

## Yes, We Have No Bananas

Back in 1979, before GDP growth had turned negative, Alfred Kahn, President Carter's Chief Economist made a professional faux pas. He uttered the "R" word within earshot of the national press. Higher-ups in the White House quickly put the hammer to Dr. Kahn, suggesting that he never use the "R" word again.

To his credit, Alfred Kahn did not back down. He announced that from then on he would refer to the recession as a "banana." He then began to say things like, "I think we are in for a serious banana." He was funny, and he was right.

Twenty-one years later, in December 2000, Vice President-Elect Richard Cheney, told Tim Russert on *Meet the Press* that the US was probably on the "front edge of a recession." At the time, GDP growth was still positive and most economists felt a recession was highly unlikely.

The Clinton Administration, many economists and some of the pundit class immediately flogged Mr. Cheney, suggesting that talk of a recession by such a prominent leader was irresponsible. While he was right about the recession, Mr. Cheney refrained from using the "R" word in future public appearances.

This idea, that the use of the word "recession" by political leaders could cause fear and lead to a pull back in consumer spending, is not new. It can best be described as a Keynesian concept, and is clearly based on the idea that consumer confidence and "animal spirits" are a driving force behind economic growth.

For those who think this is silly, we were recently told by a senior economist in the Federal Reserve system that Cheney's use of the "R" word probably helped cause the recession of 2001.

Despite this – despite the belief that using the word is damaging to the economy – there are few politicians these days not saying "recession." The three senators, Clinton, Obama and McCain have all used the word recession multiple times, but no one is suggesting this is irresponsible. In fact, the media atmosphere has changed so much that a politician who does *not* think the US is in recession is now under suspicion.

Last week, President Bush was taken to task, especially in the blogosphere, because he refused to use the word recession. Instead, Bush said the economy was experiencing a "slowdown." For this, the President is being described as rosy and unrealistic by Democrats.

Wow. What a turnaround. How can this be? How can it be so wrong to use the word "recession" in 1979 and 2000, but also wrong *not* to use it 2008? The world has surely turned upside-down.

The good news is that politicians and the press, no matter how negative or positive they talk, can't actually change the direction of the economy. Recessions and recoveries are caused by good and bad policy, not press conferences.

Kahn and Cheney were right because in both cases (1979 and 2000) the Federal Reserve had become tight enough to cause a recession. But all the talk of a recession today will be proved wrong because the Fed is not tight. In fact, the past 7 years of monetary policy has been the most accommodative since the 1970s.

As a result, no matter how much all this negative talk undermines economic emotions, and drives down consumer confidence, a recession is highly unlikely. The Fed is accommodative, tax rates are still low and productivity remains strong. As a result, the economy will prove resilient once again.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-19 / 9:00 am	Leading Indicators – Apr	-0.1%	<b>+0.0%</b>		+0.1%
5-20 / 7:30 am	PPI – Apr	+0.4%	<b>+0.6%</b>		+1.1%
7:30 am	"Core" PPI – Apr	+0.2%	<b>+0.2%</b>		+0.2%
5-22 / 7:30 am	Initial Claims - May 17	370K	<b>369K</b>		371K
5-23 / 9:00 am	Existing Home Sales - Apr	4.850 Mil	<b>4.810 Mil</b>		4.930 Mil