happening like they always have?

If the former – the artificial state – then there is lots to worry about. QE2 will end this month. Stimulus spending has wound down and politicians are debating large spending reductions. The political class seems to have gotten “religion”

about federal debt. In other words, to those in the artificial camp, things don’t look good.

In contrast, if the world really did not end back in 2008, if we are experiencing a relatively normal recovery, things look a great deal better. This is what we believe.

We do not believe that capitalism failed and that the world as we knew it is over. The crisis was caused by a failure of government policy. The bubble in housing was caused by low Fed rates and housing subsidies. The Panic of 2008 was caused by a set of misguided reactions to the bursting of that bubble (mark-to-market accounting and TARP).

In our view, quantitative easing has had little impact – the money supply (M1 or M2) is not expanding as rapidly as many think. Moreover, and this is key, the massive increase in government spending has been a drag on growth, not a boost. In other words, the end of quantitative easing, spending cuts and a new focus on government debt reduction are things to rejoice about.

We are not in the majority, nor are we ignoring our economic problems. We just believe the economy did not come to an end back in 2008 and we do not believe recent growth has been created artificially.

But a large, loud and sincere group is still convinced the economy is broken and fragile. They see the recent slowdown in economic growth – real GDP growth looks to be growing at only a 1.5% annual rate in Q2 – as another sign that it really has been the end of the economic world. Gloom and doom are back on the table.

Never mind that much of the slowdown is so obviously tied to temporary Japan-related disruptions in manufacturing and tornado-related dips in home building. That doesn’t matter if you really believe the end is near.

But, when we move through these temporary problems, when auto production overcomes the parts-related slowdown and spikes back up at about a 100% annual rate in Q3, real GDP will sharply accelerate again.

At that point, we suppose that those predicting the end of the economy will postpone their forecast once again.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-7 / 2:00 pm	Consumer Credit - Apr	\$5.0 Bil	\$6.0 Bil		+\$6.0 Bil
6-9 / 7:30 am	Int'l Trade Balance - Apr	-\$48.8 Bil	-\$49.2 Bil		-\$48.2 Bil
7:30 am	Initial Claims - Jun 4	419K	420K		422K
6-10 / 7:30 am	Import Prices - May	-0.7%	-0.3%		+2.2%
7:30 am	Export Prices - May	+0.3%	+0.3%		+1.1%