CARLSON FINANCIAL MANAGEMENT

Gloomy Boom

By almost any objective measure we are in the midst of an economic boom. Unemployment at 4.4% of the workforce is near a record low. It had been 10% in the recession's depth. Economists typically think of a 5% rate as a mark of full employment. Not only is unemployment way low but the availability of unfilled jobs is at a record high. The Department of Labor's Job Openings and Labor Turnover Survey finds 6.17 million job openings at the end of July. Household net worth is at its highest level ever, over \$96 trillion. Personal income is at another historic record and up almost 5% since last year. Consumer spending, at an all-time high of \$13.4 trillion, is up 35% from February of 2009. Retail sales are up 4.1% over last year. Inflation is low. Gross domestic product (gdp) in the first quarter was up 3.1% over the same period in the prior year. In the third quarter of 2008 gdp actually fell 6.3%.

Business is booming. Factory shipments are up almost 5% over last year. In March of 2009 industrial production fell nearly 13% from the prior year's level. Capital investment in equipment and structures is up 5.4% since last year and up almost two-thirds from the last quarter of 2008.

The stock market registers new highs seemingly every day. The total value of all stocks in the Dow Jones Industrial index is up 80% from what it was at the end of 2009 and corporate profit has risen by the same fraction since the first quarter of that year.



Consumer, business and investor optimism is following the booming economy. The Consumer Confidence Index, based on a survey of 5000 households, registered a score of 122.9 in August. This is higher than 90% of all monthly surveys since 1977. At the bottom of the great recession in 2009 the index was at 25. A survey of CEOs, chief executive officers, found that 61 out of 100 felt that business was better than it had been in the prior 6 months and 71% thought that the next year would be even more profitable. The NFIB's Small Business Optimism Index is at its highest since 2005. CNN's Money section has a Fear & Greed Index which measures investor sentiment. A high number indicates that greed (read confidence) outweighs fear. In September that number was 77 on a scale of 100. CNN classifies that as 'Extreme Greed'.

It isn't just in the United States. CEO confidence in Japan, China, and India

is positive. The European Commission's Economic Sentiment Indicator, measuring both business and consumers, is at its highest level since July, 2007. Europe is recovering slowly but consistently from a recession far worse than ours. China never did experience the Great Recession.

So why is there no excitement, no public pronouncements about how well we are doing, no proud private chatter about buying things or going somewhere? Politicians, liberal and conservative, seem to think we are barely a step past the recession. They talk about getting the economy going again. In brief, there is optimism but no sense of prosperity.

One reason surely is stagnant wages. Inflation adjusted household income did not return to 1999 levels until September of last year. Although personal income is higher it is divided among a larger number of households. Nor does expanded employment lead to a greater sense of economic security. A recent survey found that nearly 8 out of 10 American workers say they live paycheck to paycheck

The labor force participation rate is much lower than it was before the recession. In January of 2017 it was 62.9%, in January of 2007 it was 66.4%. This is a measure of the number of all people who are working age, excepting students, military and those institutionalized, who are in the labor force. A difference of 3.5% may not

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seem like much but it translates into over 4 million people who don't show up in the unemployment figures because they are too discouraged, disgusted or lazy to look for work. Among those in the prime working years, between 25 and 54, 78.7% are currently employed. In 2007 it was 80.3%. Again, a small percentage difference turns into a large amount in absolute terms. It this case it means more than 2 million workers.

One of the most marked aspects of the period just before the Great Recession was an almost euphoric consumerism among ordinary working people. New housing was springing up everywhere and the government was making every effort to get people in via cheap loans. People were refinancing their homes, taking advantage of soaring values, and taking the money to spend. Other homeowners had equity credit lines. Suddenly people who were not accustomed to having a lot of discretionary income had tens of thousands and even hundreds of thousands of dollars they could spend on cars, boats, furnishings and vacations. Everybody had a story about the woman who cleaned their house announcing she had just bought a new home,

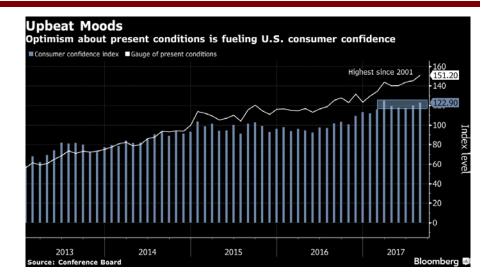
"bigger than mine!!", while her husband was outfitted with a new truck. Prosperity was in the air.

A couple of facts illustrate the difference between then and now. Then, in the third quarter of 2008, the total of all outstanding home mortgages was over \$10.5 trillion. Now it is \$9.9 trillion. Although that fall is significant it is much more significant given the fact that, in absolute dollar terms, the economy is one-third larger than then and the total value of all U.S. homes is 30% higher. The other fount of spendable cash, home equity loans, has fallen off even more dramatically. At its absolute maximum the balance of these loans was \$680 billion, now it is barely \$400 billion.

Prosperity without euphoria is also the theme of the stock market. The market has certainly risen substantially since the recession and we hear talk of an 'eight year bull market', 'the second longest bull market in modern history' and 'things have been going up for too long'. But the actual experience of it has not been so smooth. After the market bottomed in early 2009 it began its process of slow recovery. But it was not such a steady one. At least once in each of the years 2010, 2011, and 2012 the market dropped suddenly over 10%. Once it fell over 18% in the space of three months. For people who had just been through the greatest stock market collapse since the Great Depression this was more than unsettling. It looked like the bad old days might return, or maybe they had never gone. The market did finally get itself on a steady course and rose

consistently from the end of 2012 through 2014. It then entered a flat period until the end of 2016, when it began its latest upswing.

It is definitely not an 'eight year bull market'. Nor is it a euphoric market or a tired one. Rather it is soberly optimistic, resting on a solid basis of an improving economy with an upbeat business and consumer population.



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