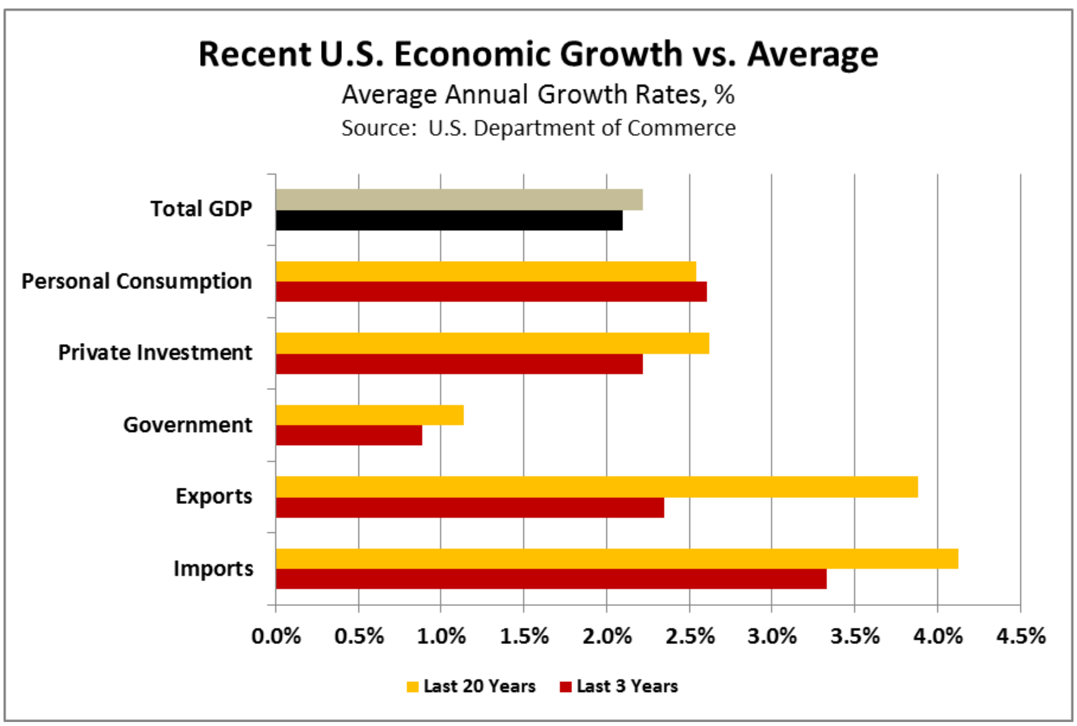
Wealth Management International, Ltd.
Proactive Investment Management & Financial Planning

Economic Chart of the Week
September 26, 2018

Up to now, our series marking the tenth anniversary of the Housing Crisis has focused on the moderate home price increases during the recovery phase and the way the crisis helped spur increased personal saving. To wrap up our series, this week's chart shows that the long shadow of the crisis can also be seen in the corporate and government sectors.

The chart shows the average annual growth rate in gross domestic product (GDP) and its major components over the last 20 years (top bar of each pair) and the last three years (bottom bar of each pair). Consistent with the higher personal savings rate since the crisis, the chart shows consumption spending in recent years has only been slightly stronger than the 20-year average, in spite of the robust labor market and low interest rates. The chart shows private investment (which is mostly corporate capital spending) has grown well below average, apparently because companies faced with newly-frugal consumers have decided to limit their investment activity. Similarly, the chart shows relatively weak growth in government demand, i.e., consumption and investment by federal, state, and local agencies. (Total government spending has increased much faster, but that's only because of "transfer" payments like Social Security retirement checks and unemployment benefits, which are captured in consumption spending when the recipient spends the money.) The relatively weak increases in consumer, corporate, and government demand go a long way towards explaining the muted economic growth and low inflation in the years since the Great Recession. However, now that growth is finally kicking into higher gear and consumers have become extraordinarily optimistic, we are preparing for the risk that savings rates might decline again and push the economy into a period of high inflation and fast-rising interest rates.

Patrick Fearon, CFA
Chief Investment Officer



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