JVB Financial Group, LLC

CRONIN'S CORNER MONTHLY

A Perspective on the International Economy

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It appears that the cosmic calendar that controls our galaxy might have leaked into the lifeline of the recession that has controlled our planet for the past two years. Deviations have occurred and distortions appear to have morphed from the worst economic malaise since the great depression. History will pen this recession's birth to December of 2007, which means that if we all lived on the planet Mercury we are about three and a half days into the economic downturn. On Jupiter the recession would be about 245 earth years old. There can be no doubt that this recession was non-discriminatory and left no country on the planet untouched. Now, it seems that it is leaving some shores, whilst outstaying its welcome on others. In short, some of the world's economies are experiencing a mercury calendar, whilst others feel like they are marooned on Jupiter.

The Fed's prince has gleefully announced that the recession in the United States has 'technically' ended (even as unemployment continues to climb), whilst his European counterpart can be seen jumping upon the same trampoline with a tone of hope rather than conviction. At the risk of sterilizing Scandinavian heritage, for the purposes of this tirade we will marry them to their European counterparts. Therefore, the first European country to 'technically' enter the bowels of the downturn was Denmark. The Danes are obviously not part of the Euro zone, but, with the Krone pegged to the Euro, this small open economy remains very dependent upon the broader European economy. Such states have been particularly exposed to the economic malaise and the Danes will continue to experience negative growth this year and a GDP paralysis in 2010. Their neighbors the Swedes continue to experience falling employment with the jobless rate on the ten percent doorstep, and even the oil-rich Norwegians will experience its first full year contraction since the early 1980's this year, but of all the Scandinavian countries will emerge the least damaged, we feel. Heading south into the Euro zone things will surely be better... They won't. We have already lamented over the ongoing slaughter of the Irish economy, and since our last message the situation has not improved. The economy is now experiencing the quickest rate of deflation within the zone as private consumption has all but evaporated and unemployment heads for fifteen percent. In Iberia, the Spanish will probably also find it difficult to appreciate Trichet's assertions as GDP heads for a four percent contraction this year with next year's forecasts only a modicum more optimistic. From Holland to Austria and over the Alps to Italy, the GDP numbers are gloomy and forecasts continue to petrify. So, what does Trichet's babble actually translate to? Unfortunately, we feel it is systematic of the attitude that has dominated the ECB since its inception. The Euro zone is essentially comprised of two goliaths. The ECB's attitude and policies, we feel, has pandered to them and the central bank's DNA is effectively that of the German Bundesbank. Its obsession with inflation is typically Teutonic and, we feel, too insensitive to other European countries, especially peripheral less powerful member states. Thus, if Europe is 'technically' out of a recession, what that translates to is that France and Germany are technically out of a recession. The fact that both countries returned to growth in the second quarter of this year was not only welcome but also surprising. The 0.3% growth levels drew applause from the European technocrats and sent the Dollar bears roaring to the Euro and higher beta units. These molecules of growth found their nucleus in higher exports to Asia, increased business investment fueled by the countries' stimulus plans and a slight up tick in

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consumer spending on the back of falling prices. We think, however, that these factors are variable rather than constant. Prices, for example, will soon begin to stabilize and eventually start increasing, and many European companies have revealed wide spread lay-off programs but as of yet have not implemented them. The data out of Germany and France was welcome, but we remain skeptical that this alone will bring the rest of beleaguered Euro zone out of the recession — especially considering that the zone as a whole contracted by 0.1% in the second quarter. It seems obvious to us that Trichet et al. need to look beyond Frankfurt and Paris when they decide to make their assertions, but not as far as planet Mercury.

On the other side of the rainbow (and the other side of the world), countries like Australia, China, and Singapore have effectively only been brushed by this recession where the impact seems to have been negligible. Oz has actually recorded positive growth in the first two quarters of this year and the forecasts for next year are already been revised upwards. The reasons behind Australia's Houdini act seem to be rooted in the stimulus package that focused more on cash hand-outs to consumers and infrastructure spending. However, a significant variable in balancing the Oz factors was China. Essentially piggybacking off a stimulus package almost ten times the size of its own, Australia's exports to the mainland have kept the waves of Bondi beach in business. China itself of course never entered a 'technical' recession. Although the economy's growth rate fell to single digits (eight percent year on year for the first two quarters) and the job market weakened, the government's stimulus package again seems to have hit the bull's eye. The Chinese adopted a rather aggressive approach to loosening credit policy, and, since the country's banking system is essentially state-controlled, this has allowed the banks to lend more freely. This is obviously a huge fillip for consumption and personal financing. An example of this could be seen in the August car sales figures which recorded an eighty percent increase in August from the year before. Also, the Chinese were vociferous in their quest to keep the value of the Renminbi down and by also granting tax breaks to exporters, they have succeeded in keeping Chinese exports competitive even as most of the country's clients continue to reel from the recession.

Australia and China though are very much the exception in the current global economic theater. The global recession may be abating but its pace of demise is interpretive. It certainly doesn't do it justice by ranking it as a 'technical' termination especially when so many countries and their citizens continue to feel burdened and poorer than they did two years ago. Sweeping generalizations of the economic phoenix in flight is both disconcerting and inaccurate. Whilst we join in celebration at the recent sparkles found in the economic data, we remain cautious and skeptical as to its short term global viability. Jupiter is almost four hundred million miles from Earth. Sometimes the statements from the world's central banks seem to be about this same distance from reality. •

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