

The Hickory Group

OUTLOOK & COMMENTARY

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- **Employment Data: Fall Chill Cools Hot Market**
- **Long-Term Cyclical Problems: Population and Economics**
- **Why July 1982 > August 2009**

Reflections

- A significant increase in the U.S. unemployment rate and continued negative U.S. retail same store sales provides continuing evidence supporting our near- to medium-term negative outlook for the U.S. economy and the health/purchasing power of the U.S. consumer
- The U.S. consumer will be worse off on January 1, 2010 than they are today. Why? Four reasons: (i) growing foreclosure rates, (ii) an increasing unemployment rate, (iii) a moribund housing market and (iv) higher tax burdens to support growing government spending on a variety of initiatives
- Based on the unemployment report of 4 September 2009, comments from our prior note remain true: “However, our singular data point for U.S. economic health, the unemployment rate, continues to surprise to the downside ... Hence, until we see stabilization in this data point our negative outlook will remain in place.”
- Future economic concern One significant story developing around December 2009 will be how to deal with the substantial number of foreclosures which will cause noticeable social dislocation and severely impact local, state and federal tax revenue
- One significantly positive note for the U.S. economy is the pending 2010 election cycle which could pump over \$3 billion into the U.S. economy, helping the travel, media and hospitality sectors. Despite their significant decrease in wealth over the past 12 months, the upper tier of the socio-economic strata in the U.S. will continue to support political causes in order to influence policy
- **Policy makers and economists may be discounting the difficult and long march ahead to a 5% unemployment rate for the United States.** Christina Romer stated today on CNBC that a U.S. unemployment rate of 5% was a fair policy target. However, the last time the U.S. went from an unemployment rate of 9.7% to 5.0%, significant policy changes were enacted to make the U.S. climate more business friendly. Does the current administration have the same market friendly view point?

Reflections (*cont'd.*)

- Romer's U.S. unemployment rate target of 5% is a commendable goal. However, we see significant population and policy headwinds as we march to 5%
- **Let's analyze the last time the U.S. economy hit a 9.7% unemployment rate**
 - In July 1982 the U.S. unemployment rate hit 9.8%, up from 9.6% in June 1982. By December 1982 the U.S. unemployment rate was 10.8%
 - The long march to Romer's stated goal of 5.0% unemployment finally arrived in March 1989
- **What contributed to the steady decrease in the U.S. unemployment rate in the 1980s?**
 - Significant credit market activity increase (in the form of junk bonds) helped spur value creation in public equity markets
 - The substantial growth of the U.S. venture capital industry helped create a massive expansion of the U.S. technology sector, creating jobs for millions of Americans
 - Considerable investment in national defense created millions of jobs in direct and related industries
 - Positive population trends – a large number of able bodied Americans ready to work and drive GNP (*the metric prior to GDP*) growth (*see below*)
 - The U.S. consumer had a strong balance sheet, including a relatively low debt/household wealth ratio
- **What are the population trends in 2009 now versus 1979?**
 - In 1979, 43% of the U.S. was aged 22 – 54. Americans aged 55 and older were 21% of the population
 - In 2008, 31% of the U.S. was aged 20 – 49. Americans aged 50+ were 42% of the population
- **What is the impact of an aging population on the economic future of the U.S.?**
 - Lower tax base from which government can secure revenue
 - Significant entitlement funding issues
 - Population constraints to GDP growth as (i) the U.S. has fewer productive members, on a percentage basis, to help grow the general economy, and (ii) young Americans' income is diverted from the private sector economy to fund entitlement programs as well as service interest on U.S. sovereign debt

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