

WEEKLY COMMENTARY AND ECONOMIC CHARTBOOK HIGHLIGHTS

The Laffer Associates Economic Chartbook provides a monthly snapshot of how we view the world from a supply-side perspective. It provides a clear and concise resource for examining the state of the economy through a series of carefully crafted displays. Our weekly commentary calls attention to those factors that are currently driving markets and influencing asset values around the globe.

Friends,

April 15th 2009: By the end of President Obama's first hundred days, he has quadrupled the deficit, making Bush look like a spinster. The budget deficit is projected to be 13.1% of GDP in FY 2009 ([see chart](#)), and based upon the Administration's recovery plan, deficits are estimated to average 6.0% of GDP over the next decade—an extreme level for one year let alone ten. His spending is unprecedented in our nation's history.

May 14th 2009: Obama makes a statement that the budget deficit is unsustainable and that interest rates are about to soar.

May 18th 2009: Critics howl at the president's apparent hypocrisy.

Investors should take note that by calling this budget deficit a crisis—which it surely is—President Obama is (softening the meat) preparing the population for the “only solution” – tax increases. This is another indication that he will not wait for Bush's tax rates to expire. Instead, Democrats will spend the summer sounding alarms about the unsustainable budget deficit and by fall, the direct-selling of tax increases will begin in earnest. If taxes increase at all, it is bad news for the U.S. economy, particularly if the target is cap and trade and increasing the top marginal personal income tax rates as we expect.

Meanwhile, the Administration is in the process of reorganizing much of the U.S. economy. The disruption will be massive. Certain industries will have to change their entire business models to make way for the new sheriff in town. And U.S. GDP growth will be well below trend for many years to come.

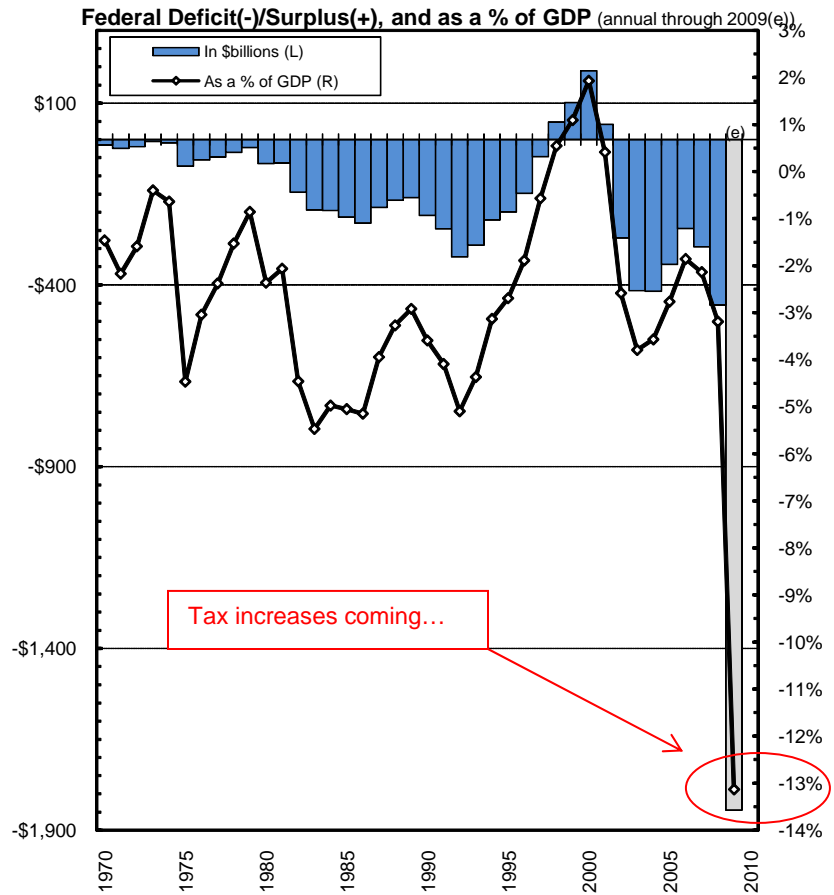
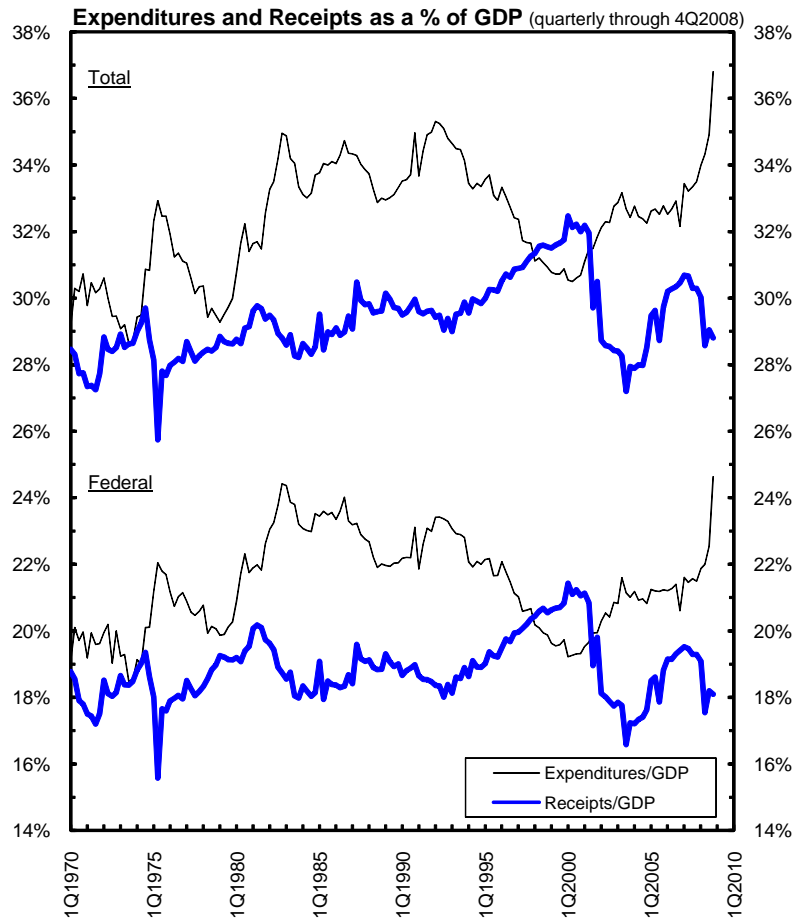
Other than that, there have been some encouraging developments at home and abroad. Hats off to the current equity rally, which we believe is driven by the Fed's giant liquidity infusions. We do, however, think its short lived.

In California (voting on ballot initiatives tomorrow), Proposition 1A is losing in the polls. The initiative calls for a dramatic increase in tax rates and puts in place spending guidelines that incentivize the legislature to raise taxes going forward. Internationally, China is moving forward with agrarian land reform, which may lead to more efficient food production. India's recent election outcome means investors should get excited about India's future and the Sri Lankan civil war appears to be over.

- M1 grew 2.3% week over week to just over \$1.6 trillion, while the year on year growth rate is now over 12%. It appears that the Fed's massive lending is finally working its way into the economy ([see chart](#)).
- Headline inflation growth and excess base growth are telling two different stories. We hope that the Fed has its eyes on the appropriate indicators when it comes time to remove excess liquidity from the system ([see chart](#)).

U.S. Government Expenditures, Receipts and Budget Deficit(-)/Surplus(+) as a % of GDP
Federal and Total (Federal, State and Local), NIPA Basis

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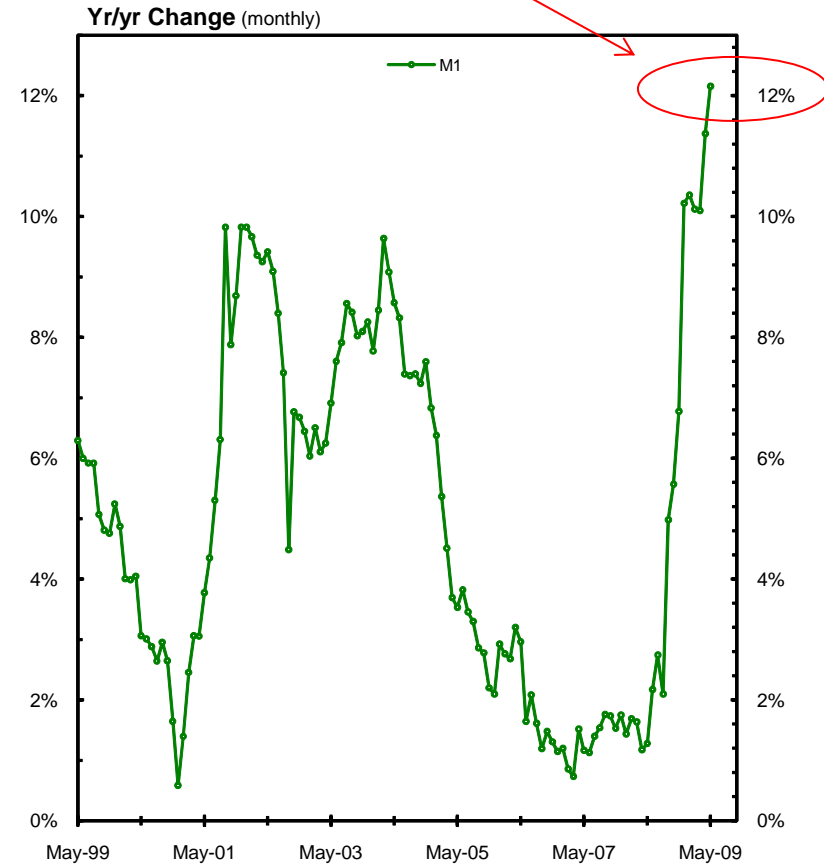
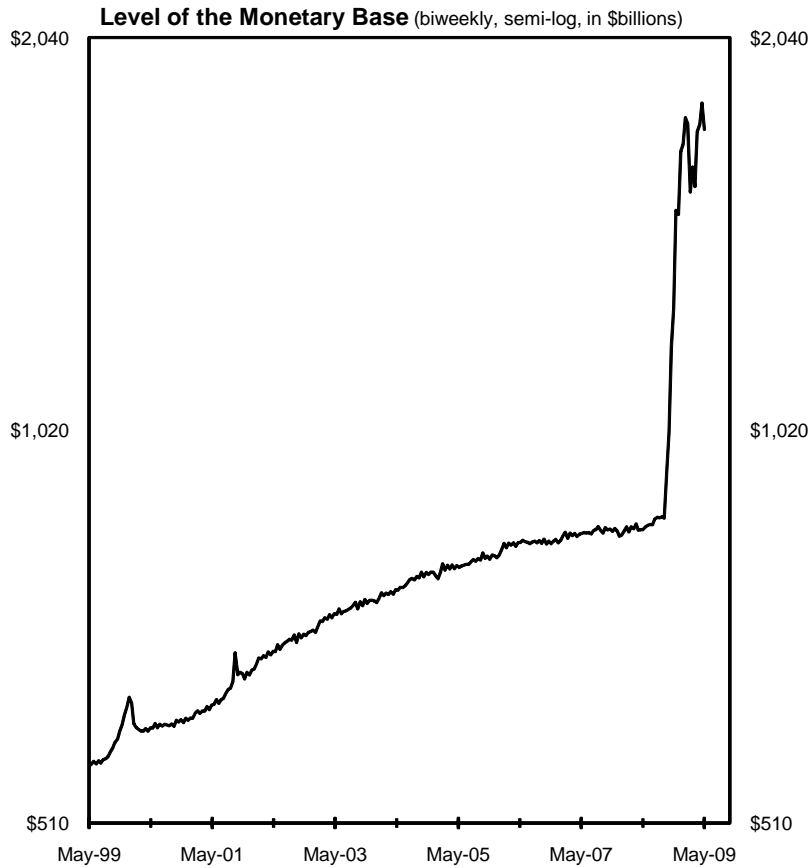


Source: BEA. Next release: 1Q2009(preliminary) on 5/29/09.

M1, Monetary Base

through May-09*, sweep adjusted

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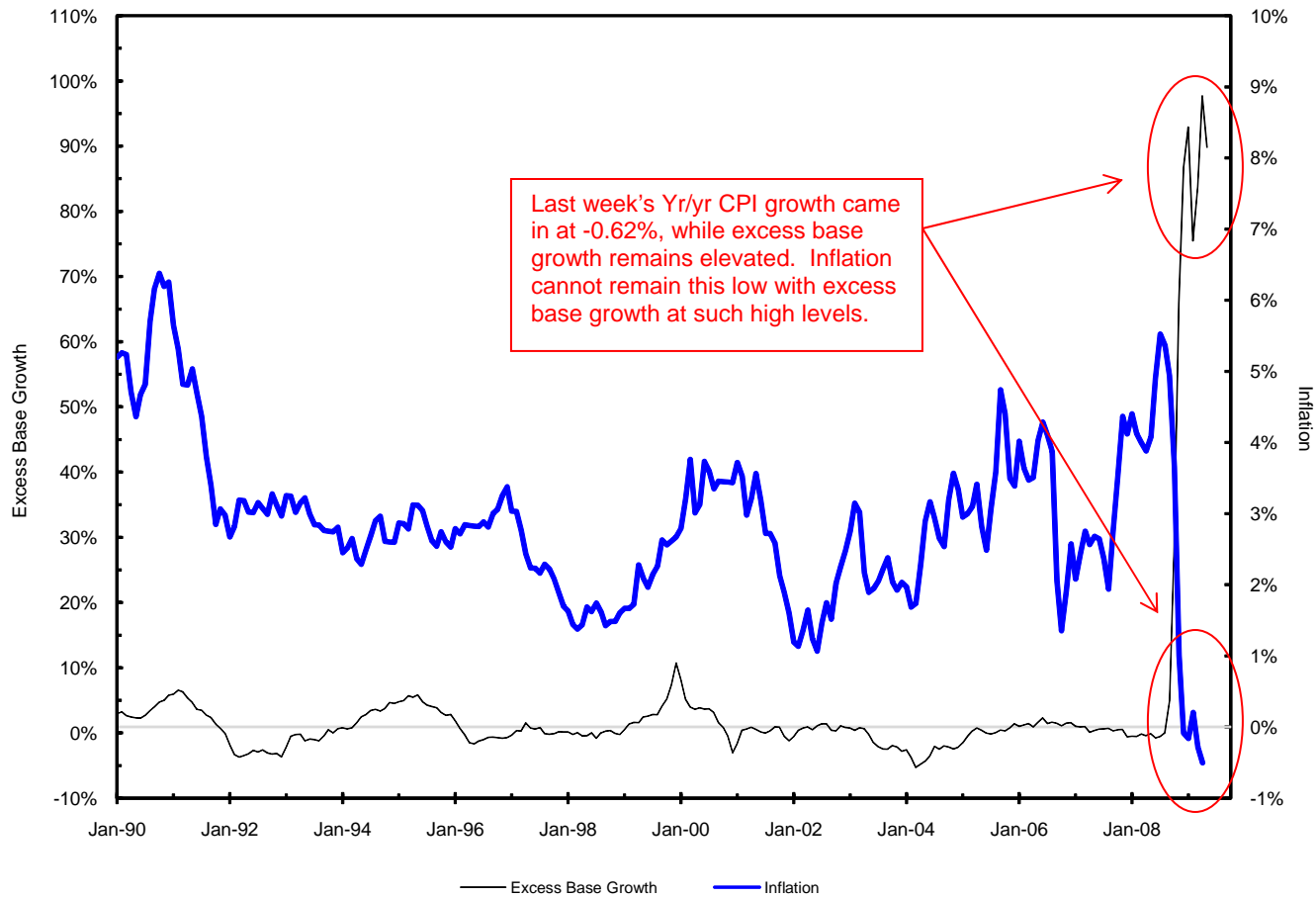


*Updated using most currently available data. This past week: M1 data (weekly series) updated, currently through 5/04/09 monetary base (biweekly series) updated, currently through 5/06/09.
Source: FRB, FRBSTL.

Excess Monetary Base Growth vs. Inflation

monetary data are sweep adjusted, yr/yr, through May-09*
inflation data through Apr-09, yr/yr

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Source: FRB, FRBSTL, BLS.

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