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A Breathe of Spring

April provided a time to breathe a bit after three months of highly stressful market conditions. Markets were calmer and even moved forward as some unexpected good earnings reports were posted by Google and Ford. The actions of the Fed have been accepted as a job well done, earning it the more neutral 'wait and see' designation from traders instead of the previous 'we are not sure you know what you are doing' evaluation. It has been a true baptism by fire for Chairman Bernanke, and he has earned considerable respect on Wall Street.

The recession of '08 proceeds. The growth in the first quarter was about 1/2 %, the lowest growth in five years, but please note that it is still growth. The economy continues to slow as both consumer spending and business investment decline to 13-year lows. There are not a lot of positives, but negatives have decreased substantially. Some reports have the feel of a bad hangover, the housing mess, for example, and its impact on credit—we may not have heard the worst yet on that front.. The bad deed was done and we are not going to feel better or see good news until some time passes.

The price of oil has made headlines. At \$120 per barrel, it is more than three times the price we thought absurd only a couple of years ago. We used to believe that any price even approaching \$60 a barrel would bring certain economic collapse. It is certainly having an effect, but at the same time, we are beginning to see a change in habits due to the high price of gas. Oddly enough, it is in the housing market that the most notable change is happening. Housing prices are stronger where commutes are shorter or public transportation is available.

The price of oil is currently manipulated by four independent forces: the US dollar, greed, worldwide demand, and speculators. Oil is traded in dollars, so its price goes up as the value of the dollar falls. As our economy flirts with and suffers from recession, the dollar has declined relative to other currencies. Greed? Oh, yes. Oil producers are greedy but not stupid. They are willing to squeeze us very hard, but not (yet) so flagrantly as to let our economy fail due to the high price of the only thing they have to sell. Worldwide demand for oil is increasing exponentially as the economies of China and India develop. Speculators, of course, chase money wherever it is to be made. The housing boom in the US is another great example of speculators in action. They piled into condo developments, buying 2, 4 or even 10 units during the preconstruction phase . . . just in time to hear the music stop. Many of them now own unsellable units. My heart weeps!

Our dollar is likely to be the best indicator of progress through this recession. It increased recently after many months of decline, giving me hope that perhaps we have seen the worst of this particular downturn. Happy Springtime . . . at last!