

# ECONOMIC UPDATE

*Marine Bank provides quarterly economic updates as a service to its customers. If you would prefer to receive this newsletter electronically, please contact:*

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## About John J. Terril

John "Joe" Terril is the president of Terril & Company, an independent wealth management firm based in St. Louis, Missouri. Terril & Company oversees retirement plans, IRAs and individual investment portfolios for corporate executives, successful professionals, professional athletes, and small business owners. After 27 years in business, an important cornerstone of Terril & Company's philosophy remains ensuring that no conflicts of interest exist between the company and its clients.

Joe Terril and Marine Bank's Annette Piper team up to provide outstanding investment management services with a *personal touch* that is classic Marine. For a free, unbiased and totally objective analysis of how your own assets can be most effectively managed call Annette Piper today at 217.726.0661.

## WHY THE ECONOMY WILL RECOVER IN THE NEXT 12 TO 18 MONTHS

By John J. Terril

Marine Bank's investment managers are more optimistic on the economy than most. Many pundits expect the economy to be in the doldrums for five or six years. Marine expects signs of economic recovery by late spring of 2009. The economy will be slow and gradual in improvement and probably uneven, but it will show positive growth. Here are a few reasons behind our thoughts.

**1** We are witnessing worldwide de-leveraging.

Corporations all the world over are on their way to becoming leaner and more efficient. Improving the world's balance sheet is a positive for future economic growth.

**2** An overly pessimistic media reported November's

retail sales as dismal, which has not been the

case. Overall retail sales statistics include gasoline sales, where prices have fallen \$2.50 per gallon translating into a significant reduction in retail sales figures. The fall in retail sales exclusive of auto sales and gasoline was actually quite modest at 2.5%.

**3** Demand has not disappeared. The inability to borrow money

accompanied by negative confidence levels has dampened demand, but demand will quickly return when credit thaws. Three hundred million people in China, India, Russia, Brazil, etc. have not relinquished their desire for a higher standard of living, including cars, housing, roads, protein, and electricity in particular.

**4** The meltdown, in and of itself, was not as severe as many believe. The event was

exacerbated by misguided public policy and flawed accounting rules that forced institutions to use mark to market accounting, thereby destroying balance sheets for no good reason. Years ago during the Latin American loan crisis, there were loans trading at 10 cents on the dollar. If major banks had been forced to write their assets down accordingly, they would have been bankrupt long ago. It is poor policy to force mark to market valuations onto mortgage prices, and we have all seen the consequences of that decision. Subsequently, the nationalization of Fannie Mae and Freddie Mac, deciding that one broker should survive while another should fail, and making an about face as concerns the world's major insurer destroyed what was left of worldwide confidence.

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**5** The credit freeze is slowly thawing. The Libor (London Inter-bank Overnight Rate), which is a widely used interest rate index, is dropping daily. Volume is improving. This is an indicator that worldwide confidence in lending is returning. When regulators cease their implied threats to close any bank they believe to be under-capitalized, lending will quickly return.

**6** The Fed stimulus will work. It has a 100% track record. It would be the first time in history the Fed provided a huge amount of reserves without a response. All central banks around the world have joined in this action. This is a powerful force.

**7** The housing downturn is entering its fourth year. Inventories are improving month by month. This process is closer to the end than the beginning. The Case-Shiller housing index shows most districts in good shape.

**8** The economic turmoil will postpone major tax increases by the new Congress/President.

**9** Job losses are a severe and serious issue, but moving jobs from one area of the economy to another is positive as the economy replaces older, less productive enterprises with the new. How many people are now employed by the “cell phone” industry or the “internet”? Twenty years ago these industries did not exist. Is the world worse off because we no longer

## THANK YOU!

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Look for another economic seminar this spring!*

employ people to harpoon whales, light street lamps at night and manufacture covered wagons?? Job losses do not automatically create more job losses and less spending. If this were true, previous recessions would have never ended. The concept of “creative destruction” is central to capitalist economies. Since the end of the Civil War, the U.S. economy has entered and recovered from some 30 business cycles.

**10** At this writing the price of gasoline is \$1.51 across the street from our office. This reduction from \$4.00 is a wonderful stimulus to the economy. The U.S burns some 11.6 billion gallons per month. The math shows that falling gasoline prices have put \$350 billion a year back into the hands of consumers. Heating costs will be lower this winter, and food prices have stopped going up for now. These factors will help rebuild consumer’s balance sheets. All of which is very positive for economic growth.

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