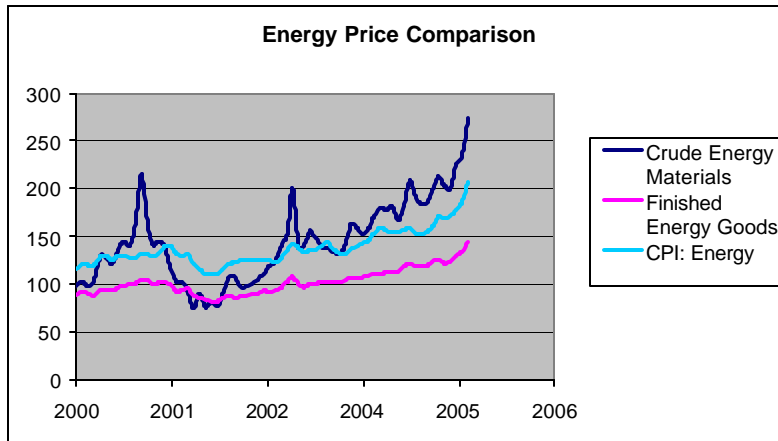


OUR VIEWS

November 2005

The popular recent phrase has been “economic flexibility”. Despite devastating unanticipated shocks to the U.S. economy, such as the recent hurricanes or the rise in energy prices, the economy has rebounded with only moments of weakness. Our economy has maintained an annual growth rate of at least 3 percent over the past 2 years. Federal Reserve Chairman Alan Greenspan attributed our economy’s resilience to its “flexibility” in a speech given in September 2005. This flexibility comes from the deregulation of our financial sector as well as the increased reliance on information technology.



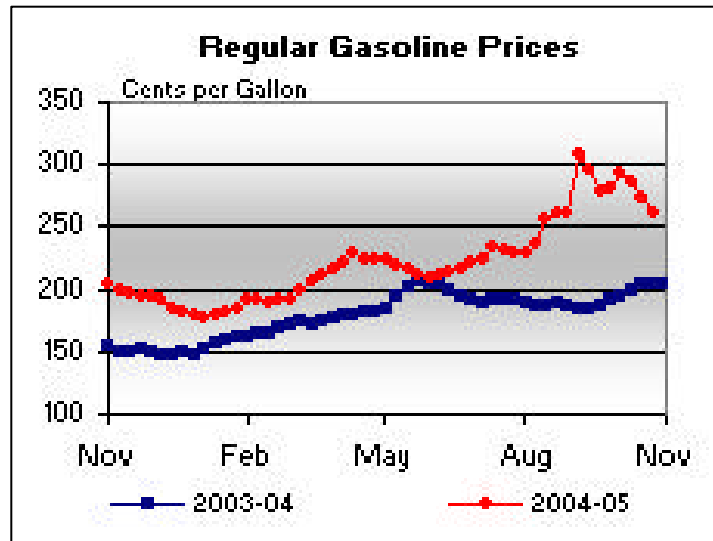
Energy prices have continued to climb due to decreased reserves and refinery shutdowns resulting from the hurricanes. Consumer confidence is down by the most it has been in 15 years,¹ and the Federal Reserve reported that the output for factories, mines and utilities are down causing the biggest one-month drop in over 20 years.² This is attributed to the rise in energy prices, however energy prices have abated over the past few weeks.

Source: Federal Reserve Bank of St. Louis
<http://research.stlouisfed.org/fred2/>

Also attributable to the rise in energy prices is the rise in consumer prices. There is a fear that this rise in consumer prices will decrease consumer spending which could further the economic impact of the hurricanes. Many consumers are anticipating increased heating bills for the winter and it is expected that consumers that this will cause a curb in consumer spending.³

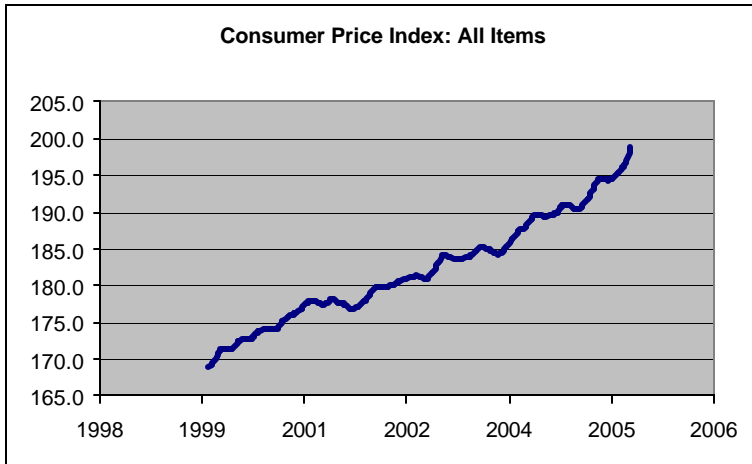
The information technology industry has greatly improved our economic flexibility through its constant innovations that allow businesses to react more quickly to changes. For example, in the past it often required several weeks for businesses to learn about inventory imbalances. Now, it only takes a few days or less to be alerted of shortages allowing for “real-time” reactions. Quicker reactions allow businesses to be more flexible to the changing conditions in the economy and consumption.⁴

Source: Department of Energy
<http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp>



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This deregulation of the business world allows for maximum flexibility of the financial sector, which permits the economy to adjust accordingly.⁵ Economic flexibility leads to overall financial stability. "Financial stability may turn out to have been the most important contributor to the evident significant gains in economic stability over the past two decades."⁶

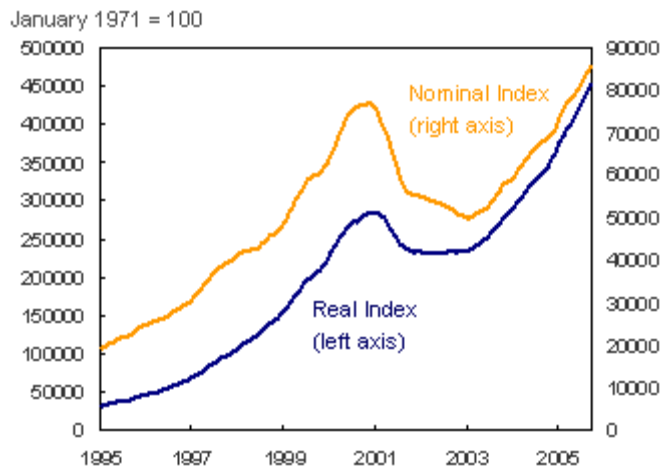


The reaction to these unexpected disasters has become much quicker, causing "soft patches" in the economy to use Alan Greenspan's verbiage. Despite our economy's overall flexibility, "year to year, the economy is less volatile, but in some ways it has become more volatile month to month"⁷ Even though Chairman Greenspan ensures us that our economy is bounding back from the destructive hurricanes, the statistics are hinting at the possibility of a another "soft patch".

Source: Federal Reserve Bank of St. Louis
<http://research.stlouisfed.org/fred2/>

According to the Federal Reserve Bank of New York, the Tech Pulse Index, which is a summary statistic that tracks the health of the technology sector of the economy, grew at an annualized rate of 33.4 percent and a nominal rate of 25.1 percent in September 2005, which is slightly

above the rates at which these indices grew in the past twelve months. The Tech Pulse Index is compiled from data drawn from investment, consumption, employment, industrial production, and shipments in the technology sector.⁸



Source: Federal Reserve Bank of New York – Tech Pulse Index
http://www.ny.frb.org/research/national_economy/tech_pulse_index.htm

^{1, 2}The Associated Press, "Consumer Prices Up; Retail Sales Rise" *The New York Times*, October 14, 2005
³Bajaj, Vikas, "Economy Continued to Grow Last Month" *The New York Times*, October 20, 2005
^{4, 5, 6}Greenspan, Alan. "Economic Flexibility" The Federal Reserve Board, September 27, 2005
⁷Leonhardt, David. "Have Recessions Absolutely, Positively Become Less Painful?" *The New York Times*, October 8, 2005
⁸"Tech Pulse Index" Federal Reserve Bank of New York

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