

# ECOMENTARY™

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## World Business Cycle: Quick Review Notes

The speed and virulence of the “snap back” in the NASDAQ over the past 20 days (2305.59) underscores how far the equity market has come since the bottom on April 4, 2001 (1638.80).

CCMP Index GIP20

DG28 Index GIP

**20-DAY CHART** CCMP -- NASDAQ COMPOSITE INDEX **9:30-16:45** USD **MAY 21**  
Hi2305.73 Lo2198.14 Op2201.45 #Ticks 1867 17:15 **↑2305.59 +106.71**



24	25	26	27	30	01	02	03	04	07	08	09	10	11	14	15	16	17	18	21
Apr	Apr	Apr	Apr	Apr	May														

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1549-1088-2 22-May-01 4:19:27

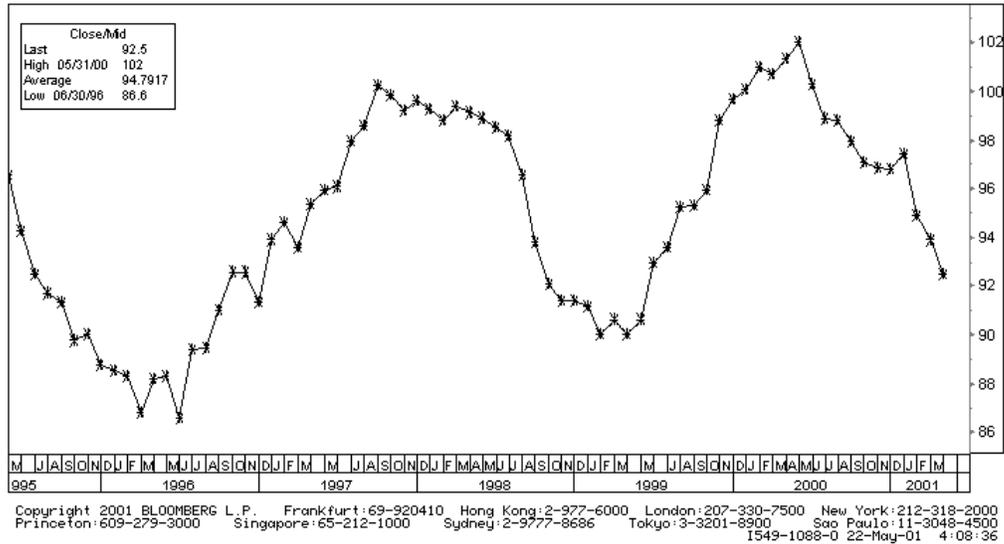
**The bevy of ‘bad news’ reports during April and May included:** Initial jobless claims to 408K on 4/26 and 421K on 5/3 while UE rose to 4.5% and the awful jobs report on 5/4 of -223K. In addition, there were reports of rising unit labor costs and falling non-farm labor productivity.

**Postive news items began to emerge** with initial job claims dropping to 384K on 5/10 and the UMICH consumer confidence survey showing a mild improvement along with better than expected retail sales on 5/11/01. The lower capacity utilization figures and the growth in inventories may have been offset with the **FOMC reduction of 50 bps on 5/15/01. Initial job cliams dropped to 380 on 5/17.** The graph of the CCMP underscores the apparent vote of confidence the market received from the FOMC’s strong statement.

Europe seems once again behind the curve (if we assume that the US is putting in a bottom) as European data points seem to continue to weaken. This morning, the German IFO survey showed more weakness through March along with further weakness in German construction. (Next two graphs)

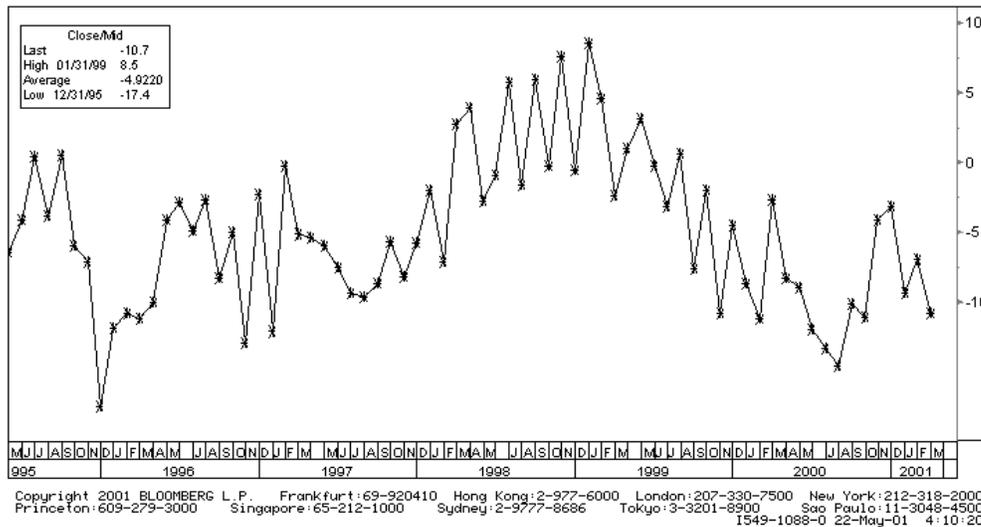
## German IFO Survey

GPO  
GRIFOBSI NY 15APR01 13:00 92.5 DG28 Index GPO  
Mid Line GRIFOBSI Index 1/8  
Range 5/22/95 - 4/30/01 Period Monthly  
Upper Chart: 1 Mid Line Moving Averages



## German Construction Survey

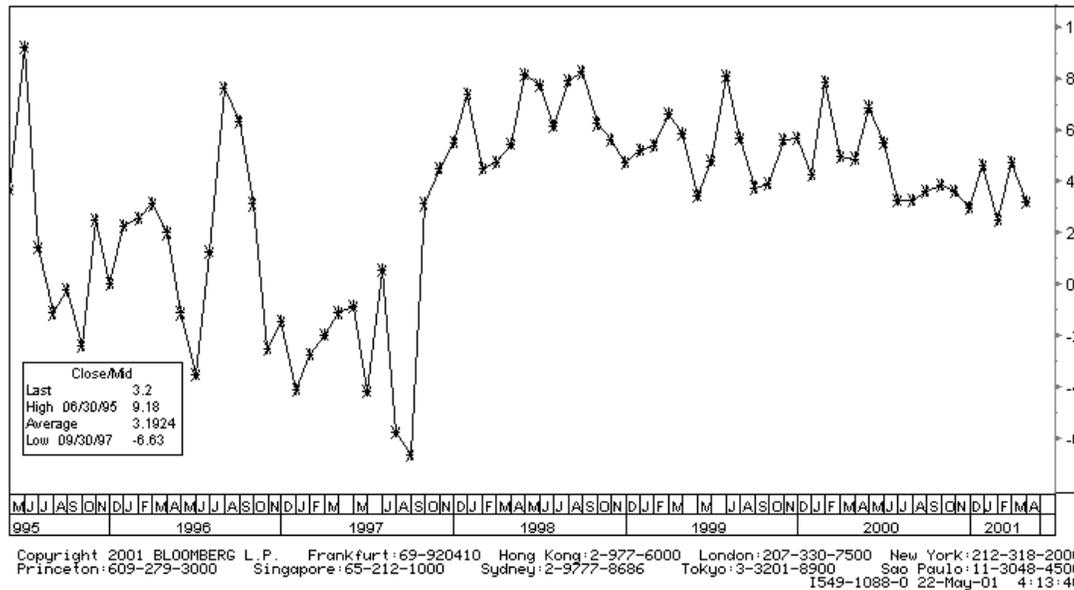
GRCOOYY NY 31MAR01 00:00 -10.70 1995=100 Index GPO  
Mid Line GRCOOYY Index 1/7  
Range 5/22/95 - 3/31/01 Period Monthly  
Upper Chart: 1 Mid Line Moving Averages



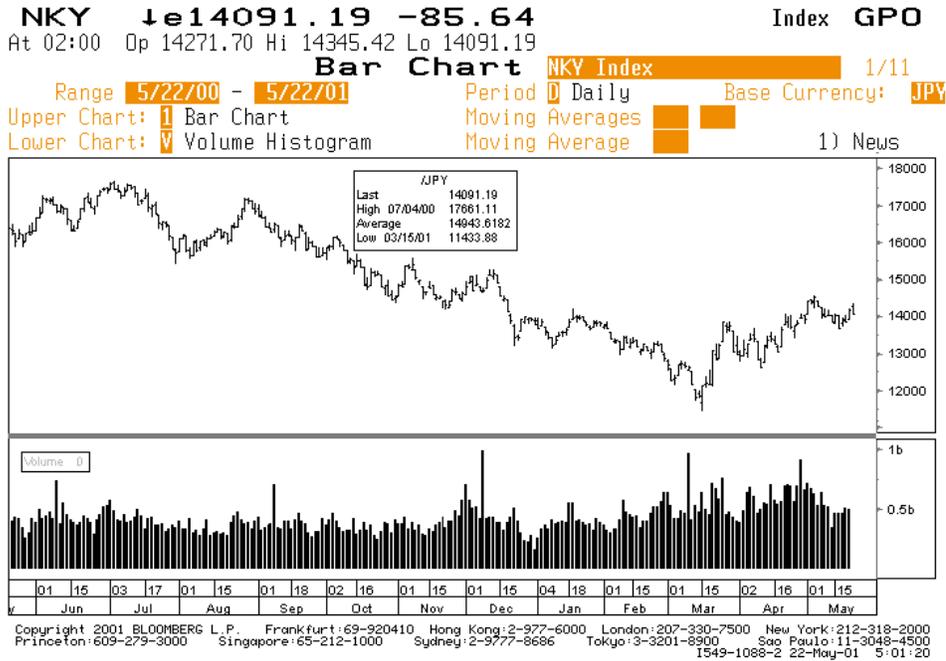
There are further signs of weakness in Euroland such as French consumer spending ---a mainstay of French growth so far. If the European consumer retreats, there will be more pressure on Euroland GDP growth and no doubt further cries for more easing by the ECB.

## French Consumer Spending 1995-2001 (YOY % changes by months)

FRHCIYOY Index GPO  
 FRHCIYOY NY 30APR01 13:00 3.20 DG28 Index GPO  
**Mid Line** FRHCIYOY Index 1/8  
 Range 5/22/95 - 4/30/01 Period Monthly  
 Upper Chart: 1 Mid Line Moving Averages

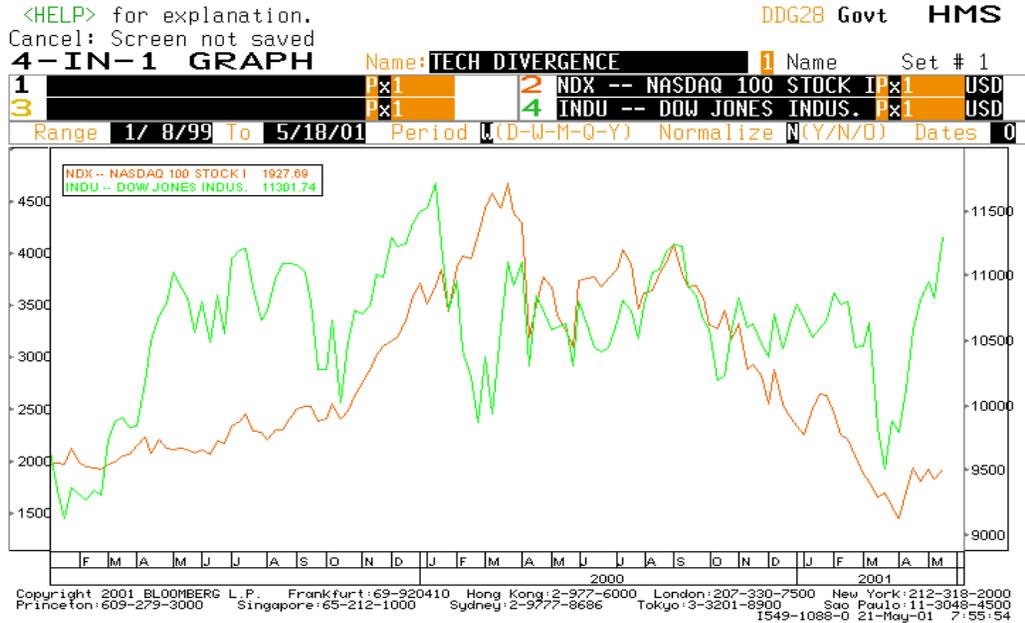


## Fear of Flying---or Fear of Being Left Out?



## Old and New Economies---Is there only one economy?

A good case for the existence of a single economy (not Old and New) may be inferred from the rather striking behavior of the Dow appearing to trigger the rise in the NASDAQ. Consider the following graph below. This is a weekly chart beginning in 1999 of the Dow and the NASDAQ. We note that the sharp rise in the Dow in the spring of 1999 was then replicated by the NASDAQ later in the year and the sharp decline in 2000 by the Dow was then followed by a breakdown in the NASDAQ. Finally, there was the breakout of the Dow in late March (bottom on March 22<sup>nd</sup> at 9389 and the 'retest' on April 3<sup>rd</sup> and April 4<sup>th</sup> at about 9480) followed by the 'bottom' of April 4<sup>th</sup> on the NASDAQ.



### **If this is recovery, how quickly will it occur?**

The savants of Wall Street appear to have concluded that the U.S. economy is putting in a bottom and the market is anticipating that bottom being reached sometime this quarter. The issue then becomes how quickly recovery of US growth and later world growth can occur and to what rate of growth. This may be a false spring, but the FED is putting a lot of water in the monetary river. It has become difficult to stand against the current, even if there are inflation fears for 2002. Equity holders appear no longer willing to wait for evidence that growth has resumed! Surely, there will be some setbacks to this optimism, but if equity markets tend to lead economies, equity buyers seem to be sending a signal that the economy is about to turn up again.<sup>1</sup>

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<sup>1</sup>Wharton Professor Jeremy Siegel also seemed to be sending a signal in his article “Markets and the business cycle,” (special insert section May 21, 2001 **FT**, entitled Mastering Investment). In the article, he makes a persuasive case that ‘timing the cycle’ would sharply enhance equity returns---balanced with the caution that few do well in predicting cycle turns. The article begins with the famous Samuelson bromide, “The stock market has predicted nine out of the last five recessions,” (Paul Samuelson in Newsweek, 1966).