

# ING Investment Weekly

## U.S. Economy "Leveling Out" At The Bottom



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Economic Advisor

*"Information received since the Federal Open Market Committee met in June suggests that economic activity is leveling out."*

– FOMC Statement, August 12, 2009

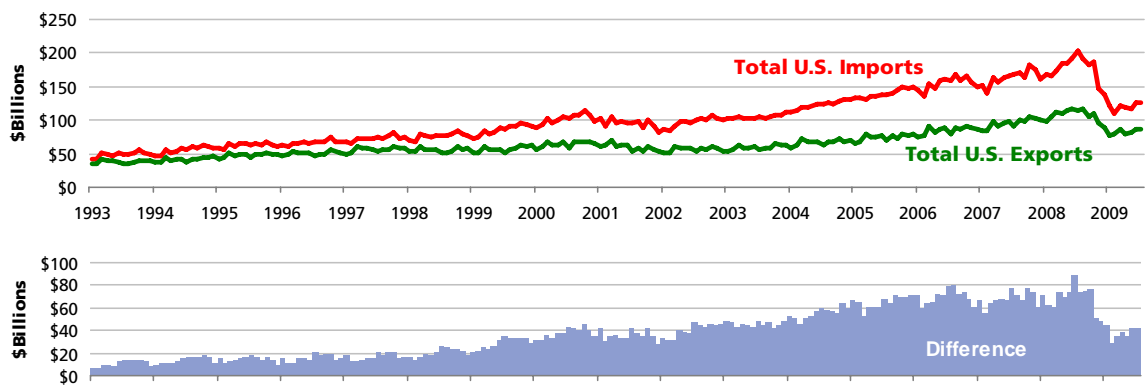
What's the difference between "leveling out" and "bumping along the bottom," the cynic wonders. "What's in a name?" asked Shakespeare's Juliet; "a rose by any other word would smell as sweet." That perception may apply just as well at the other end of the olfactory spectrum.

The Fed's best guess may be that this stinker of a set of economic conditions is no longer getting worse but it is quite a leap to get from there to rebound and recovery. The post-meeting statement went on to note that "job losses, sluggish income growth, lower housing wealth, and tight credit" remain as

constraints on household sector spending. Since that spending has constituted 86% of private sector real GDP on average over the past three calendar years, those constraints are significant factors in assessing recovery's prospects.

One big positive in that regard has been the trend in the U.S. net export sector. It contributed 1.2 percentage points of 2008's 0.4 percent growth in real GDP – i.e., more than all of it – and has been the largest positive contributor on the accounts so far this year. (Shrinkage in the trade deficit is positive, at the margin, for the domestic economy and is so recorded in the National Income and Product Accounts.) The smaller trade deficit has been achieved, however, through the means of a steeper nosedive for U.S. imports than for U.S. exports. It is a stretch to see what amounts to a national aggregate exercise in cost-containment as a growth strategy.

**A Nosedive In U.S. Imports: "Cost-Cutting" Is A Dubious Approach To Economic Growth**



Source: U.S. Census Bureau

You won't get growth multiples in the stock market for that management approach and, considering the size of the U.S. economy in global context, a cost-cutting strategy here – even if it produces better NIPA numbers – won't contribute positively to global recovery momentum.

Ever since the end of World War II – from the recoveries of Germany and Japan through the advent of the Asian Tigers to the emergence of the BRICs – the preferred growth strategy (Why preferred? Because it worked!) has been to sell abroad more than you buy. It is not mathematically possible for all participants to succeed at this: at least one has to buy more than it sells – and that one has been, reliably for six decades, the American household sector, the beating heart of global growth.

There is tremendous growth potential in the integration of formerly communist and formerly Third World nations into the (formerly hyperbolically named) global economy. Globalization, now truly global, has inherent boom potential – there are huge unsaturated markets for the products of embedded capital and huge earning potential to be re-invested in new capital for new products or services.

So is it possible to have a vigorous global recovery? Absolutely! But some actor has to take the lead and for 60 years it has been the American consumer. As suggested by the FOMC's litany of constraints on American household sector spending, this time it's going to have to be someone else. ■

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