



Is Growth Back?

I have to start this commentary by saying our thoughts and prayers go out to the victims of the Boston attacks. Having been there probably fifteen times in my life, it is one of my favourite cities. The last time I was there, actually stayed at a boutique hotel on Boylston, the same street as the blast. It's a reminder that evil never sleeps and never stops scheming. We must remain diligent.

The first third of 2013 is in the books and lots of data has been released. Consumer spending, business investment, and home building appear to be expanding at an annualized rate of almost 4%, the fastest combined pace of growth for these portions of GDP since 2010. Other components of GDP – inventories, government purchases and trade will pull the number down to somewhere around 3%.

To put it in perspective, just a few months ago the consensus forecast for Q1 was 1.5-2%. Now consensus is projecting 1.5% for Q2, mainly based on an expected delayed response to the fiscal cliff noise.

It's still not the 1980's or 1990's when government was shrinking, but 3% GDP growth is a lot better than 1.0%. And at 3%, maybe not a start of an economic boom, but certainly a long way from another recession, like the pessimists have been warning us about the last few years.

But with gold's recent collapse when consensus seemed to think it would rally with all the central bank printing going on, now the narrative has changed to some sort of deflationary spiral. The ability of management to have pricing power has been elusive for some time now. The ability to raise prices is the start of larger margins and stronger bottom lines.

Despite all the money printing going on, most of it has been sucked up by the Federal government's voracious need for every nickel. While the USA's current administration has ignored economics for the most part, the US Federal Reserve has done everything possible to generate inflation, and while it seems to be working in housing, Wall Street and Main Street don't seem to be taking the bait. There are serious doubts all the money printing will work. Without some pro-growth fiscal policies there's a chance the economy could go sluggish once again.

We've had a decent run in equities the last few months. We are due for some sort of pause, but then if we can go back and break out to new highs, we may be on the cusp of a new bull market cycle.

It wasn't that long ago that the horrific 9-11 attacks reversed the stock market into a new bull market. Maybe the Boston attack will somehow bring America together again.

Stay tuned,

Vito Finucci
Vice President and Director
Investment Advisor

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