Tea Leaf

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Your guide to understanding today's economy and financial markets

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Misery

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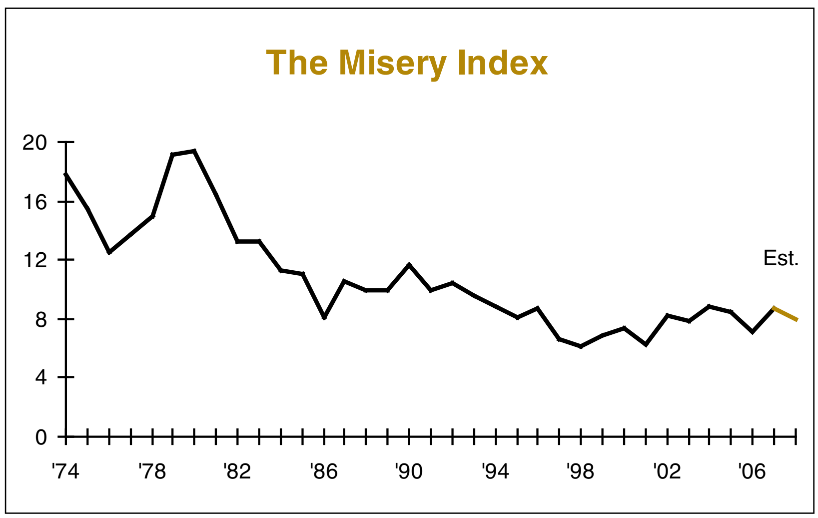
With constant negative reporting by the national media regarding prospects for housing activity and the likelihood of a recession, revisiting another measure of economic pain seems timely…

One of the major political issues that greatly impacted results of U.S. Presidential elections during 1976 and 1980 was frequent reference to "the misery index." This so-called "index" was simply the sum of the nation's most recent Unemployment Rate and the rise in the nation's Consumer Price Index for the most recent 12-month period. This combination was a simple way to measure the level of "pain" or "misery" of the American people when it came to the overall level of joblessness and the loss of purchasing power due to rising inflation.

The misery index was first made politically newsworthy by Democratic Presidential Candidate Jimmy Carter in 1976. During the Presidential election of that year, Mr. Carter constantly attacked President Gerald Ford for his mishandling of the American economy.



Candidate Carter frequently noted during the campaign that the misery index was in the mid-teens, as compared to much lower levels during the 1950s, 1960s, and early 1970s. Mr. Carter's criticism of President Ford's economic mismanagement was effective, helping him defeat the incumbent Republican President during the November 1976 election.

"What Goes Around…"

As the saying goes, however…"what goes around, comes around" (or something like that). During the 1980 Presidential campaign four years later, Republican Candidate Ronald Reagan constantly made reference to President Carter's economic failings, primarily as measured by "you know what."

By November 1980, the misery index had moved even higher, with several monthly measurements above 20. Candidate Reagan's constant battering of President Carter with his own index was also very effective, as Ronald Reagan handily defeated the incumbent Democratic President.

References to the misery index have clearly waned in recent years, although it remains a reasonable—if simplistic—measure of American consumer economic well being. As the graph indicates, the U.S. made enormous progress in reducing this particular measure of consumer pain, especially during the decade of the 1990s. We have backtracked a bit during the current decade.

The Numbers

On the employment side of the equation, impressive U.S. economic growth and resultant strong job creation during much of the past 10 years led the nation's unemployment rate to average 4.1% during calendar years 1999 and 2000, its lowest annual average in 30 years. The nation's unemployment rate actually fell slightly below 4.0% during various months in 2000, the lowest monthly rate since January 1970. While true, one actually has to go back to the mid-1950s to find a *peacetime* unemployment rate as low as 3.9%.

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The Latest Forecast

I have the privilege of serving on three national economic forecasting panels, each with roughly 50 members…those of *USA TODAY*, *Blue Chip Financial Forecasts*, and the National Association for Business Economics (NABE). The most recent quarterly consensus forecast of NABE was released on Monday, February 25, and is highlighted here…

- The survey suggests that real (inflation adjusted) GDP, which grew at just a 0.6% annualized rate in the fourth quarter of 2007, will grow at a scant 0.4% rate in the first quarter of 2008, with 1.0% growth expected in the second quarter
- Fiscal and monetary stimulus is expected to boost growth in the second half to a 2.8% real annual rate, bringing growth for the year to 1.8%. Real growth in 2007 was 2.2%
- Some 45% of the panel believes that a recession will have occurred by the end of this year, although a majority of those believe the downturn will be relatively muted
- The 2009 outlook calls for real GDP to grow 2.9%
- The panel looks for the unemployment rate to average 5.2% in 2008 and 2009
- The budget deficit, boosted by both slower growth and the cost of the fiscal stimulus package, is expected to rise from $162 billion in fiscal year 2007 to $375 billion in fiscal year 2008
- The panel expects the Consumer Price Index to rise 3.0% in 2008, down from the 4.1% rate of 2007
- The group expects the Federal Reserve to cut its target federal funds rate (currently 3.00%) to 2.50% by the end of 2008, and gradually bring it back to 3.50% by the end of 2009
- The panelists expect the yield on 10-year Treasury notes (currently 3.85%) to end 2008 at 4.10%, little changed from year-end 2007. The 10-Year Treasury note rate is expected to rise in 2009, ending the year at 4.50%
- The panel expects the stock market will recover the ground recently lost, with the S&P index (currently 1375) rising to 1500 by the end of 2008 and to 1600 in 2009

More recently, the nation's unemployment rate again declined from the near 6.0% average following the mild 2000-2001 recession. The 4.6% averages in 2006 and 2007 were the lowest annual averages since 2000.

On the inflation side, 1) fierce domestic and global competition in nearly every major industry, 2) more aggressive actions by consumers to resist price increases, 3) more effective corporate utilization of technology, and 4) the inflation fighting nature of the Internet saw inflation pressures remain modest in the first few years of the 21st Century.

The escalation of numerous commodity prices in recent years led inflation pressures higher. Global prices for oil, steel, copper, lead, aluminum, etc., tied in part to sharply rising demand from China and India, led overall inflation pressures higher. Oil at $100 per barrel obviously led to the sharp rise in the Consumer Price Index in 2007.

Bottomed Out?

Has the misery index bottomed?… Very likely. The nation's unemployment rate dipped to extremely low levels in 1998-2000. This decline was particularly impressive in light of frequent cost reduction and layoff programs regularly announced by prominent U.S. companies during the past decade. Inflation pressures were also largely muted during 1997 to 2003. The misery index will enter the history books as an interesting political footnote.

Jeff

"TEA"ser

I believe there is one thing that all successful people have in common…and I'd sure like to know what it is.

—Gary Apple

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