

UNITED STATES

The Light In the Tunnel

Yet again, the global economy seems to be stepping back from the brink. A sovereign debt crisis in Greece was seemingly averted after an E.U. plan provided backstop funding for the country. To the relief of observers, Greece just successfully sold 5 billion Euros worth of seven-year bonds.

Despite the apparent resolution of Greece's debt crisis, the situation casts light on the potential fragility of the euro. While the U.S. dollar is only put at risk by the United States, the euro can be put in peril by any one of the 16 different European countries that use the currency. It creates an environment of mutually assured economic destruction. If any one country is in trouble, it is in the best interest of the other 15 to intervene. Yet, the continental currency is still very much in its infancy and such a theory has just started to be tested.

While mutually assured destruction could give the euro stability, smaller countries looking to grow quickly could take advantage of the de-facto guarantee and over borrow. The moral hazard is high and at stake is the economy of 315 million Europeans.

As reserve bankers around the world reconsider maintaining reserves in U.S. dollars, the events in Europe have likely solidified the dollar's standing until the euro has a longer track record. While the U.S. debt is large, the government's credit record is sterling. The United States has not missed a bond payment since the Civil War.

"Over the last few years we've seen so many cards thrown into the air. We are at last seeing some of them land, forming an image of what the future looks like," says Tony McKinnon, president of MRINetwork.

The hypothetical futures for the United States floated over the last two years have included a second great depression, massive inflation, 15 percent unemployment, a nationalized banking system, the decline of the U.S. dollar, socialized medicine, and the end of American style consumerism.

"While the playing field has changed, what we are seeing seems to be markedly less dramatic than what was predicted by some as little as six months ago," notes McKinnon.

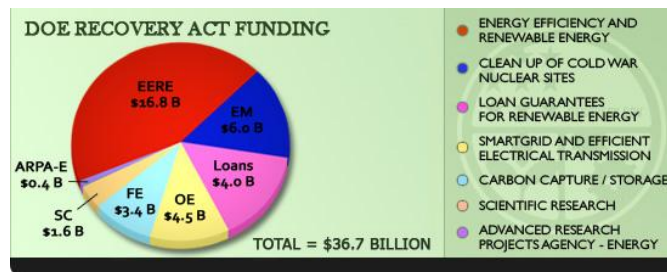
The personal savings rate, a statistic that is distinctively low in the United States compared to other developed countries, rose to as high as 5 percent in early 2009 causing fear that consumer spending, by far the largest slice of the American economy, would be permanently reduced. Since then, savings has fallen to just 3.1 percent in February. The long-term effect of Americans not saving money remains a concern. However, in the current climate this is good news.

Revisions to 2009's Q4 GDP show that the economy grew at an annualized rate of 5.2 percent during the quarter. However, this was thought of as an anomaly because of the impact of inventory reductions and restocking. Projections from economists for growth in the coming years is in the 2 to 3 percent range, still short of recent historical averages, but better than estimates we heard six months ago of as low as 1 percent.

"There is a lot of pent-up everything right now, from consumer spending, to hiring, to business investment," continues

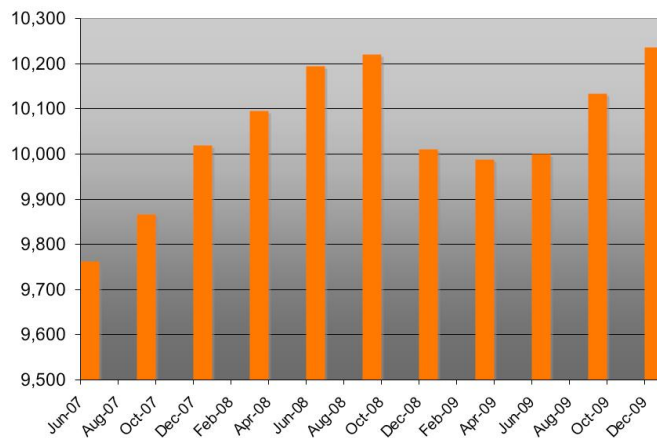
WHERE'S THE MONEY?

BREAKDOWN OF DEPT. OF ENERGY (DOE) FUNDING



Source: U.S. Department of Energy

U.S. Personal Consumption Expenditures (in billions)



McKinnon. "A few months of noticeable job growth could take the cork out of the bottle and spur employers who have resisted putting their hiring plans in gear."

Leading indicators of job growth—like the hiring of temporary staff—have been on the rise for nearly half a year and the growth of permanent jobs is beginning.

"Right now, a lot of employers are taking their time when hiring, exploring more candidates than normal, requiring more interviews, and the result is that when an offer is at last made, top candidates have already been hired," says McKinnon. "But as we start to see broader, across-the-board headcount increases—likely before the end of the year—this trend will subside. Greater expediency will be needed for companies to secure top talent."

While on the way down, as spending decreased, more jobs were lost, decreasing spending further. Fortunately, this cycle also works in reverse.