Registered Investment Advisor Firm

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Is Economic Growth Over?

The economy has been expanding for nearly nine years without a recession. The fear is that this is an unusually long expansion with a recession to follow. But is it imminent?

Since 1929 there have been 14 recessions, averaging one every 6.3 years. The first 11 recessions averaged one every 4.8years and the last 3 recessions averaging one every 8.8 years, roughly where we are today. What has changed?

The early 1980's were characterized by acceleration of globalization combined with the advent of the personal computer. As a result, we have a more diversified economy and a more globally integrated economy. This leads to an economy with less extremes when it is bigger and more diverse. Not only have the recessions been further spaced out, but the peaks of growth rates have been declining.

In the 1992-2000 expansion, growth peaked at 5.3%, with the early 2000's peaking at 4.5%. The current expansion peaked at 3.3%. But why do expansions come to an end?

A typical expansion comes to an end after the economy has overheated. This occurs when retailers have stocked too much in anticipation of demand and manufacturers have too much finished goods inventory in order to meet that demand. The manufacturers have stocked raw materials and the producers of the raw materials have stocked in anticipation.

Typically at this point, not only is Gross Domestic Product (GDP) expanding rapidly, but so is inflation, the amount of credit in the system and the FED raising rates to slow the economy (unlike today's rate hikes). As a result of slowing demand for growth and/or the rising cost of borrowing, all parties along the chain begin to reduce inventories. Reductions in demand cause reduction of inventory and production throughout the economy, which ultimately leads to a reduction in employment, further reducing demand, and the spiral, continues.

The current cycle appears to have minimal amounts of overexpansion, low inflation and the memory of the 2007-2008, resulting in inventories and production kept in check. Final demand is accelerating slightly as a result of nearly full employment.

All this should be good news for stock investors. There can be a correction, but underlying earnings growth should continue as the economy gains momentum. Very soon we should see a typical annual 3% pullback. I like to view this like a relief steam valve that needs releasing occasionally so it can build pressure and the markets proceed higher.

Global growth is accelerating and most world regions are participating with the fewest countries in recession. With record earnings in US companies, I would expect the markets to continue their upward trend.

So back to the first question, is a recession imminent? In the near term a small recession is probable, but not a major one, unless there is an unexpected world catastrophe.

If you need help or more information on this or the **new tax laws**, contact Bob Davis at (707) 648-2024.

FED Watch

The January FOMC (Janet Yellen's last one) meeting ended largely as anticipated with no change, as the Fed had projected. They anticipate 3 - .25% rate hikes in 2018, March, September and December to stay ahead of any potential overheating of the economy. They discussed a possible 4th hike in 2018. They will also continue the process of reversing quantitative easing by allowing assets to mature off their balance sheets, rather than re-investing them. They expect to be at $50 Billion quarterly by October 2018

Next meeting:
March 20th and 21st.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. The Bob's office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:
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