New York • London • Boston • Chicago
DECISION ECONOMICS, INC.
Information for Decisions™

New York: 212 884 9440
London: 011 44 20 7814 6706
Boston: 617 994 0500
Email: decisioneconomics@pdeeco.com

Pierre Ellis

February 2, 2012

Bernanke Text: Very cautious

In formal testimony starting with a conspicuous statement of appreciation for the opportunity to discuss "my views," Chairman Bernanke presents a cautious and short-horizon economic outlook. Notably, he says up front that "the sluggish expansion has left the economy vulnerable to shocks."

Bernanke emphasizes that consumer spending is, at best, receiving no positive stimulus from household real wealth and real income developments, and "will depend heavily on developments in the labor market." Meanwhile, "we still have a long way to go before the labor market can be said to be operating normally," though "If business confidence continues to improve, U.S. firms should be well positioned to increase both capital spending and hiring."

But, business confidence is "improving" from a slump--reflected in a business-investment slowdown--caused by "concerns about both the domestic outlook and developments in Europe." Consumer sentiment is better too, but only in comparison to "the summer's depressed levels."

Unsaid, but strongly implied, is the fact that the volatility in both business and consumer confidence is both a reason for, and a reflection of, the fact that the economy is "vulnerable to shocks." Bernanke is only reporting on improvements that have appeared in measures of both, he makes no outright assertion that the improvements will, or should, continue.

While certainly not projecting deterioration in the economy, Bernanke seems to be in "show me" mode, and not much in any extrapolating mode, with respect to projecting improvement. Odds are, that frame of mind, embedded by the experience of numerous false dawns in the economy over recent years, contributed to the solid voting-member consensus behind the latest FOMC move.

What would change Bernanke's thinking, and not too slowly, would probably be sustained demonstrations of improving confidence--at the level of companies, renewed investment growth and stronger hiring; at the level of households, greater willingness to commit to big-ticket spending on cars and houses; and at the level of financial markets, lasting improvement in P/E ratios and greater upward pressure on real interest rates.

© 2012 Decision Economics, Inc. All rights reserved. Reproduction in whole or in part without the written permission of the copyright owner is prohibited.