MBMG Investment Advisory Update

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Fed talks a good game… but the figures just don't add up

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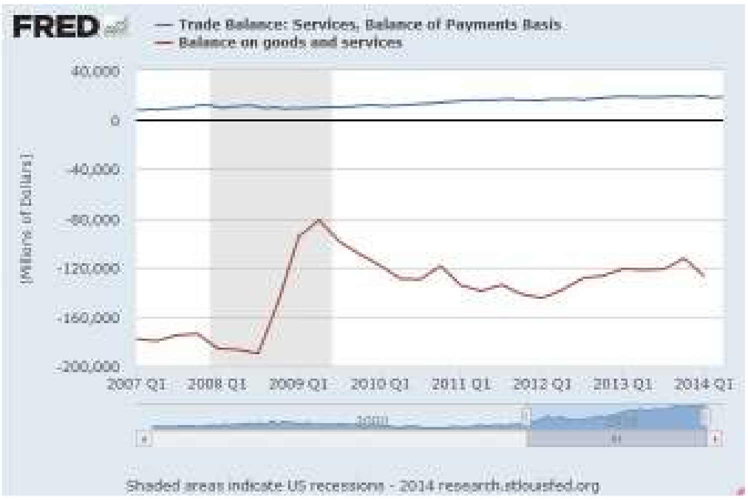
Coherent, consistent and successful. Those were the words used by Ben Bernanke in November 2013 to describe the Fed's endeavours to enable the US economy to recover from the massive hits it took in 2008.[1]

In my last appearance on CNBC I mentioned that I thought that despite the Fed and others talking up the US economy, I still didn't think there were any real signs of a bounce back. My view hasn't altered over the last few weeks.

The reasons for this are that the key indicators are, at best, unconvincing and, at worst, downright awful. It is becoming clear that the mass money printing policy called quantitative easing (QE) is having a limited effect on the things that matter.

Trade

The central idea behind QE is to increase access to capital, so that businesses can get back on their feet and make America an attractive place to do business again. A look at the stuttering trade figures and FDI trends show that this is not the reality:



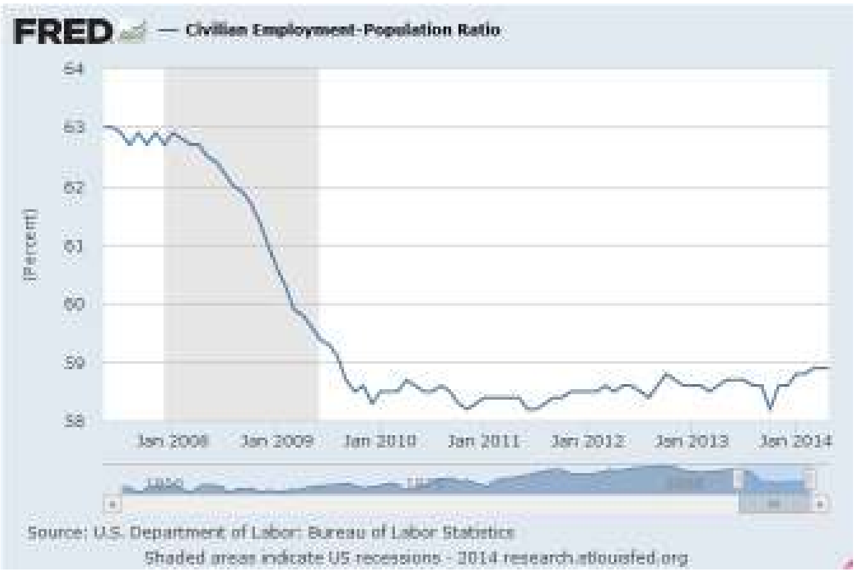
Source: FRED Federal Reserve Bank of St Louis

[1] http://www.nytimes.com/2013/11/20/business/economy/citing-feds-efforts-bernanke-says-us-economy-is-growing-stronger.html?_r=0

[1] The U.S. Bureau of Economic Analysis (BEA) released the most recent foreign direct investment statistics on March 19, 2014, including preliminary 2013 data. All the foreign direct investment statistics in this report are shown by FDIUS inflows.
[2] Foreign direct investment in the United States measures equity capital flows, reinvested earnings, and intercompany debt flows between U.S. affiliates and their parents abroad.
[3] FDIUS data for 2013 are preliminary and subject to sometimes large revisions as BEA gathers more information from survey respondents.

Employment

A few months ago, the US central bank announced that it expected the unemployment rate to fall to 6% by the end of this year – its goal for recovery is in the mid-5% range.[2] Of course 'unemployment' can be measured in many ways. If we take turn that on its head and look at the percentage trends since 2007 of the population actually employed, it becomes harder to see the shoots of recovery:

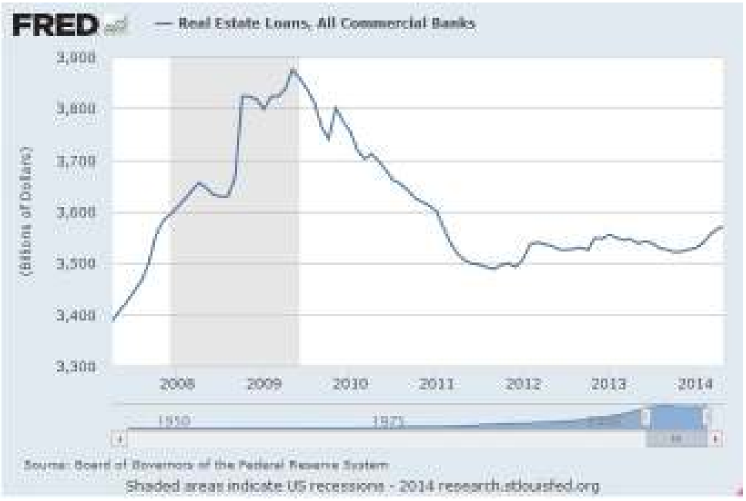


Source: FRED Federal Reserve Bank of St Louis

[2] http://www.cnbc.com/id/101525990

Lending

Given that the banks were supposed to be handed freshly created money to loan out to the population, the figures for home loans show little movement since they bottomed out in 2011:



Source: FRED Federal Reserve Bank of St Louis

Commercial loan figures are more encouraging – if you follow the Fed's logic that having more debt is a sign of recovery. Yet, despite the trillions of dollars pumped into the QE programme since 2010, loan levels only got back to peak 2008 levels at the turn of this year:

Source: FRED Federal Reserve Bank of St Louis

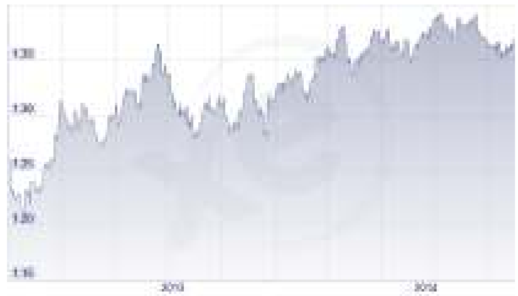
Fed Balance Sheet

Another useful indicator of how QE is or isn't working is the Fed's own balance sheet. It reveals how much dollar values and equity prices mask the realities of economic performance.

We are currently in a period of overvalued assets and a relatively cheap US dollar, as the charts below illustrate:

USD:GBP

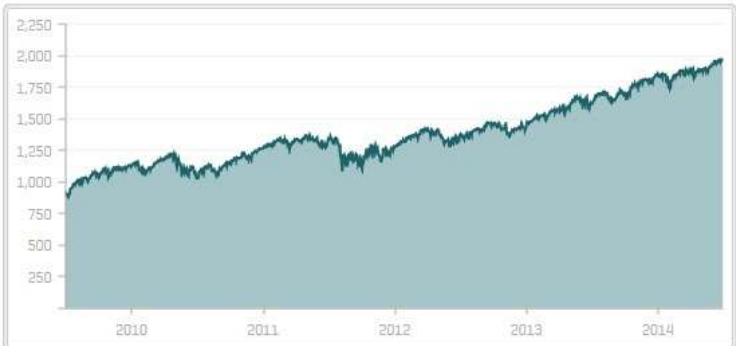
USD:EUR



Source: XE.com

Added to that, equities have become overvalued. Prices are at their highest since the dot.com boom. Here's a glimpse of the S&P since 2009:

S&P 500 last 5 Years



Source: Standard & Poor's

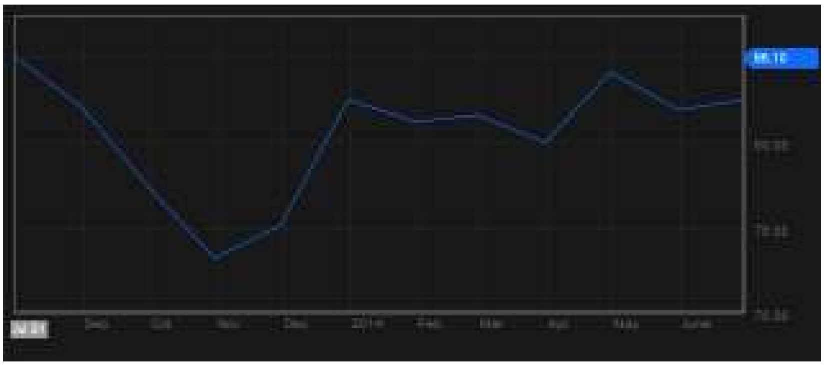
All that points to a Fed balance sheet that shows assets growing fourfold since before the global financial crisis first hit.

Total Assets of Federal Reserve

Source: Federal Reserve

Perception

The health of an economy also depends on the confidence of those acting within it. One index which attempts to measure sentiment on a week by week, shows consumer confidence lower than it was a year ago.



Source: Bloomberg

Not looking good

Overall then, it seems that while the Fed is doing a good job of talking up the US economy, any improvement is so minor that in any perspective other than the immediate short term it barely registers.

For further information contact us by e-mail on info@mbmg-investment.com or call +66 2 665 2536.

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