# The Missing Ingredient for the Economy

A friend involved in investment market research believes the stock market is bullish for several reasons one of them being the overwhelming bearish market sentiment. Experienced investors understand that bottoms happen when sellers are exhausted and when bears rule the roost. Tops happen when everyone is bullish- usually.

This time may be different and he was curious what I see on the street. My business is down severely both in unit volume and the margin contribution per unit. This means I am selling less and making less money on everything I sell. I have laid off some workers, ceased matching 401k contributions, frozen wages, reduced uncritical property insurance, changed carriers for cost reductions, and looked at other cost reductions. I would consider this a successful year if I could break even.

From conversations I am the rule and not the exception. This means that the taxes I bitched about paying last year will not be paid this year. It is clear from the street that tax revenues will drop sharply.

Because of the mass of uncertainty we have no plans for expansion, equipment purchases including rolling stock such as vehicles. We keep inventory low which kills output at the steel mills that serve us. Most are running at less than 50% capacity. It also kills rail traffic which transport industrial commodities.
I am more likely to lay off 5 people than I am to hire one. Almost a fourth of corporations have instituted across the board wage cuts. In my 30 years in the business world I have never seen this.

Fewer people will be working and they will be making less.

There is much money sloshing around from money supply growth and the stimulus but people do not invest and risk because money is cheap, they invest because they expect to get a commensurate return and nothing kills the incentive to invest like uncertainty. And there is little certainty in this administration's policies.

No one knows how this stimulus bill will affect their future interest rates, their inventory requirements, and the return on their investments. If the card check bill comes to pass small business people who are able will shut down and move to the beach; not for calculation of real costs but for fear of losing their autonomy that drove them to open their own business.

And this cap and trade has every business wondering how it will affect their product and costs. How will it affect trade if the same 'carbon reduction goals' are forced on other nations who sell to us? Will it cause a trade and affect their exports? Should we delay buying trucks until we know the impact of cap and trade on their fuel costs?

Obama's ambitious and expensive programs enacted in a severely wounded economy has most business people frozen and I see very little in the future ready to thaw their fear. The mere discussion of these issues is enough to stall employment and investment decisions.

I would not be surprised to see a short uptick in auto sales as the fleets age, and some may be motivated by a combination of low current prices and the possibility of avoiding higher prices later as cap and trade policies raise the future prices. With low returns on cash such a decision is even less costly.

But if this is the only buying motivation it will not last. We will drive less and buy less.

There is some uptick in scrap metal prices and this is usually

bullish, but we could be at a ‘dead cat bounce’ that will soon exhaust itself.

We have seen signals in the past that indicated that a bottom was in, but this time we are seeing these signals in the midst of the most dramatic change in the structure of our economy every undertaken.

There is plenty of cash floating around (over 3 trillion in money market funds) out there but if it is going to be spent and invested, we will need confidence the future is sound. That is sorely missing from Obama’s economic policy.