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Your guide to understanding today's economy and financial markets

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Global Slow

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One economic viewpoint voiced frequently during the past 12 to 18 months was that of the "global disconnect"…

…the idea that, perhaps for the first time, a sharp slowing (or likely recession) of the American economy would have little impact upon the global economy. The idea was that economic growth was strong enough in China and India and Japan and Europe that a slowing U.S. economy was almost irrelevant…

…whoops

Across the Globe

Today's reality suggests that economic slowing is indeed occurring around and across the global community…from the U.S. to the U.K. to Asia and to Europe

- When all is said and done, the U.S. economy is likely to have suffered a recession, which likely began around the end of 2007
- At the same time, Japan is dealing with its own decline in economic performance in the most recent quarter, with minimal prospects for solid growth anytime soon
- The European economy is also in a state of modest contraction, in line with similar modest decline in the United Kingdom
- Canada is currently on the fence between minimal growth and minimal contraction
- China and India seem to be slowing from a breakneck and largely unsustainable growth pace to still extremely impressive but slower rates of expansion (that was a mouthful)
- Economic growth across much of South America is slowing down
- In contrast, economic growth rates in the oil-rich nations of the Middle East are booming

It is no secret that most of the global community has suffered from high energy prices and high food costs. Declines in oil prices, as well as declining costs of basic food-stuffs, are very favorable developments for hundreds of millions of those global residents less fortunate than you and me.

Anxiety and frequent stumbling of global credit markets is a major contributor to global economic slowing. Global credit markets are still in a state of flux, with the painful "deleveraging" of prior global credit excesses an ongoing and a still-much-pain-to-be-registered-and-more-losses-to-be-absorbed reality.

By Comparison

The past five years was a period of nearly unrivaled solid global economic performance. In hindsight, a significant share of that global growth was fueled by unwise and excessive extensions of credit and unsustainable increases in real estate values, both in the U.S. and across Europe…

payback is painful…

While the entirety of the global community is not facing recession, a substantial component is. It may be well into 2009 before nearly unmistakable signs of global economic rebound are to be found.

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Inflation Peak

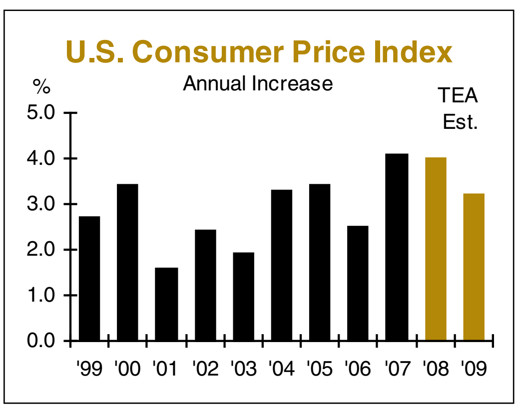
U.S. inflation data for the month of July can only be described one way…alarming, worrisome, ugly, and disturbing (maybe that was more than one). The good news is that inflation pressures are close to peaking.

Why? The sharp decline in commodity prices, including oil (should it continue), will have a major impact on unwinding inflation pressures later this year and early next year. While August and possibly September inflation data could actually be worse when viewed over a 12-month time horizon, better inflation news is on the way.

Consumer Prices

The Consumer Price Index (the CPI, released on August 14) rose 0.8% in July, twice the expected rise. More ominous (another of those words) was the 5.6% rise in the CPI over the past 12 months. The 5.6% rise was the worst 12-month inflation measure since January 1991.

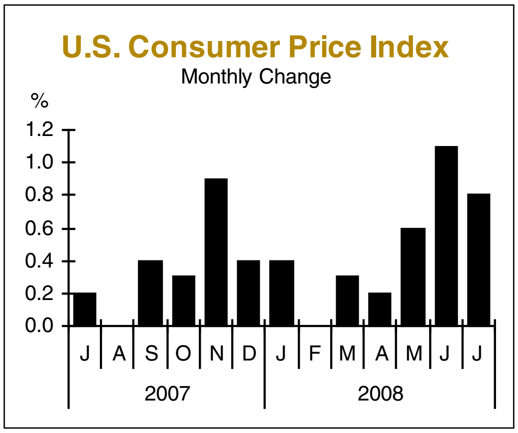
No surprise here…higher energy prices were the primary culprit, with an overall rise of 29.3% over the past 12 months. Household fuel oil jumped 61.1% over the past year, while gasoline prices spiked 37.9%. Food prices jumped 0.9% in July, with a 12-month rise of 8.4%.



The "core" CPI, one of the Fed's preferred inflation measures which excludes volatile food and energy prices, rose 0.3% in July. The rise over the past 12 months was 2.5%.

Producer Prices

The Producer Price Index (the PPI, a measure of wholesale prices) released on August 19 was even more gut-wrenching (yes, another) than the CPI data. The PPI rose 1.2% in July after spiking 1.8% in June.



The surge of 9.8% during the past 12 months brings back painful memories of the late 1970s and early 1980s. In fact, the 9.8% rise was the most painful since 1981.

You know the story…a rough doubling of oil prices over the past 12 months. As with the CPI, however, the plunge in oil prices of recent weeks from $147 per barrel to around $114 is not yet factored into the inflation measures.

Misery Loves Company

Uncomfortable (yup) inflation pressures are not just an American phenomenon. China's inflation rate has been running between 6.0% and 9.0% during 2008, while inflation pressures in India have been averaging around 10.0% annually.

European inflation during the 12 months ending in July 2008 was at 4.1%, a major challenge where controlling inflation is right up there with motherhood and apple pie (or whatever the Europeans treat as critically important).

Trending Lower

A spike in energy and food prices boosts inflation pressures. A subsequent sharp decline in those prices leads to an unwinding of those same inflation pressures…

…better inflation news is on its way

Jeff

"TEA"ser

Don't go around saying the world owes you a living. The world owes you nothing. It was here first.

—Mark Twain

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