



Christopher Kuehne, MS, CFP
*Certified Financial Planner
NAPFA-Registered Financial Advisor
Fee-Only Financial Planning
Investment Management Services*

The Recovery is Still Progressing Despite Headlines that Suggest Otherwise

Despite a lot of negative headlines these days in regard to the economy, such as the Gulf oil spill, the European debt, North Korea and the recent jobs report, it is my opinion that the recovery is still progressing.

In fact, sometimes news headlines that seem negative are actually positive. An example is the falling value of the Euro. That's being (rightly) treated as a sign of Europe's weakness. On the other hand, seeing the Euro drop to parity (\$1.00) or even just \$1.10 is the best thing that could happen to Europe. It'll be a real shot in the arm to European exports and tourism and may just counterbalance the debt burden on Germany and France to prop up Greece, Spain and Portugal.

Another headline concerns the unemployment report that just came out on Friday. An expected 180,000 private sector jobs came in instead at 41,000. So many economists are now saying that the recovery is going to be weaker or might even result in a double-dip recession. It's my belief, however, that many positive factors in the economy are being overlooked. Keep in mind that one bad month does not make a trend; the previous 4 months of non-farm payroll numbers all showed healthy increases. In addition, given certain economic indicators I'll mention below, the consensus of economists for the next 9 months of jobs numbers is 2 million new jobs, which is over 200,000 per month. That's not strong, but it's definitely not a jobless recovery.

There are other factors as well. Most observers are not bullish on housing, but a consensus is forming that

at least housing prices have stabilized. For the next year, inflation is not expected to be a problem, and with oil prices dropping recently from \$86 a barrel to \$74, that puts considerable money into consumers' pockets. In fact, it's like another stimulus package.

Consumer spending has gone from -2.5% in 2008 to the current +2.5%, and with the expected 2 million new jobs over the next 9 months, that will bring with it an "income effect" that should push consumer spending up to a 3.0% growth rate. In addition, corporations have more cash on their balance sheets than they have for a generation. This bodes well for future hiring and capital spending.

Finally, as for the 14% drop in stock prices (considerably higher for European stocks) in the last 6 weeks, corrections (as mild downturns are called) occur every year and are not shocking news; it's part of the market's process of weeding out nervous traders, making room for us long-term investors. Most economists agree that, unless we have other shoes to drop, much of Europe's debt crisis has already been priced into stocks at this point. Markets of course may drop further, but we're not in that bad a shape for a possible rebound.

So watch out for the media's bias toward negativity. It creates a downward spiral for investors, such that they begin thinking everything that's happening is negative. In reality, it's just that negative headlines are catchier for the press than neutral or positive ones.