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1 – ECONOMIC OUTLOOK

ANALYSIS OF APRIL CDI BY DR. ROGER SELBERT

Los Angeles – Confirming what we have been forecasting in our CDI reports throughout 2007, the US economy has not been in recession. It is weak – economic growth in 1Q2008 was 0.6% – but not collapsing. Same is true of both workers' compensation and consumer spending: each up only slightly, but at least not down. In my view the worst is over; the economy and consumer spending will turn around, perhaps dramatically, by the third and fourth quarters. My reasoning is below.

Of course there is uncertainty among consumers, and that is reflected in our survey of household buying intentions. Again, most telling is the large percentage of households (54%) sitting on the fence, not committing to any major purchases in the next three months, a real wait-and-see posture. (This is actually down slightly from last month, and we will allow ourselves to take that as a positive sign.)

The most recent jobs report produced a smaller than expected decline in corporate employment, an increase of 362,000 in the household survey (the best gain in five months), and an unemployment rate of 4.95% (low by historical standards).

Government rebate checks have begun landing in bank accounts (after rebates were distributed during the 2001 recession, consumer spending increased for nine months). And as we predicted in December 2007, the Fed has cut interest rates yet again.

Home prices have fallen and foreclosures have increased, but they represent a tiny fraction of all houses. In other words, the current drop in consumer confidence is based on perceptions generated more by media (and presidential candidates) than by personal experience.

In our view consumers are waiting for any positive sign to start greater spending again, such as lower oil and gas prices, a stronger stock market, or a stronger housing market. All are indeed in the cards: oil prices will likely go much lower after, if not before, the November 2008 election. There is currently \$3.5 trillion sitting in money market funds and with corporate profits (outside financials) up 10% over a year ago, that money will not stay on the sidelines. As for how much further housing prices can fall, consider that the US population of over 300 million will surpass 400 million within 35 years, and it becomes clear that the real question is when the next housing boom starts.

Bear Stearns economist David Malpass expects an economic recovery in coming quarters in response to generally good global growth conditions (record number of people working), low real interest rates in the US and many parts of Asia, low inventories, moderate earnings growth outside of financials, and US consumer resilience.

In support of his contention of consumer resilience he sites moderate jobless claims and liquid household balance sheets, including record money-market balances, near-record financial net

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worth, and decades of compound gains not counted in the official personal savings rate. He expects to see indicators of recovery in coming months – narrowing credit spreads, a moderate decline in conforming mortgage rates, moderate jobless claims, higher equity prices, revived consumption growth in May and June, and then an increase in home sales and mortgage applications.

New orders at US factories jumped a much stronger than expected 1.4% in March. When the volatile transportation component was stripped out, factory orders had an even healthier increase of 2.2%. Inventories of manufactured goods rose by 0.9%, to the highest level since the Commerce Department began keeping records in 1992. Inventories have increased in 13 of the last 14 months.

Sam Stovall, chief investment strategist at Standard & Poor's, believes the worst is over for stocks. He expects the S&P 500 index of stocks to reach 1,560 by the end of the year, for a gain of 13% from current levels. The Federal Reserve's recent interest rate cuts, expected consumer spending increases from tax rebates, and higher corporate earnings are the reasons for Stovall's bullishness.

In fact, Stovall estimates optimistically that many of the write-downs taken in the financial sector because of the subprime crisis will prove to have been unnecessary, providing an extra boost to stocks.

The Consumer Demand Index (CDI) is a nationally representative monthly survey of 1,000 or more US private households that measures consumer purchasing intentions across the range of durable and non-durable goods. Our seven years of historical data show the CDI to be an excellent predictor of actual buying behavior. A one-year subscription (12 issues) is now available for the special promotional price of \$280. To subscribe or to receive sample issues contact Dr. Roger Selbert [roger@rogerselbert.com].

2 – ENVIRONMENTAL PERSPECTIVE VI

We have been debunking environmental scare-mongering, including global warming, in these pages for 19 years. Ten years ago we wrote "The Global Warming Emperor Has No Clothes" (issue #881). Hasn't the Earth warmed over that time period? No, it has cooled (see below).

Skepticism should come easily to the intellectually honest and rigorous; to say that the science is settled or that there is "consensus" on global warming is to reveal an ignorance of even the definition of science.

If you have any doubts there are doubts among scientists, please, spend some time researching the subject. You can start with www.icecap.us, www.globalwarmingskeptics.info, www.skeptics-globalwarming.com, www.globalwarminghysteria.com, and www.lomborg.com. We even recommend www.skepticalscience.com, which attempts to debunk the debunkers (but which, in our view, reinforces the grounds for reasonable skepticism).

Consult the works of Richard Lindzen (MIT), William Gray (U of Colorado) and John Christy (U of Alabama). Recommended recent books would include *The Deniers: The World Renowned Scientists Who Stood Up Against Global Warming Hysteria, Political Persecution, and Fraud** And those who are too fearful to do so* (Solomon); *Climate Confusion: How Global Warming Hysteria Leads to Bad Science, Pandering Politicians and Misguided Policies that Hurt the Poor* (Spencer); *Unstoppable Global Warming: Every 1,500 Years* (Avery, Singer); and *The Really Inconvenient Truths: Seven Environmental Catastrophes Liberals Don't Want You to Know About – Because They Helped Cause Them* (Murray).

Dennis Avery is a senior fellow at the Hudson Institute (that makes his analyses suspect, say the True Believers, but how are we supposed to take them seriously?). He writes that the Earth's warming since 1850 totals about 0.7 degrees, most of which occurred before 1940. The cause?

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A long, moderate 1500-year climate cycle first discovered in the Greenland ice cores in 1983. The cycle raises our temperature 1 to 3 degrees for centuries at a time, and then lowers them by the same amount. The ice cores show 600 of these 1500-year cycles, extending back at least one million years.

In other words, warming cycles are the norm. The Earth has had eight warming cycles since the last Ice Age, several of which were apparently warmer than today, based on the evidence of fossils and isotopes. They were all beneficial to life generally and human life specifically. The Medieval Warming, for example, was known as “the little climate optimum” because human population increased along with longer, stable growing seasons. In contrast, during The Little Ice Age Europe experienced starvation and plague.

Is there a correlation between atmospheric CO2 levels and global temperatures? Yes, higher temperatures come first, by about 800 years. But there is a 95% correlation between Earth’s temperatures and sunspots, and the sunspot number has recently dropped to zero. The Earth has experienced no discernible temperature increase since 1998. Does this mean that Earth’s temperatures will soon decline? History says yes.

And it’s not just sunspots that predict global cooling, writes Avery. The new Jason oceanographic satellite (run by NASA’s JPL) shows that the Pacific Decadal Oscillation (shifting Pacific Ocean current) has turned to its cool phase. We can expect lower global temperatures until 2030 or so.

How long will the global warming alarmists be able to sustain the public hysteria without strongly rising temperatures?

3 – TRENDS AND THE 2008 ELECTION

What a long, strange election campaign is this. It always promised to be unusual, being the first time since 1928 in which neither an incumbent president nor vice president was running for their party’s nomination, but unanticipated twists and turns have added to the drama. So is it an exceptional election (an “outliner” or “one-off”), or is it still shaped by social, demographic, economic, geographic and cultural trends (which we can discern, understand, and use to foresee)?

The American Enterprise Institute and Brookings Institution recently held a conference which approached the subject (“The Future of Red, Blue and Purple America”). Among the findings of the papers presented:

- Almost all US population growth between now and 2050 will take place in metropolitan areas, especially inner and mature suburbs.

While urban cores remain solidly Democratic and exurbs and emerging suburbs remain strongly Republican, the fast-growing “urbanized suburbs” are trending strongly toward the Democrats. [Robert Lang, Virginia Tech, “The New Suburban Politics”]

- Americans increasingly tend to live near people with similar cultural and political affinities. The number of counties dominated by a single party has increased dramatically over the past 40 years, creating “landslide communities.” This effect is perfectly natural, and the differences it creates are unlikely to be transcended. [Bill Bishop, “The Big Sort: Migration, Community, and Politics in the United States of ‘Those People’”]
- The United States is steadily moving from being majority white to greater diversity. As

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it happens, the key battlegrounds of the 2008 elections will be the fast-growing swing states, which are experiencing rapid immigration. But Hispanic and Asian population growth is not fully represented in election results because so many of these immigrants are either under the age of 18 or are not citizens. [William Frey, Brookings Institution, "Race, Immigration and America's Changing Electorate"]

- The white working class – once a mainstay of Democrats – has shrunk by 31 percentage points since 1940, and as it has declined, so has its Democratic tilt. Because several swing states have high concentrations of white working class voters, this group will be very important in the 2008 elections. [Ruy Teixeira, Brookings Institution, and Alan Abramowitz, Emory University, "The Decline of the White Working Class and Other Changes in American Class Structure"]
- Nontraditional family structures are growing. Married voters traditionally lean Republican and vote more than others, but as their proportion dips and values become more liberal, the Republican advantage will erode. [Tom Smith, University of Chicago, "Changes in Family Structure, Family Values and Politics, 1972-2006"]
- Religious trends are complex. Democrats retain the strong support of the unaffiliated, and Republicans the support from white evangelical Christians. But party preference frequently correlates with degrees of observance rather than denomination. [John Green, Pew Forum on Religion & Public Life, "Religion and American Politics: More Secular, More Evangelical, or Both?"]
- Changing family structures (especially increases in divorce) have helped to shape the outlook of the "millennial" generation, those born since 1977. They have social, economic

and political views that lean toward the Democratic Party (more liberal on issues like immigration, gay marriage and big government), but they are also more entrepreneurial and individualistic (favoring private Social Security accounts, for example, and opposing abortion on demand in greater numbers than any other generation born since 1930). Thus there is opportunity here for Republicans as well. [Scott Keeter, Pew Research Center, "The Aging of the Boomers and the Rise of the Millennials"]

The trends examined here, when broken down into familiar terms, have all been covered extensively in these pages over the years and are familiar to long-time readers:

- **Suburbia** (and now including exurbia) as the places where most Americans live and work
- The social, economic, cultural and geographic **clustering** of America
- The rise of racial, ethnic, and national-origin **diversity**
- The continuing primacy (and changing nature) of the **middle class**
- The redefinition of mainstream **family structure** in America (the decline in married-couple households with children and the rise of singles)
- The continuing relevance and importance of **religion** and belief
- The aging of the baby **boomers** and the rise of the **millennials**, the largest generation in American history.

So, then, do any of these findings, taken singly or together, allow a confident prediction about this year's election results?

Sorry, I seem to have run out of space.