



Pioneer Bank & Trust

Trust & Investments

The Best For The West!

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Where is the Bottom?

April 2.—We don't know for certain, as of this writing, whether a recession is under way. Certainty comes with hindsight, which is what makes policymaking so difficult. A recession conventionally is defined as two consecutive quarters of negative growth. Although growth has slowed sharply, the U.S. economy hasn't gone negative for even one quarter—the 0.6% growth reported by the Commerce Department for the fourth quarter of 2007, though anemic, was positive. However, there has been enough worrisome economic news—notably in housing and employment statistics—that policymakers already have implemented a range of pro-growth initiatives.

Tax rebates on the way

A projected 130 million households will be receiving checks from the IRS to give the economy a dose of higher consumer spending. Research by Professor Jonathan Parker at Northwestern University on the effectiveness of the last tax rebate, in 2001, confirms that such measures can be productive, *Business Week* reported. About one-third of the 2001 rebates were spent in the first month of receipt, and two-thirds within three months.

Congress put the tax rebate plan to paper in February, and President Bush signed the legislation promptly. However, no checks can be cut until May, and then the distribution process is expected to take more than a month. The IRS already is swamped with the regularly scheduled tax-filing season—which got off to a delayed start when Congress was tardy in fixing the Alternative Minimum Tax for the 2007 tax year.

Equally important, the amount of the check will be based upon information gleaned from the 2007 tax return filings, and those still are pouring in. Even those who will owe no income tax should file this year, as their eligibility for a check is conditioned upon completing the paperwork. Social Security recipients, for example, are among those who can expect a tax rebate check from the IRS

Historic Fed actions

On March 18, the Federal Reserve Board cut the federal funds rate to 2.25% and the discount rate to 2.50%, each a reduction of 75 basis points. Perhaps more significantly, the Fed opened its discount window to nonbanks for the first time, to primary securities dealers. The move came in the wake of the Fed's work in support of a buyout of one major Wall Street firm, Bear Stearns, by another, JPMorgan Chase. The Fed and the Treasury Department feared a domino effect among financial institutions if Bear Stearns had been allowed to fail.

The stock market reacted favorably to these developments, though substantial volatility remained. Interestingly, commodities prices reversed course following the Fed's March rate cut, led by a fall in the gold price from over \$1,000 an ounce to \$910. For some investors, commodities had seemed to become an asset that could only go up in value. No more. Whether the pullback in prices will be sustained remains to be seen.

Another good sign: Existing home sales rose in February by 2.9%, the first increase in seven months. Perhaps buyers were pulled into the market by the fact that the median home price was down 8.2%. If home prices are starting to bottom, the economy may be able to right itself.

Inflation looms

The remaining concern is inflation. The Producer Price Index jumped 0.3% in February. As these costs ripple through the economy, there will be upward pressure on the prices of many other goods. The Fed's actions in cutting interest rates at this moment is seen by some observers as inconsistent with its mission of price stabilization.

If inflation should take off, the tax rebate checks may be more a momentary respite than a true economic stimulus.

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