CHART OF THE MONTH

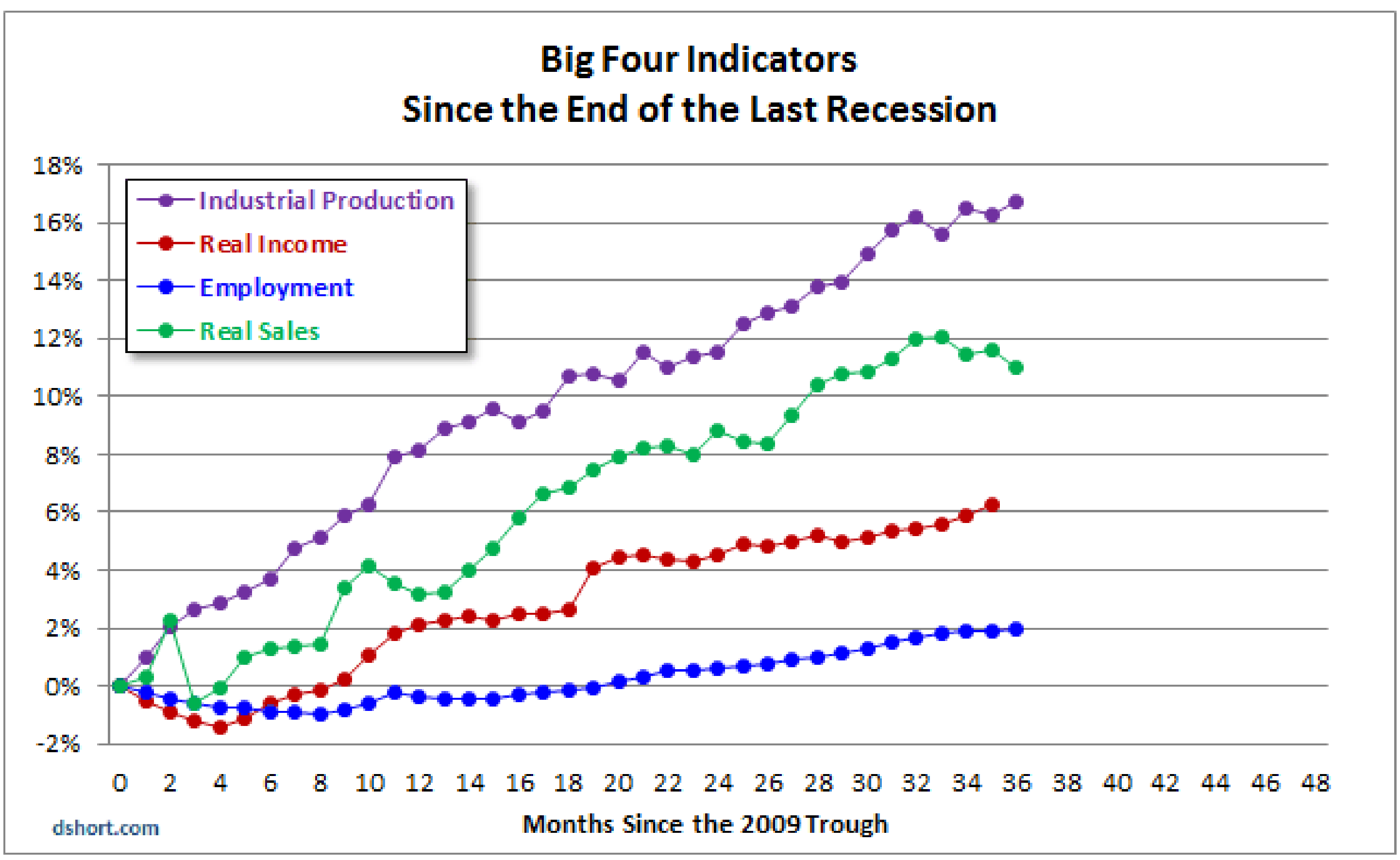
JULY 2012

The Economic Cycle Research Institute (ECRI), a leading authority on business cycles, believes the U.S. economy is in recession. We would beg to differ. While the debate may be as much about semantics as data, we believe the economy is expanding – albeit at a sluggish pace – rather than contracting.

The ECRI's Weekly Leading Index has given false signals in the past, including as recently as 2011 and 2010 when the economy slowed but averted recession both times. The components of the index are proprietary but seem to be highly correlated with the S&P 500. Of note, the stock market slumped in each of the past two summers before rallying into the spring of the following year. The S&P 500 peaked on the first trading day of April this year then declined almost 11% over the next two months. In all three instances, the WLI fell into negative territory, giving what now appear to be inaccurate readings on the economy as a whole.

Although the classical definition of a recession is two consecutive quarters of negative real Gross Domestic Product (GDP), the National Bureau of Economic Research (NBER), which is charged with the responsibility of determining official business cycle dates, defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales."

Let us refer to the chart below to examine the trends in real income, employment, industrial production, and retail sales. As shown, income and employment are experiencing slow but steady growth while production and sales are showing mixed results of late. At least three of the four indicators have been positive in each of the six months this year. Therefore, we contend that it is premature to suggest that business conditions are rolling over. Instead, it is our belief that the economy is in the midst of a third straight mid-year growth scare with a high probability that we will avoid recession once again.



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