The Road from Status Quo to Lake Wobegon

By taking a look back we just might be able to get an idea of the road our economy will head down in 2013.

BY CHARLIE HALL

I've been asked quite frequently over the past several months about how the economy was going to affect the election. But to me, the corollary question is more interesting. How will the economy react to the election?

That's a tough question to answer for several reasons. First, every election is different. Sometimes it is obvious who is going to win, and the election results are completely expected (like Reagan in 1984 or Clinton in 1996). Other times the election is close (like this past election).

There are always some partisan analysts who predict doom if their candidate doesn't win, of course. But if you consider the change in the S&P 500 (as a proxy indicator) from election day through the end of the year for all elections since 1952, the two worst performing years — no surprise — were 2000 and 2008. The 2000 election followed the stock market bubble, and the economy was entering into the Great Recession in 2008.

The other elections with a slight negative change were 1956, 1964 and 1984. These were all presidents being reelected and the results were obvious in advance: Eisenhower won reelection with 57.4 percent of the vote; Johnson won with 61.1 percent; and Reagan with 58.8 percent. But most of the time the market has increased following the election, and the median increase from Election Day to the end of the year was 3.6 percent.

The Election's Impact

A theory developed by Yale Hirsch that states the U.S. stock markets are weakest in the year following the election of a new U.S. president. According to this theory, after the first year, the market improves until the cycle begins again with the next presidential election. While the theory played out relatively reliably in the early to mid-1900s, data from the latter 20th century did not adhere to this pattern.

In 1937, Franklin D. Roosevelt's first year, the market was down by 27.3 percent. The Truman and Eisenhower eras also started off with a down year in the stock market.

The start of more recent presidencies, however, did not show the same pattern. In George H.W. Bush's first year, the market was up 25.2 pecent, and the start of both of Bill Clinton's terms showed strong market performance — up by 19.9 percent and 35.9 percent.

So if there is debatable evidence that the stock market is affected that dramatically, what effect then will this election have on the economy? After all, did we really just spend $6 billion during the presidential campaigns just to arrive back at status quo? Yes, we did.

So is anything going to spur this plow-horse economy into becoming a race horse economy again? That depends on a number of things.

Surviving the Cliffhanger

The most interesting element of this post-election time period is that we are facing what has been termed the fiscal cliff. "Fiscal cliff" is the popular shorthand term used to describe the conundrum that the U.S. government faced at the end of 2012.

U.S. lawmakers had a choice: they could either let current policy go into effect at the beginning of 2013 — which features a number of tax increases and spending cuts that are expected to weigh heavily on growth and possibly drive the economy back into a recession — or cancel some or all of the scheduled tax increases and spending cuts, which would add to the deficit and increase the odds that the United States could face a crisis similar to that which is occurring in Europe.

We got into this situation because of the wide gap that exists between the future cost of the services that the public has become accustomed to receiving from the federal government and the tax revenues that the public has been sending to the government to pay for those services. Because our government spends more money than it takes in, the deficit keeps rising.

Again, at the time I was writing this column, we had no clue as to whether we were actually going over this fiscal cliff. But as you are reading this now, those decisions have been made and we are either about to enter another short-term period of economic contraction or we are in the process of implementing stop-gap measures to mitigate the cliff-dive (fancy words for kicking the can down the road again).

Either way, however, the fundamentals of the economy have been trending more favorably in recent months. Household balance sheets have improved considerably over the last year and appear to have finally reached a tipping point where spending can be more self-sustaining. Employment has picked up after a summer lull. Wages are stagnant, but appear to have bottomed after being cut during the height of the recession.

De-leveraging has accelerated, so debt loads have dropped. We are now back to 2003 levels of debt, which we saw prior to the run-up during the

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housing market bubble; that isn't perfect, but may be enough to ease credit for many consumers. Net worth has recovered much of the ground lost to the recession.

Home prices, in particular, have bottomed and are moving up again. This, coupled with expectations that home prices will continue to rise, is important because the wealth effects tied to housing are much larger than those tied to equity holdings. It's easier to repair and upgrade (i.e., landscape) a house that is appreciating than one that is depreciating in value; it is a game changer when it comes to spending.

Refinancing has increased, reducing mortgage payments and leaving more for consumers to spend each month. Consumer sentiment has picked up and returned to levels not seen since before the recession. Assessments of current economic conditions, the largest determinant of current spending, have improved. This has made it easier for consumers to convert refinancing savings into spending for big-ticket purchases. Hence, the precipitous drop we saw in the saving rate last summer.

What Lies Ahead?

The need for our government to do something about reducing the long-term deficit is very important, though, because that is what will restore corporate confidence. That is what is necessary to get companies to hire and invest more aggressively.

Rising home values are a game changer because they make it easier for consumers to decide to spend and invest in their homes and, ultimately, sell what they bought at a profit. Housing got us into the mess we are in and, in fits and starts, will be the accelerant that eventually gets us out.

Given all of these factors, I remain optimistic about the future growth of the green industry in 2013. We definitely won't be setting any land speed records getting back to Lake Wobegon (and I'm not sure we will ever get back there).

But if we continue to emphasize the value and relevancy of our products, then spring should be a relatively good one. I hope as you are reading this, our leaders have made some smart decisions and we are not picking ourselves up at the bottom of the cliff. ■

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few years, your (virtual) doctor's visit ends with a prescription for both pills and apps." Are consumers ready for the virtual plant doctor as well?

What's Going to Happen?

I know some of these are a little bit out there but they are interesting to think about as a new year gets started.

What we do know is the following trends will clearly be a part of the equation for growth in 2013:

Sustainability: It is clearly still on the consumer's mind and will continue to be important as long as they do not have to pay more to have it. Consumers are looking for environmentally friendly solutions grown and delivered by companies who have a sustainability story to tell.

Grown locally: This trend continues to be asked for and demanded by the consumer. The grown locally message is stronger than the grown organically message. There is research suggesting that the "Grown Locally" message is getting a boost from consumers who also what to "Shop Locally."

An aggressive social media presence: This is more important than ever before. I'm not referring to just having a company website. Companies no longer have the ability to sit on the sidelines. I realize that many owners have no idea how to get started but the resources (many free of charge) are abundant. This is no longer an option to successful business growth but a requirement just as tagging plants was 20 years ago.

Trained leadership and management: Without young aggressive managers excited about your business, the opportunities for a great 2013 will be limited. Do you have a plan to address and challenge your management team to be the best ever in 2013 ?

Food for thought.

I was reminded while researching and writing this article of a few words from an old Tim McGraw song: "I ain't as good as I'm gonna get, but I'm better than I used to be!"

Here's to a Happy New Year! ■

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