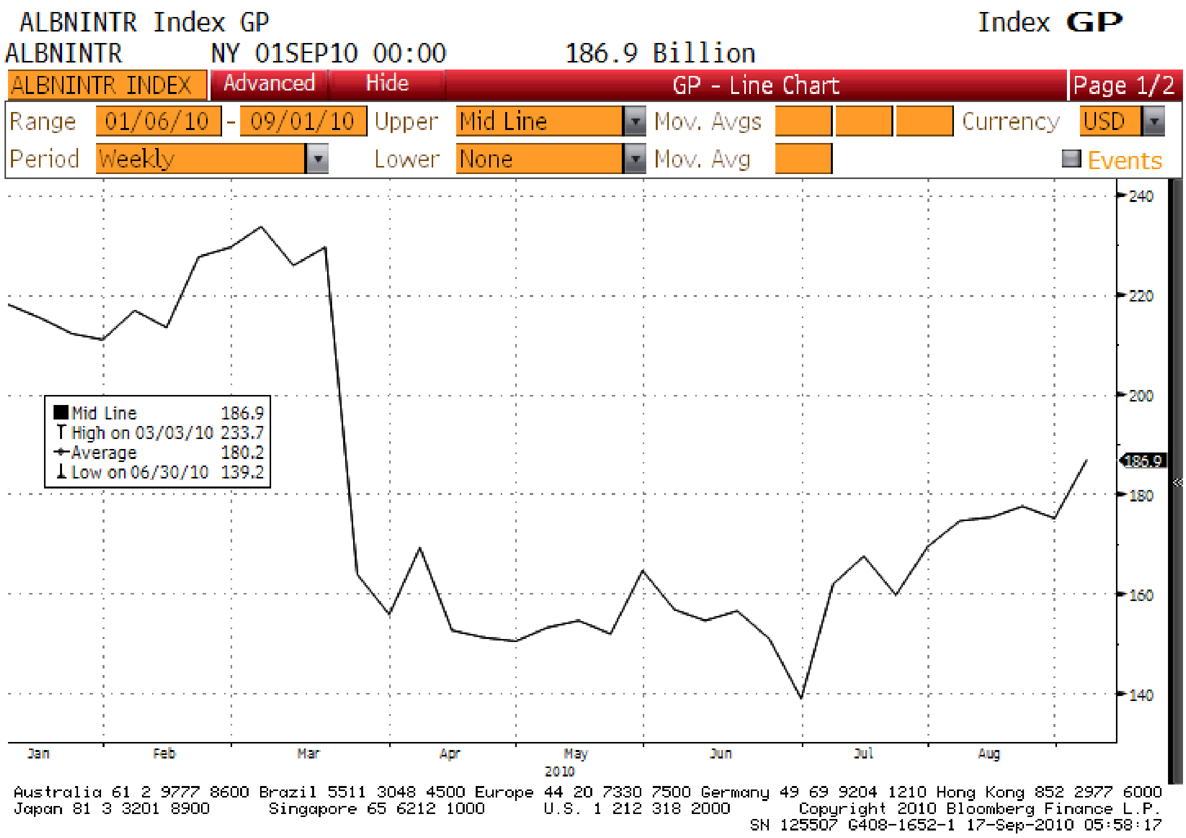
Still No Double Dip?

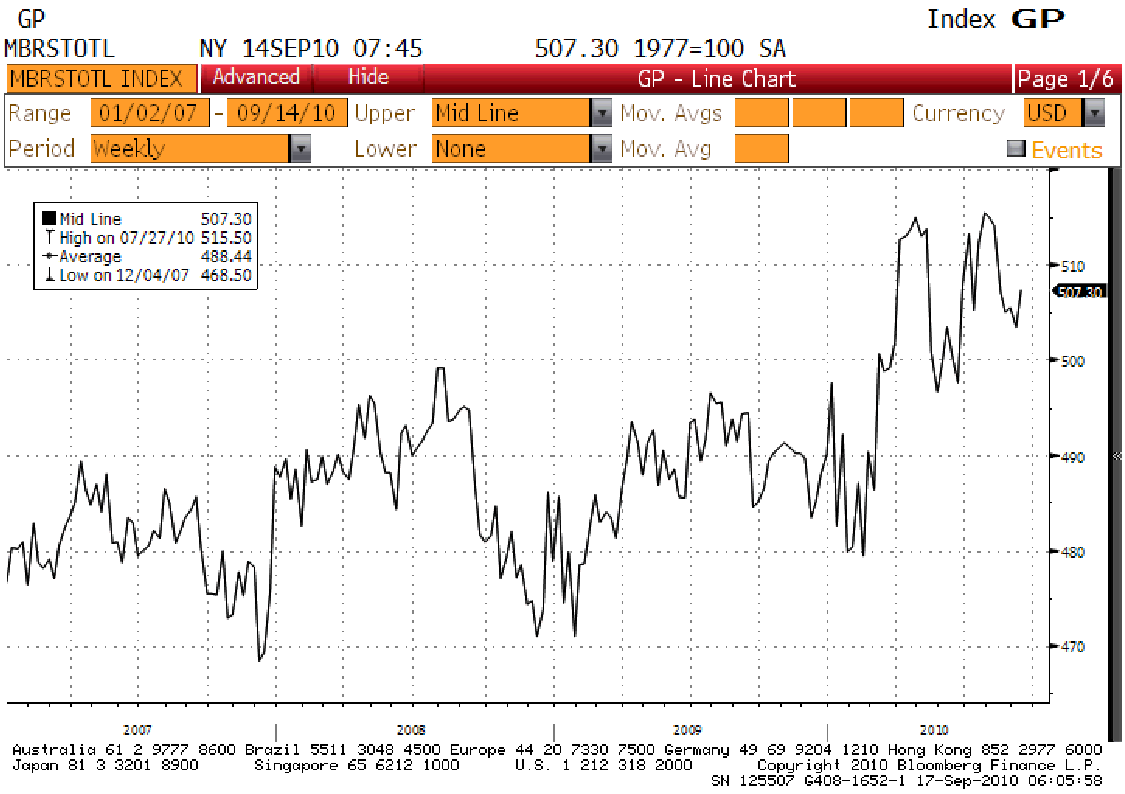
On 21 Jul, 2010, I outlined my thoughts on the issue of double dip in an essay entitled “What Double Dip?”. Almost 2 months on, I thought it would be appropriate to re-examine the data points used to make the case in the essay.

However, I would like to introduce a new indicator that suggests that things are actually improving. The following chart shows the volume of interbank loans among US commercial banks, which has risen 34.2% since the last week of June 2010. This is a sign that US banks are beginning to trust each other again. It is still well below the $200-250 billion levels prior to the Eurozone crisis and the $400-500 billion ranges prior to the Lehman crisis. Nevertheless, its behaviour in July and August through September suggests *healing*, not *deterioration*.

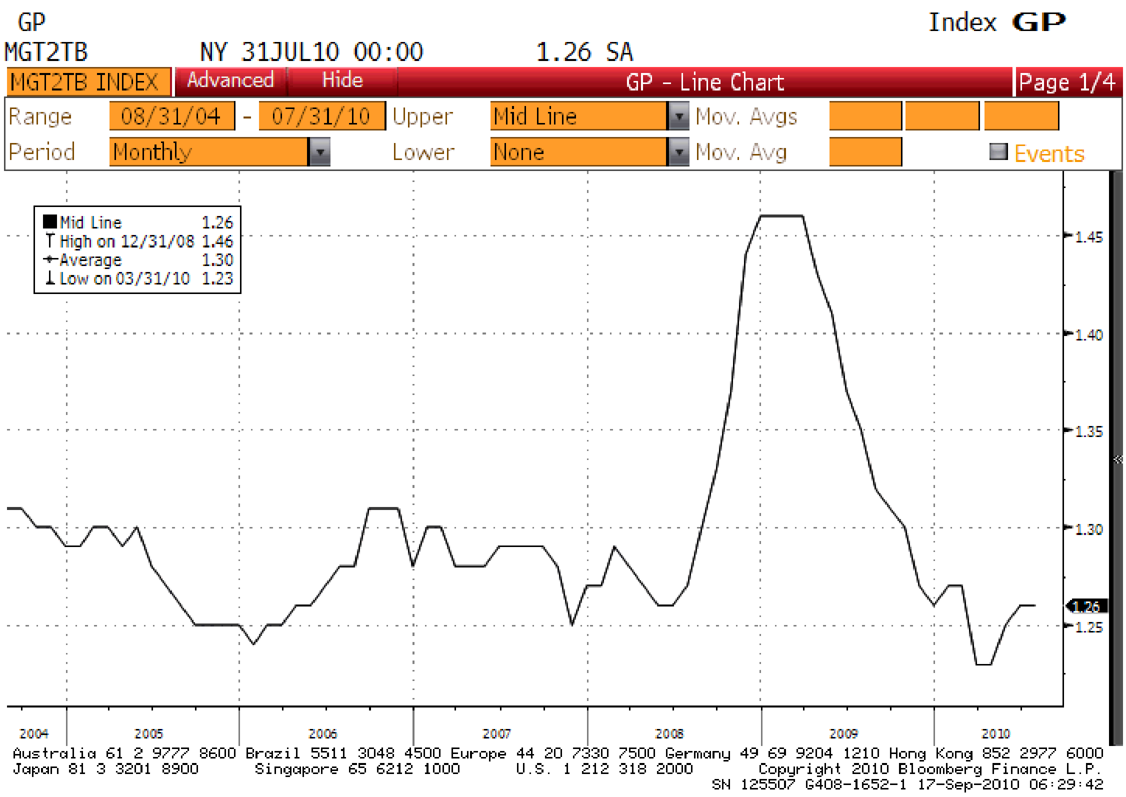


We now move on to the US consumer. It’s the first chart on the next page.

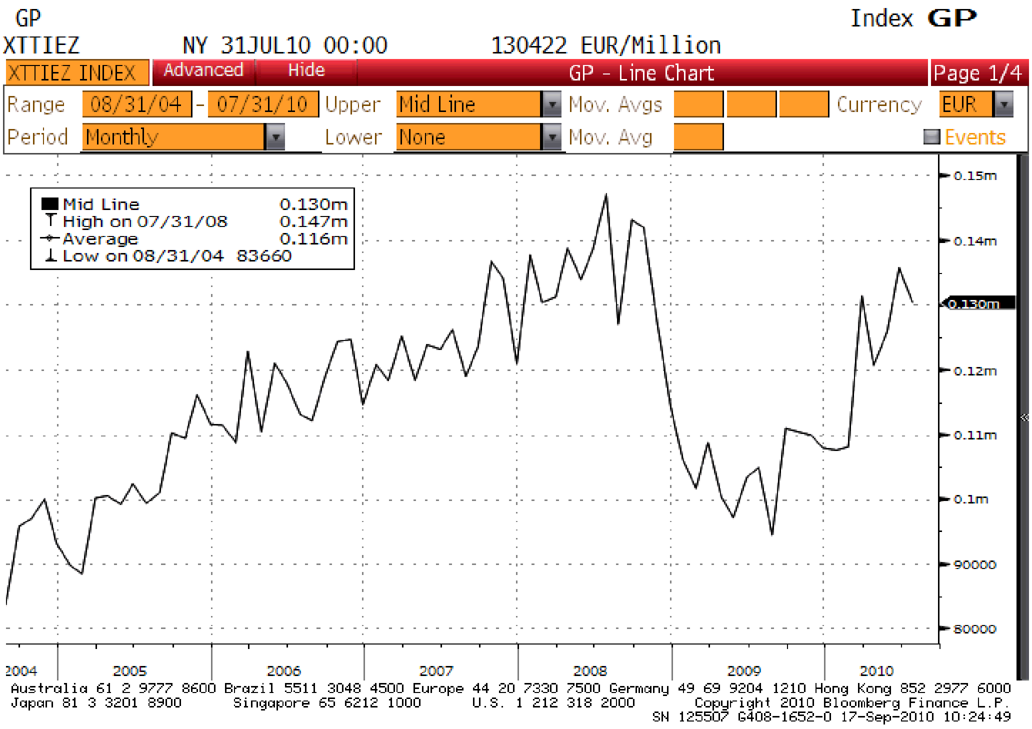
There was a dip in US Chain Store Sales during the months of May-June, another dip in August but we now appear to be climbing out of that dip. Moreover, sales are running at rates that are well ABOVE pre-Lehman crisis. And year on year comparisons have been showing very healthy growth levels of 2-4% since June.



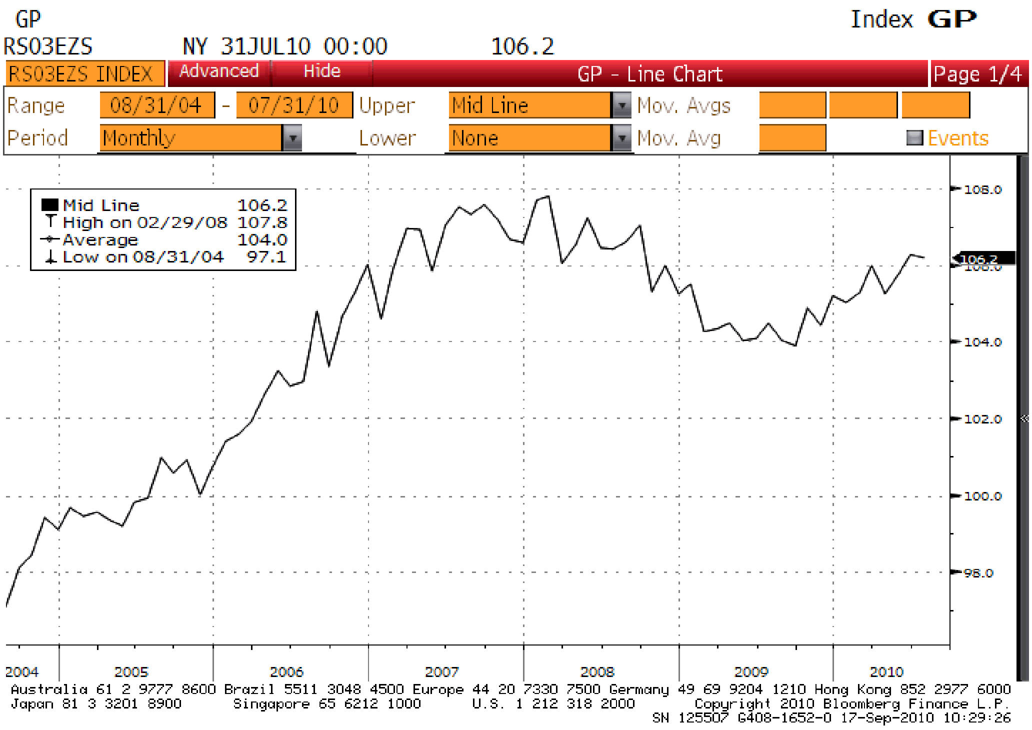
On the ratio of Manufacturing and Trade Inventory to Sales for all businesses (retail, wholesale and manufacturing), after dropping to what was probably unsustainably low levels in Mar-Apr, it has risen slightly. But July data suggests that the supply chain is NOT backing up with unsold goods. Which is what you would expect with healthy chain store sales!



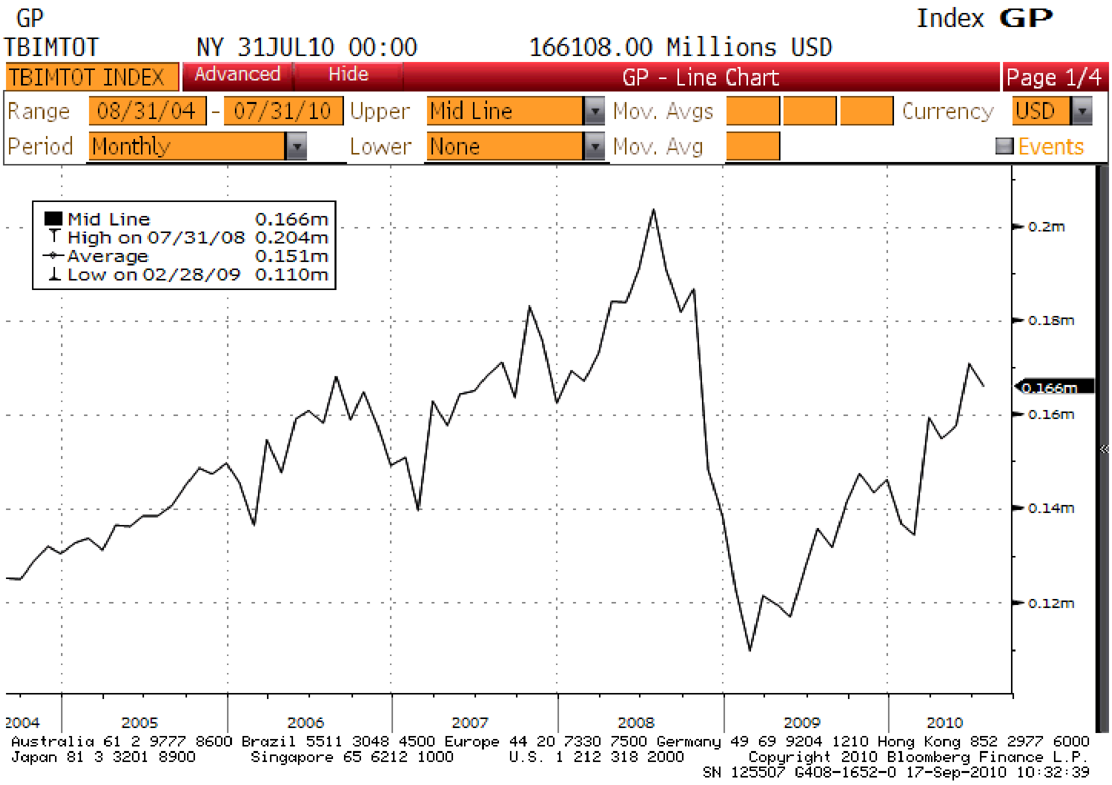
In spite of all its currency and sovereign woes, Europe's imports have risen significantly in the last 2 months, building on the strength that has been in place since late 2009. In fact, for the month of July 2010, imports rose 24.4% compared with July 2009. From the chart below, it appears to have recovered most of the ground lost during the Lehman crisis!



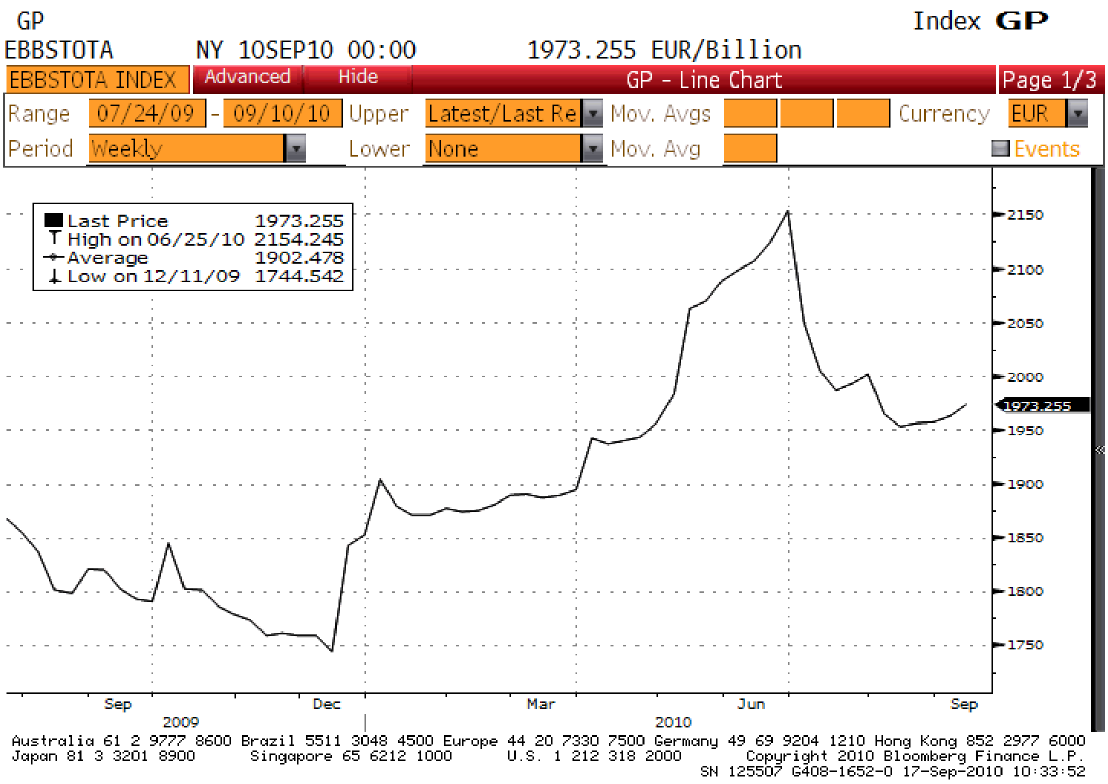
The index of EU non-food retail sales (below) tells exactly the same story.



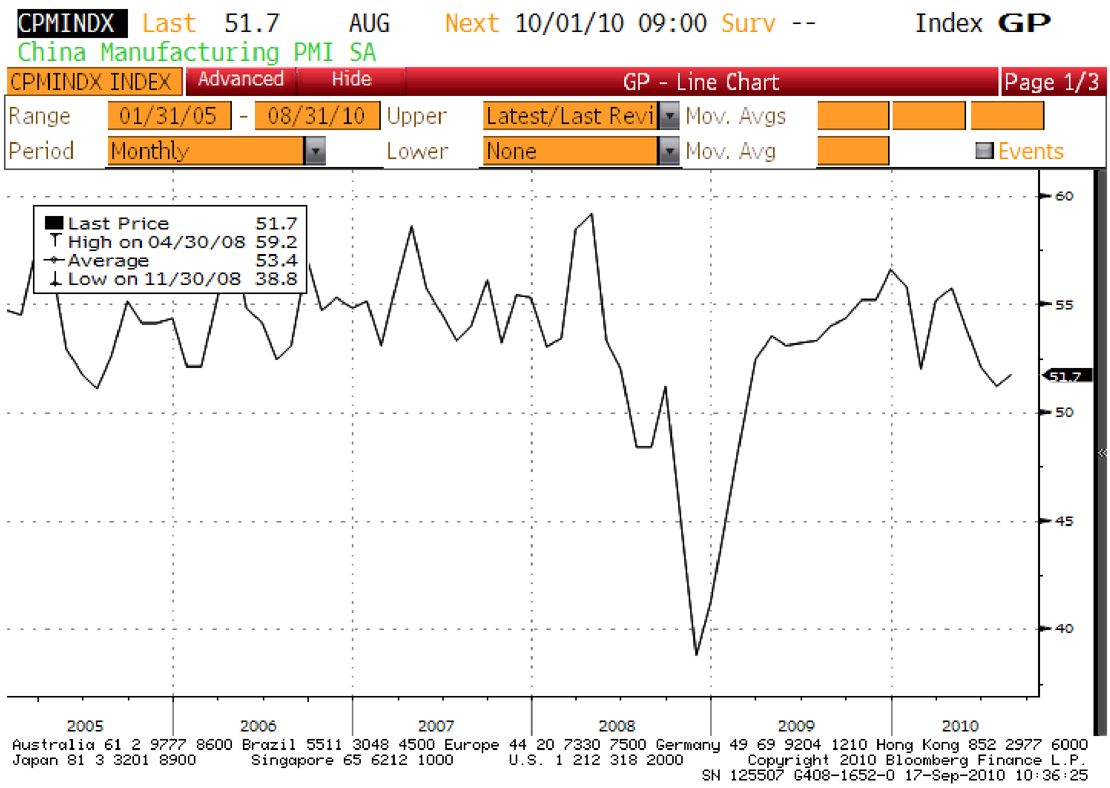
Ditto for US imports.



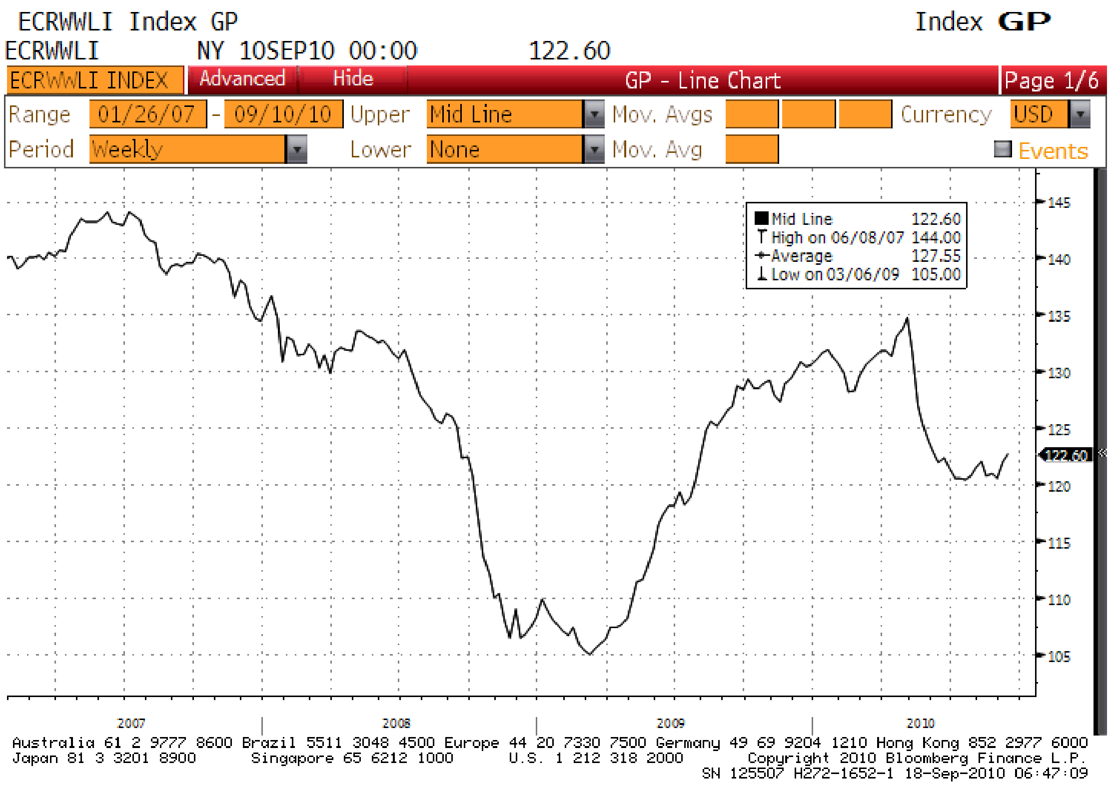
The ECB is clearly NOT in crisis mode anymore. Balance sheet has shrunk further since July 2010 and looks like it has stabilised.



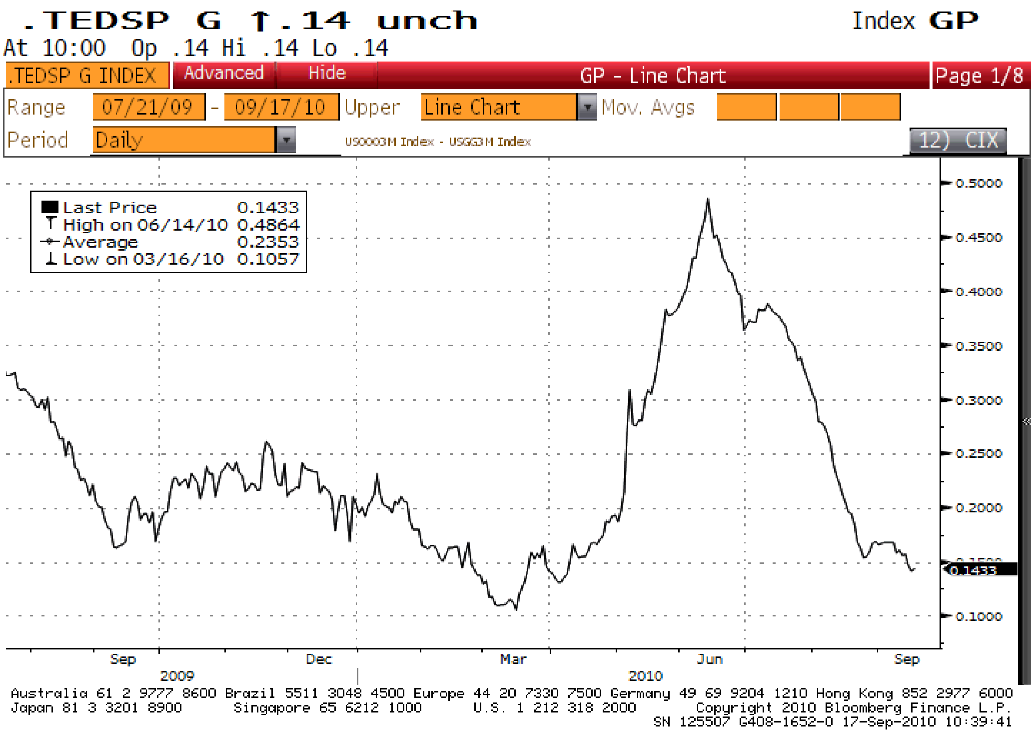
China's Manufacturing PMI is still above 50, indicating expansion mode.



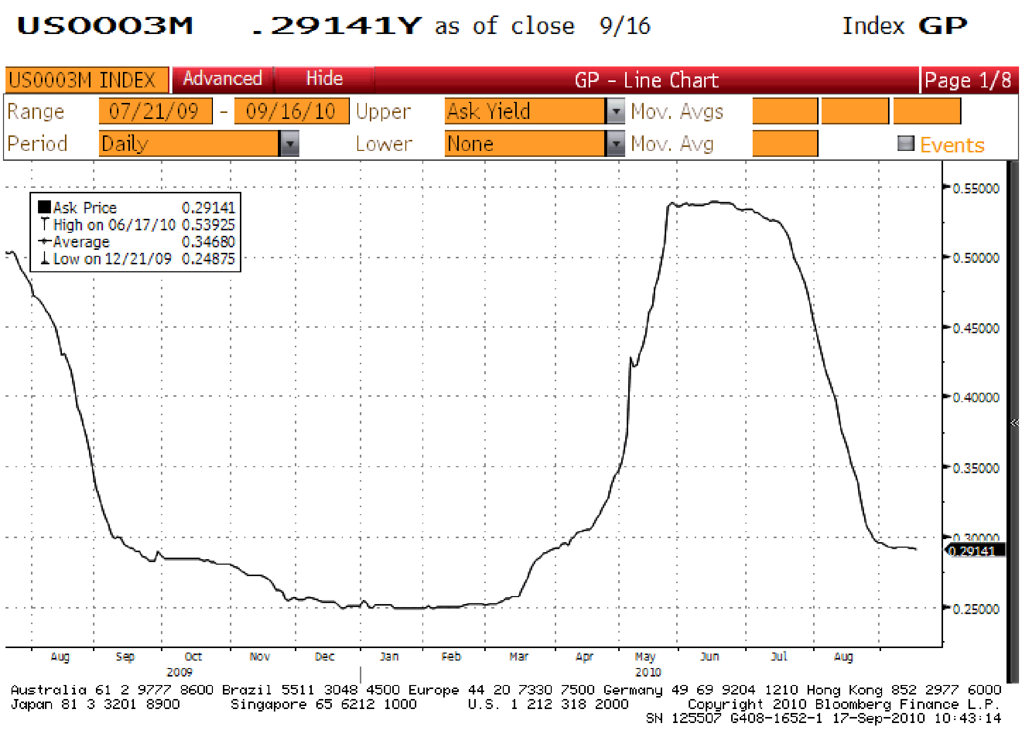
The ECRI Weekly Leading Index also seems to have bottomed out and is now rising, suggesting that the "double dip", if there was really such a thing, may well have come and gone!



The TED spread is near a 6-month low. In fact, prior to the Lehman crisis, these levels were last seen back in early 2004!

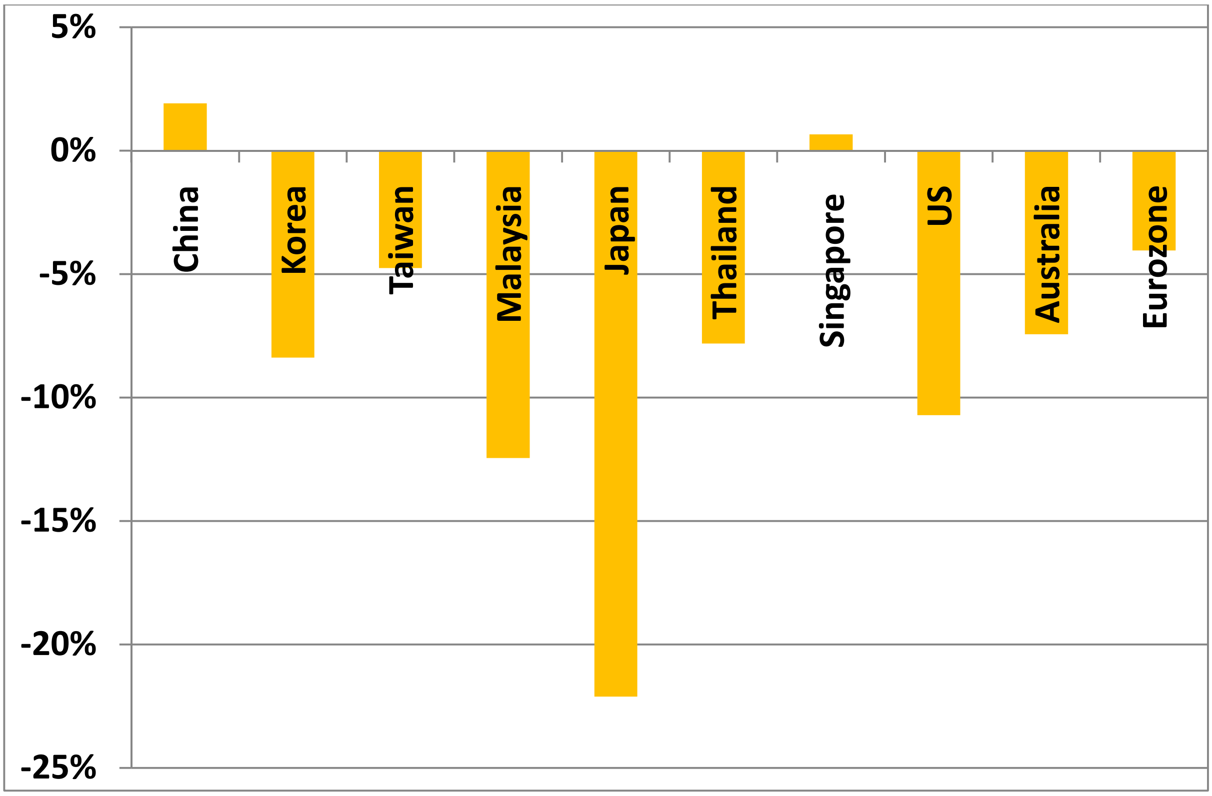


3-month LIBOR exhibits the same behaviour except that it's even more extreme. Current rates are nearly half of what they were 2 months ago and are historical lows!



If there is no double dip, and the global economy is generally robust, should we be worried about inflation (CPI Inflation)?

The following is a chart showing various exporting countries most recent monthly exports compared with their highest levels pre-Lehman crisis. It is quite obvious that almost every major exporting nation, with the exception of China and Singapore, has not yet recovered to the point where they are output constrained.



With an ongoing economic recovery whose robustness has surprised every bear and still a significant output gap to close before the world is supply constrained, is there still a good reason to avoid equities?

Perhaps it is time for the bears to stop fighting the “last war”!