

What, us worry?

The economy may not be down for the count, but we all remain scared it could happen.

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By Kathleen Hays

The prices of goods -- that means stuff, manufactured items -- have fallen in the past year, but the prices of services -- legal fees, medical bills and the like -- are still rising at a very respectable rate. The big difference: global competition. I can buy a sofa from China but if I get a sore throat a flight to Shanghai just doesn't make sense.

Weak spending is certainly one reason prices are tame. The latest chain store sales numbers from Mike Niemira at Bank of Tokyo Mitsubishi showed that sales fell 1.2 percent last week. And he's predicting sales will be disappointing this month -- flat to up 1 percent -- that's pretty tepid.

Risk, but no danger?

Al Broaddus, head of the Federal Reserve bank of Richmond, said in a speech today that deflation is not a "clear and present danger." But given how low inflation is currently, he characterized it as a "conceivable risk," something Fed policymakers must guard against.

That echoes what our fearless monetary leader, Alan Greenspan, said last week in testimony to Congress. We are not in danger of falling off a deflationary cliff, but the Fed wants to ensure deflation won't "creep up on us unseen."

Where is the deflation risk, if any? In a sudden reversal of the economy's fortune, in a sluggish recovery that turns into another recession, in a "shock," geopolitical or otherwise, that is tough for policymakers to handle with rate cuts or even more tax cuts.

In a speech today at the Council on Foreign Relations, Greenspan spoke about how the global financial system is much better able to withstand stresses, strains, and yes, shocks due to sophisticated risk management techniques. But the question of lingering risks and their impact on economic growth came up in the question and answer period.

His big-wig questioners included Don Marron, former head of brokerage firm PaineWebber (now part of UBS Warburg) and Bernie Schwartz, head of Loral Space, and Carla Hills, U.S. trade representative in the first Bush administration and a high-powered Washington attorney, who chaired the luncheon.

"Most everybody's doing nothing"

The big problem in Greenspan's eyes is the drop-off in capital spending that occurred in the wake of the stock market boom and bust. He notes the loss of equity wealth and what he delicately refers to as heightened "risk premiums" have discouraged capital spending and investment in new technologies.

"Even though there are very substantial long term rates of return nobody is doing anything...or I should say most everybody is doing nothing," he said. We already knew that.

Of course, the good news is that at some point the risks will pass, at least the current crop of risks -- risk of war, risk of stocks falling again, risk of losing your job -- and

consumers and businesses should feel good enough to spend a little more money. And that should push us onto a more solid growth track.

But when will the risks pass? When will we know what happens in the Middle East? Will it be a matter of days or weeks or months? Until we know the answers, all of us may feel that some part of us, as shoppers and as investors, remains on hold. And even though we may not be worried about some awful downward deflationary spiral, we may keep holding our breath for a while longer.

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