

Green shoots singed by reality

• Posted: Thu, Jun 11 2009. 10:35 PM IST

While US fundamentals have continued to remain weak, the media and stock markets have amplified every loss and exaggerated every gain. It's the best of times, and the worst of times. Ten months into the Great Recession, to the media and equity markets, the economy appears cheery one day and gloomy the next. But they can't have it both ways. As US economic data shows, things are more gloomy than cheery. In May, the Standard and Poor's (S&P) 500 index jumped 4.7%. Stock markets rallied again last week, when US jobs data proved better than expected. "Green shoots", first suggested by US Federal Reserve chairman Ben Bernanke in March, is the new catchphrase. But it's the same Fed that's now the party-pooper. A summary of reports from the Fed system's 12 regional banks called the "beige book", published this week, makes one point clear: "...economic conditions remained weak or deteriorated further during the period from mid-April through May". Manufacturing has declined, the labour market is weak and credit remains stringent.

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The US' fiscal-monetary policy mix invites more pessimism. By directly monetizing government debt and purchasing mortgage securities, the Fed has increased the monetary base by nearly \$1 trillion. Add to that a fiscal deficit projected at 13% of gross domestic product, and there's serious cause for concern that any natural recovery in the business cycle will get dampened by either inflation or high interest rates, or both. At least the bond market seems to be concerned. At a Wednesday US treasury auction, bond prices fell as interest rates were pushed upwards to levels unseen since October.

US stock markets, otherwise recently cheery, are suddenly alert. After Wednesday's auction, the Dow Jones Industrial Average fell 24 points. And herein lies the problem: While US fundamentals have continued to remain weak, the media and stock markets have amplified every loss and exaggerated every gain. So when the Fed's beige book reports little optimism, a *Bloomberg* headline says: "Fed Says Downturn May Be Moderating Amid Weakness". And when European Central Bank governor Jean-Claude Trichet only noted an "inflection point" (a decrease in the rate of decline) in the economy last month, the media spun it as a "turning point". Markets and media helped burst the same housing bubble they had helped inflate.

Meanwhile, stoicism may be the best approach. Optimists will continue to tell pessimists that the glass is half full, not half empty. But the truth is, in many quarters, the glass isn't even up to the halfway mark.

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