Money Talk

ECONOMIC OUTLOOK IMPROVES; NO TIME FOR 'PESSOPTIMISM'

Thursday, April 9, 1992
Stephen N. Blaising

It is perhaps doubtful whether I gained any prophetic advantage over my peer pundits by waiting 75 days to finalize my own prophecy for the 1992 economic outlook. Neverthe-less, you should fill yourself with a sense of anticipation, unless, of course, you are a "pessoptimist."

Buckner Fanning, a lifetime friend, coined a meaning for that word to refer to one who believes "everything generally will turn out to be alright but it'll be too late to do anybody any good."

The following forecast is enough to convert any pessoptimist into an optimist. Some undebatable economic trends, not seen since the 1950s, have begun to emerge. (I'll save that for later.) Having indulged me this long "On with the forecast!"

- Three-month Treasury bill rates will rise to 4.5 percent.
- Long-term interest rates will decline to 7.25 percent.
- Oil prices will stay in the $18 to $20 per barrel range.
- The Dow Jones Industrial Average will reach 3800.
- Inflation will be in the 2.5 percent to 3 percent range.
- The price of gold will fall to $325 per ounce by year-end.
- The trade deficit will continue to fall, piling up "only" a $50 billion deficit for the year.
- Unemployment will remain high throughout 1992 and will end the yearat about 7 percent.

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Back to the Fab '50s

The most striking similarity between the 1950s and the 1990s is to be found in the non-U.S. global economy. Whether you're talking about Germany, the ex-communist bloc countries, Chile, Mexico or the Pacific Rim, the prospects for unprecedented growth in these regions is as far as the eye can see into the future.

1992 will forever mark the immediate aftermath of the U.S. victory over monolithic communism. With the major exception of Japan, world equity markets are poised for growth. The prosperity of the U.S. economy will be primarily our investment in overseas markets. U.S. stocks, therefore, will perform much better than the domestic economy alone implies.

In the 1950s, America was a strong exporting nation and yet had slow and erratic domestic growth. But, U.S. companies participated in that era's foreign growth. Expect the same trend in 1992.

A prime example is Madame Bell and her "babies" as they sweep the world to update age-old phone systems. The U.S. firms which participate in the building of the infrastructure of Latin America, Europe, Asia and the "unified" countries will profit the most and carry U.S. stock averages to all-time highs.

Go Global, Young Man

Global economics, not local economics, will be the key to investment performance in 1992.

Falling interest rates in 1991 had the effect of retarding economic growth. Anticipating further declines in interest rates, people postponed personal and business decisions waiting for even lower rates. This pent up activity should now be released back into the economy making '92 a somewhat better year.

Low interest rates, in conjunction with a slight reversal of the downtrend in rates, will provide the basic pattern of economic growth for the balance of 1992. Psychologically, purchases of durable goods and houses may be stimulated by fear of housing rates.

The tightest monetary policy since the Great Depression will keep inflation and interest rates at currently low levels.

Additionally, confirmation that Alan Greenspan will continue as chairman of the Federal Reserve Bank implies continued low inflation, declining interest rates at longer maturities, i.e. the 30-year T-bond, and a relatively strong U.S. dollar.

As a result, inflation will be restricted to the 2.5 percent to 3 percent range.

Why should you care about inflation? Because low inflation readings mean good news for stock and bond prices. A 1992 CPI (Consumer Price Index) gain of 3 percent maximum is less than half the 6.11 gain for 1990.

Why should you care about interest rates? Because the biggest mistake investors make is positioning their money on the wrong side of a monetary trend.

Everyone's afraid rates will rise suddenly, although they continue downward. The Fed Funds rate hovers around 3.5 percent, down from 3.75 percent six weeks ago. Watch what the Fed is doing, not what it is saying.

If actual business conditions improve, I think rates could react upward. But the 12-month trend in the long bond is more lower than higher.

The 1990s mark the post-commie aftermath, just as the '50s denote the economic resurgence following the destruction of World War II and the Cold War build-up. Bush and Eisenhower have a lot in common when it comes to tax policies, while Fed Czar Greenspan provides a close parallel to the tight monetary policies of the 50s.

Still, the most striking similarity of the two decades may prove to be the glorious prospects of the non-U.S. global economy. Think of it as a capitalist-saturated Marshall Plan at its zenith, aimed not at a demoralized, devastated war-torn Europe, but at the world's "huddled masses yearning" — and learning — to be prosperous.

Investors should diversify into stocks that will benefit from the emerging growth of the infrastructure of underdeveloped countries. No profit trend has been as clear since the 1950s.

Eat your heart out Jeanne Dixon. Take a hike Omar. My annual prognostication may have been delayed, dilatory, overdue, tardy and plain late, but it's as on target as a U.S. smart bomb. Stay tuned and watch it go through the skylight . . . as predicted.

Stephen N. Blaising, President of Financial Dynamics, Inc. of Dallas is a University Park resident. He is a private economist, financial planner and registered investment advisor.

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