

5 Items to Fix the US Economy

By: [John Rothe](#) | Posted: Sep 14th, 2009

Since early Spring, the US stock markets have been on a tear. Investors have been treated to over 60% in gains. However, these gains have assumed that 5 key areas in the economy will continue to improve.

1) The 24 news cycle needs to find something else to talk about. This was a major concern to me and other market watchers. Just as after 9/11, people became focused on the 24 hour cycle of news. It was like watching a car accident -people could not stop watching.

The US is a consumer based economy. This means the main driving force for economic growth is consumer spending. The 24 hour news cycle has brought an increasing competition for ratings.

The more dramatic and "scary" the story is, the higher the ratings. So, the media started to focus on the "sky is falling" theory and scared the consumer into thinking this crisis would be much worse than the Great Depression.

Today, viewers seem to have gotten tired of watching stories about how bad the economy is and instead have gone back out to dinner and the mall. This has led to corporate earnings reports from companies that are not as bad as everyone expected.

The focus on the 10 o'clock news now seems to be on President Obama's declining approval rating how dangerous your child's fall sports may be. Back to business as usual.

2) People Need to Stop Losing Jobs. This is a very real threat to any growth in a consumer driven economy. As people continue to see their co-workers laid off, the "I may be next" thinking spreads. This can not only stop consumers from spending, but it can hurt a company's productivity. Why work hard if you may lose your job next week?

Employers need to stop cutting jobs from an accounting viewpoint and start looking at the talent in the office and only getting rid of the non-performers. As many companies have taken the summer to regroup and refocus, we may be starting to see an end of this cycle.

3) The Housing Market. We are seeing record foreclosures and in some areas a 50% drop of housing values. This will probably be the last area to improve in the economy. Many strategists believe that when the house values begin to rise, then the start of a new bull market will occur. While the housing market is showing signs of stabilization, there is now an over abundance of inventory that needs to be absorbed into the system before housing prices can start to increase again.

One good sign is now is a great time to buy real estate. Private equity funds have been buying foreclosed properties in large quantities. These funds are betting that they can sell these properties back to homebuyers for a profit in the near future. They have been outbidding first time homebuyers who are looking for deals and have been creating a buying frenzy in some markets.

4) Credit Cards. A large amount of consumers have accumulated large amounts of credit card debt over the past few years. This too will need to be absorbed into the system. Consumers have limited spending to pay down their credit cards. At some point consumers will feel comfortable with their debt load and will increase spending.

However, recently credit card companies have begun to increase interest rates, lower credit lines and shorten the grace periods. This may cause consumers to pay off all their debt before increasing spending.

Once again, as we are a consumer driven economy, any reason for people not to spend will limit any type recovery.

5) Auto Sales. Lastly, we will need to see auto sales begin to rebound. At the height of the housing market boom, it seemed everyone was buying a new car. Now, cars are sitting on loading docks because dealerships don't have any space on the lots.

Car companies have been able to slowly sell their inventory and may see an increase in the near future. GM's bankruptcy has allowed them to restructure their debt and therefore lower their cost per car. This will allow GM to offer better deals and financing incentives. A stronger US dollar (assuming it get stronger as the stock market rises) allows foreign car companies to make more money on US sales which allows increased competition among car companies. The increased competition will create greater bargains for US car buyers, hopefully leading to more new car purchases.

The "cash for clunkers" program has given auto manufactures some much needed relief.

Unfortunately, this may be short term. The majority of people taking advantage of this program were individuals who were already planning to purchase a car within the next year. The "cash for clunkers" program merely moved up those purchases.

While there are definitely some good signs beginning to emerge from the economy, there is still some work to do. Both the housing market and the auto industry need more time to recover and this may cause erratic behavior in consumers. This fits into our secular bear market theory - the erratic behavior of consumers over the next few years will have an erratic effect on corporate earnings, and therefore an erratic behavior in the US markets. And just as in past bear market cycles, there will continue to be numerous opportunities for the nimble investor.

About the Author:

John Rothe is President and Portfolio Manager of the Rothe Financial Group, an [Investment Advisor in VA](#). Visit <http://www.rothefg.com> to download a free copy of Navigating Today's Markets

Printed From: <http://www.articlesbase.com/finance-articles/5-items-to-fix-the-us-economy-1231222.html>

[Back to the original article](#)