

The Green, Green Shoots of Hope: The weeds in the garden of recovery

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"So, Harry," said one of my dog-walking acquaintances up in the local park the other night while we watched our pets sniff each other's undercarriages, "what do you like in the market, these days - I mean, apart from cash and canned goods?"

"Well, those are still my two favourite asset classes, but I do like physical gold, and a well-fortified family compound is starting to look more attractive these days, too."

"No, seriously. Everybody says the economy has started to turn around, and stocks are hot again."

"Dude, that's the Tom Jones meme. You know, of course, that a meme is a cultural unit, a notion or an idea, that is passed from person to person, spreading like a virus, until it infects the entire population, yes?"

"Yeah, sure, but what's Tom Jones got to do with it?"

"Remember Tom's major hit in the sixties? The Green Green Grass of Home? The song was also a hit record for Porter Wagoner, Joan Baez, Johnny Cash, Stompin' Tom, Elvis

Presley, Kenny Rogers, Trini Lopez, Bobby Bare - hell, everybody and his dog recorded it. It was even a big hit in Swedish, Portuguese, Finnish and Serbian versions, probably even in Esperanto."

"And...?"

"Well, the tag line of the song is 'it's good to touch the green, green grass of home.' Same with the markets, only it's the green, green shoots of hope. And ever since Ben Bernanke coined the phrase back in March, that 'green shoots' meme has spread around the world faster than Tom Jones' old song. The last time a meme this stupid spread this fast, it was the inane belief that house prices only ever go up, and look where that one got us."

"You mean that the green shoots they keep talking about all the time on the Stock Porn Channel are bogus?"

"They are bodaciously bogus. I think the people who are seeing these green shoots everywhere have been smokin' the green stuff, my friend; and by the way, your dog is eating goose poop over there. Ah, never mind - too late. Anyway, here's the thing. Ever since

Bernanke told Sixty Minutes that he was seeing green shoots in the economy, the idea has taken - dare I say it - root in the public consciousness. Suddenly green shoots are everywhere. The Stock Porn Channel displays a non-stop panoply of guests who are all atwitter over the fecundity of these new sprigs of hope, and equity markets are reacting with their usual irrational exuberance to each new sighting.

"The meme is spreading. Hallucinations of recovery are everywhere. Even in Japan, now almost 20 years into its own Lost Decade - which, by the way, may be among the least worst scenarios for North America and most of Europe - the government has just updated its assessment of the Japanese economy, saying that 'the tempo of worsening has become moderate', although they do admit that 'the economy is likely to remain in a severe state for the time being.'

"Ah, the moderating tempo of worsening: in less Zen places than Japan they call that the second derivative, and to be sure, there's plenty of talk out there in the quant-space, where the math geeks and econometricians hang out, about the 'second derivative recovery,' but that's a whole other topic. Besides, I'm a semiotician, so memes are more my thing."

I pull a plastic bag out of my pocket and do the stoop and scoop thing, and we walk towards the garbage can in the park.

"But, Harry, why do you think the recovery is not real?"

"The thing is, the areas where there appears to be that moderating tempo of worsening are the places where the Fed has been busily injecting gazillions. All those alphabet soup acronymic programs were designed to treat various symptoms of the problem, but not the problem itself. So, we've had the TAF (Term Auction Facility) which made Libor look better, but really, Libor now IS the Fed, so if they ever stop injecting cash through the TAF, Libor will be back at 4 or 5 percent again faster than

a tornado on a trailer park. Similarly, there's the CPFF, the Commercial Paper Funding Facility - the US government now owns the commercial paper market, too. Same thing with agency paper (Freddie Mac and Fannie Mae), mortgage-backed securities, CDS (think AIG), liquidity swaps and to a growing extent, even the Treasury market.

"Meanwhile, the areas that aren't getting vast amounts of cash injected into them are hurting badly: credit cards, commercial real estate. Debt defaults are rising alarmingly, there's another huge wave of ALT-A and option ARM mortgages that are starting to go bad and will get really ugly in the second half of this year, and there's going to be another major installment of pain coming for US and global banks."

"Yeah, but consumer confidence is rising - doesn't that mean something?"

"Sure. It means that the central bank's other tool, moral suasion, which, apart from raising or lowering interest rates and printing money, is the only tool they have - spreading the meme, as we semioticians like to say - is working. After they get everyone who's talking his position on TV and in the financial press to say that things are getting less worse - like, hey, losing 345,000 jobs in a month is way better than losing 650,000 - then they phone 1500 or however many consumers and ask them how they feel about the prospects for the economy, and they all respond, 'gee, everybody says it seems like we may be starting to turn the corner.' Then everyone points at the consumer confidence survey and says, see, I told you it was getting better."

"You mean it isn't getting better?"

"Well, I put the improvement in confidence down to an immutable fact of life that I learned a long time ago, back when I was 'pursuing other interests,' as we say in the trade when we are between jobs: it's much easier and a hell of a lot more fun to be unemployed in the summertime than it is in the winter. So I don't buy it. Ask me again

when the US economy gains a thousand jobs in a month, instead of losing 345,000." We hook our dogs back on their leashes. "Meanwhile, remember Tom Jones."

"You mean the song, the Green, Green Grass of Home?"

"Exactly. In the last verse, the guy wakes up from his sweet dreams of the green, green grass of home and realizes that he's still in prison, still on death row, and they're ready to walk him down that final Green Mile. I think the green shoots crowd is in for just that kind of rude awakening."

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