6/11/2009

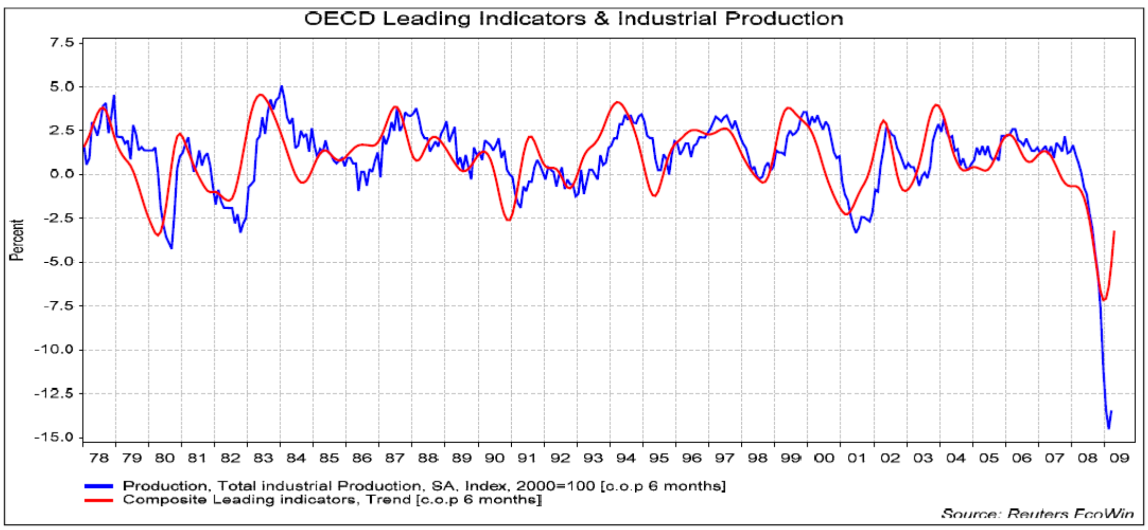
No "L"

The evidence is building for a classic "V" shaped recovery

Since last fall one thing that "everybody knows" is that the recovery, when and if it happens, won't be the typical robust "V" that characterizes all past recoveries. This one, we are told, will be muted, slow, and worse, "L" shaped---down and flat.

The reason given is debt. We need to pay down a lot of it and consumers will have access to less credit in the future as banks hunker down. All this makes sense to us, but we are haunted by the historical fact that no "L" shaped recoveries can be found in our two hundred year history.

This week the OECD (Organisation for Economic Co-operation and Development) said the recession could end by the 4th quarter of this year. This was a big change from their latest estimate in March. The following chart was their reason for becoming more positive about 2009.



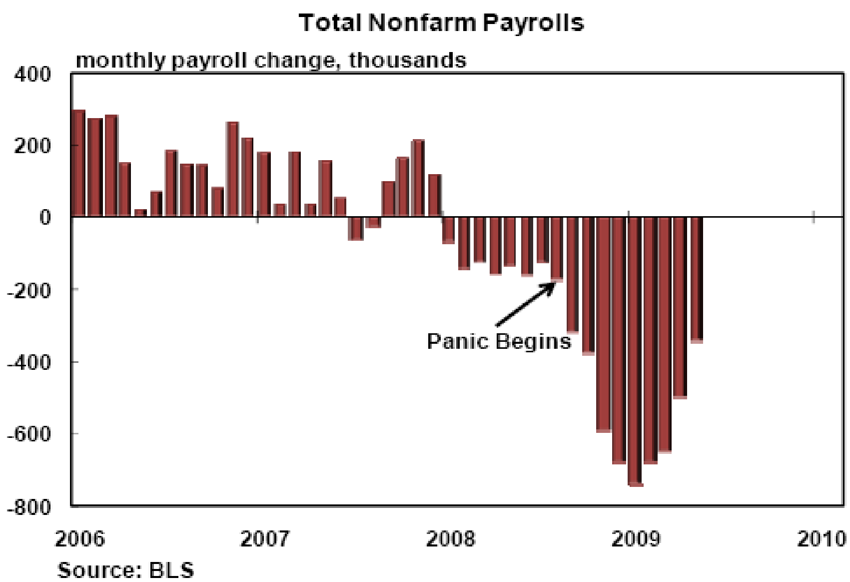
The blue line always turns up, with a lag, once the red line improves.

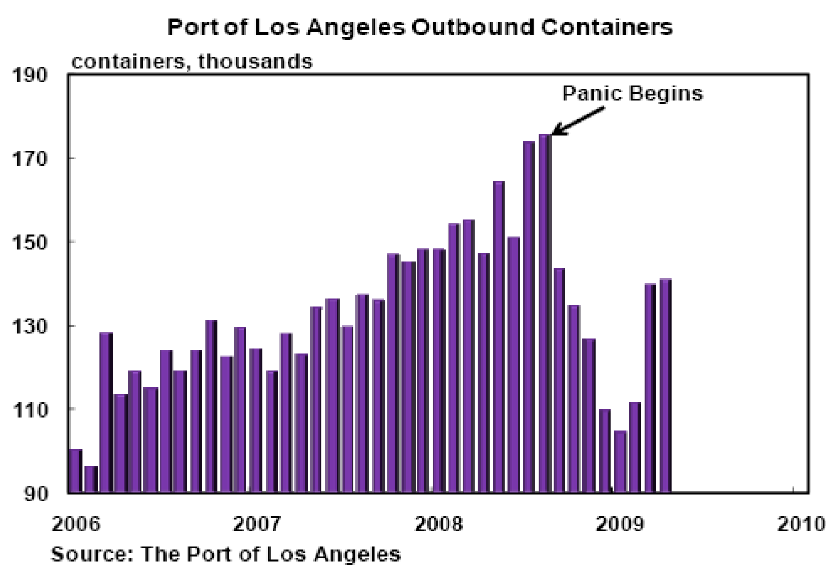
A faster than generally expected recovery fits with the theory that the economic collapse of last fall resulted from the financial panic surrounding Freddie-Fannie-Lehman-AIG, rather than the classic causes of recessions: Fed tightening or bloated inventories. A panic induced recession could end more quickly than a normal one.

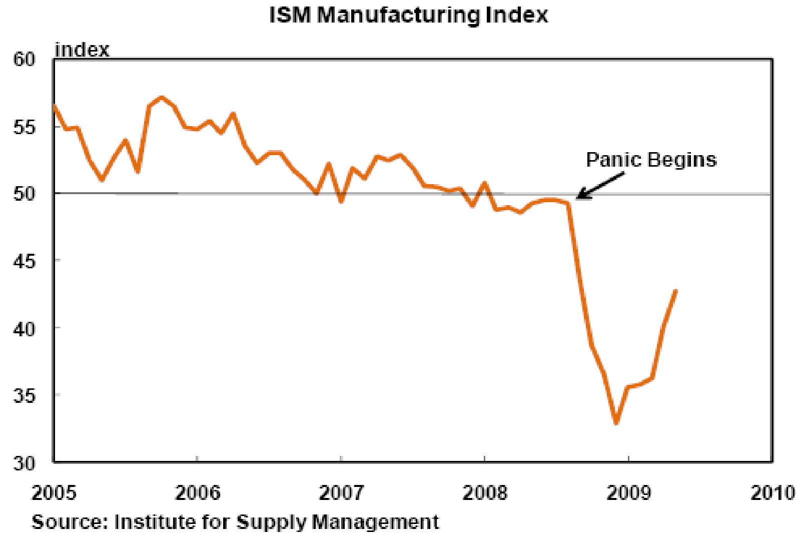
We have made some big bets this year on economic recovery in Asia first, the US second and Europe/Japan last. The chart above and the ones that follow make us think we are on the right track. But recovery in the richest nations will be magnified in the emerging markets, especially Asia.

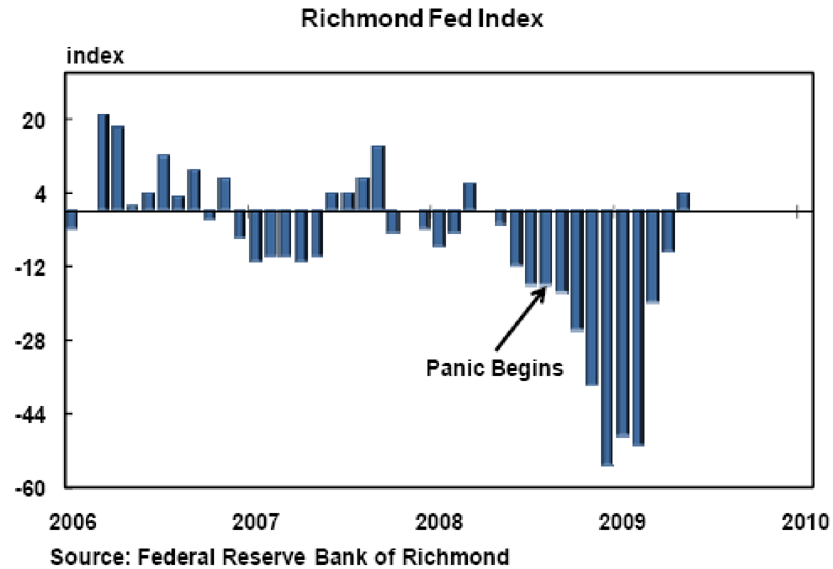
Most of the charts speak for themselves:

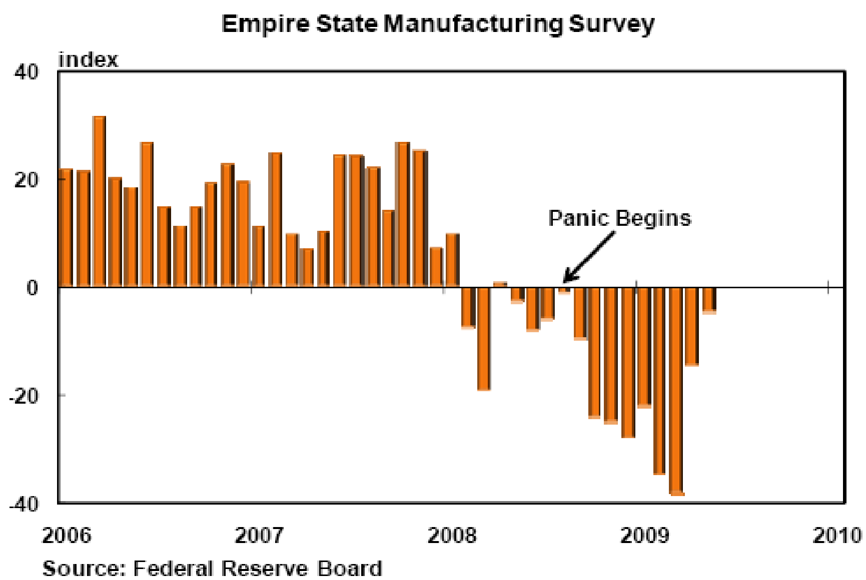

Consumer Confidence
index
120
100
80
60
40
20
2006
2007
2008
2009
2010
Panic Begins
Source: The Conference Board

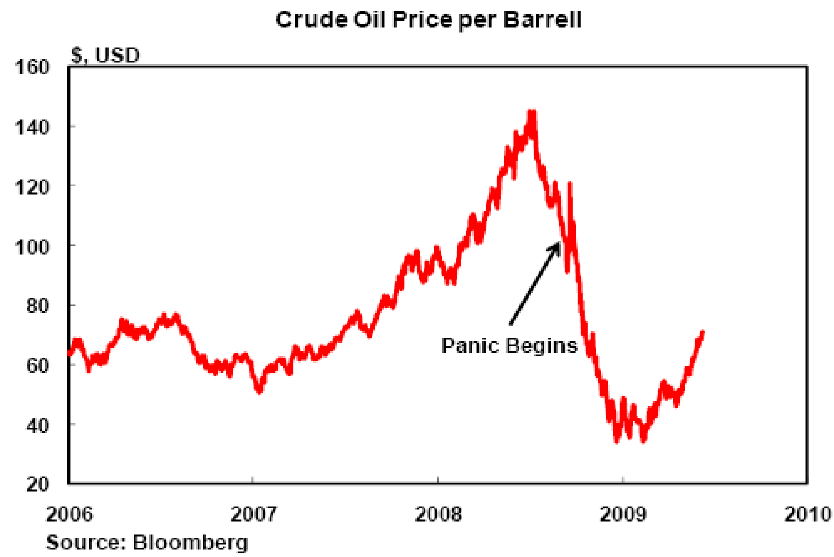

Total Nonfarm Payrolls
monthly payroll change, thousands
400
200
0
-200
-400
-600
-800
2006
2007
2008
2009
2010
Panic Begins
Source: BLS

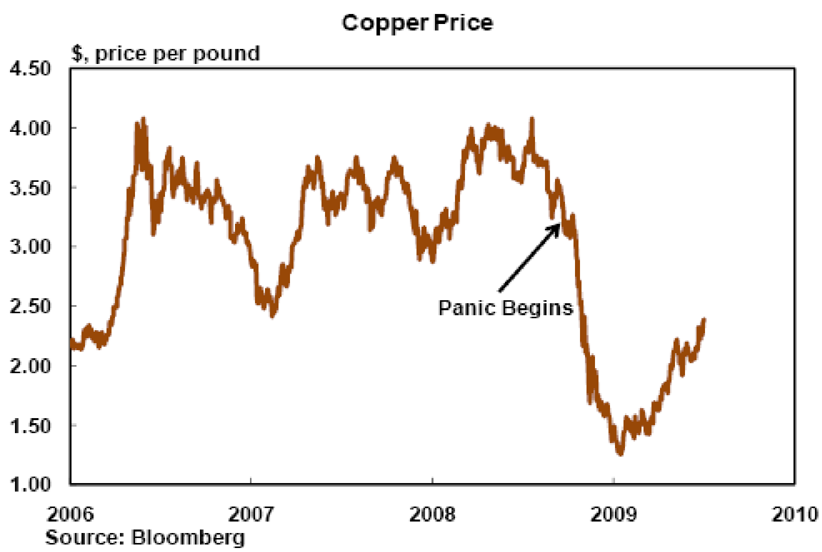

Port of Los Angeles Outbound Containers
containers, thousands
190
170
150
130
110
90
2006
2007
2008
2009
2010
Panic Begins
Source: The Port of Los Angeles

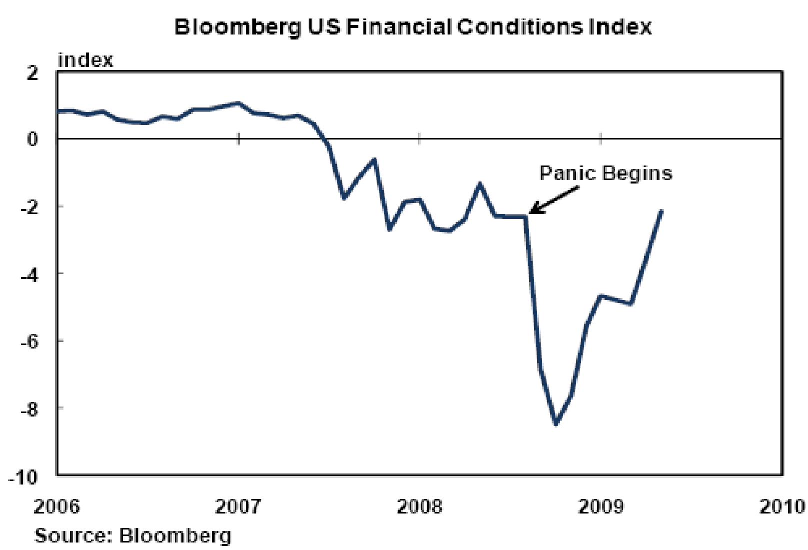

ISM Manufacturing Index
index
60
55
50
45
40
35
30
2005
2006
2007
2008
2009
2010
Panic Begins
Source: Institute for Supply Management

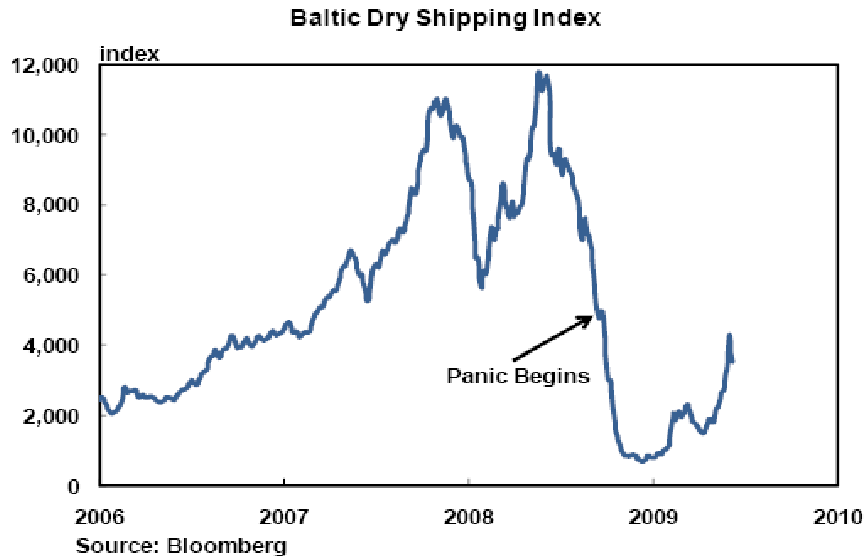

Richmond Fed Index
index
20
4
-12
-28
-44
-60
2006
2007
2008
2009
2010
Panic Begins
Source: Federal Reserve Bank of Richmond

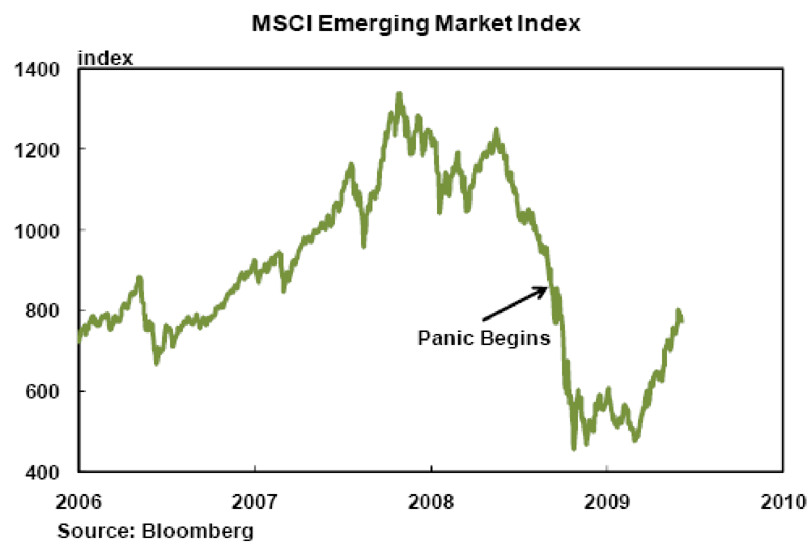

Empire State Manufacturing Survey
index
40
20
0
-20
-40
2006
2007
2008
2009
2010
Panic Begins
Source: Federal Reserve Board


Crude Oil Price per Barrell
$, USD
160
140
120
100
80
60
40
20
Panic Begins
2006
2007
2008
2009
2010
Source: Bloomberg


Copper Price
$, price per pound
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
Panic Begins
2006
2007
2008
2009
2010
Source: Bloomberg


Bloomberg US Financial Conditions Index
index
2
0
-2
-4
-6
-8
-10
Panic Begins
2006
2007
2008
2009
2010
Source: Bloomberg





The recession is far from over, but the worst of it may be. We will continue to test our relatively optimistic view of late 2009 against the facts as we find them and adjust how we invest accordingly.

Best regards,

Daniel A. Ogden