

THE MASTERS

WEALTH MANAGEMENT GROUP

GDP IMPROVES, YET DISAPPOINTS

The economy grew 2.8% in Q4, but that doesn't tell the whole story.

Presented by Gary Mastrodonato, CEA

Our economy is reasonably healthy... or is it? By the initial estimate of the Bureau of Economic Analysis, America's fourth-quarter GDP was +2.8%, not bad, but not what economists anticipated.¹

How could the best GDP in six quarters be interpreted as a slight disappointment? At \$56 billion, inventory rebuilding was actually the biggest factor in Q4 growth, not final sales. Expanding inventories imply slowing sales (read: reduced demand) and production cutbacks for companies. If that implication plays out, it could put a drag on 2012's Q1 GDP.¹

Business spending rose by 1.7% in the quarter; the Q3 2011 gain was 15.7%. Federal spending fell notably, with a 12.5% dip in defense spending; economists don't see this as any kind of long-term trend.¹

Actually, 2.8% growth is in line with the last few recoveries. Since the 1990s, the economy has recovered from recessions less rapidly than it once did. This may be because America relied more on its manufacturing sector during the 1960s and 1970s, an economic engine that could rev quickly when things began to look up.

Looking at the last several downturns, here is the average GDP in the five quarters following a quarter in which a recession ended (according to the judgment of the National Bureau of Economic Research):

- After Q1 1961: +6.9%
- After Q4 1970: +5.1%
- After Q1 1975: +5.5%
- After Q3 1980: +2.6%
- After Q2 1982: +7.8%
- After Q1 1991: +3.0%
- After Q4 2001: +1.9%
- After Q2 2009: +2.9%

The unemployment rate has also taken more time to fall in more recent recessions. After the 2000-1 downturn ended, it took 48 months for employment to return to pre-

recession levels. As for the previous post-WWII downturns, it only took an average of 20 months for the jobless rate to make a full recovery.^{2,3,4}

Perhaps this is a “new normal”. The economy is rebounding as might be expected from the recession, given recent examples. While many Americans have high expectations, a swift recovery may not be forthcoming.

However, one especially encouraging note indicates the recovery may be standing on stronger legs than we think: Q4 saw a 0.8% increase in real disposable income after a 1.9% drop in Q3 and a 0.5% retreat in Q2.¹



Gary C. Mastrodonato, CEA
The Masters, LLC
Wealth Management Group
Keeping Families & Generations Together

“Where Everyday, You Get Our Best!”

Gary C. Mastrodonato is a Representative with Capital Investment Companies and may be reached at:
807 Broad Street Suite C PO Box 306, Oriental, North Carolina 28571
Phone: (252)249-0100 Fax: (252)249-0105

Securities offered through Capital Investment Group, Inc., Member FINRA/SIPC and advisory services offered through Capital Investment Advisory Services, LLC. Gary Mastrodonato, CEA, Investment Advisor Representative. The Masters, LLC Wealth Management Group is not owned by or an affiliate of Capital Investment Group Inc. Capital Investment Group, 17 Glenwood Avenue, Raleigh, NC 27603 (919)831-2370

This material was prepared by MarketingLibrary.Net Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. Marketing Library.Net Inc. is not affiliated with any broker or brokerage firm that may be providing this information to you. All information is believed to be from reliable sources; however we make no representation as to its completeness or accuracy. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is not a solicitation or a recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Citations.

1 - www.cnbc.com/id/46163831/ [1/27/12]

2 - money.msn.com/market-news/post.aspx?post=6e802a2f-f50a-4ae4-948b-7bc9555ff5f6&_nwpt=1 [1/27/12]

3 - <http://montoyaregistry.com/Financial-Market.aspx?financial-market=Six-steps-to-get-out-of-debt&category=29> [1/27/12]

4 - www.knowwpcarey.com/article.cfm?aid=64 [12/15/10]