
Greg Valliere Monthly Commentary

Update as of October 27, 2011



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GREG VALLIERE: Well, hello everybody. It's Greg Valliere at the Potomac Research Group recording on October 27th.

There's a big stretch coming up in Washington. Now that the markets have digested most of the third quarter earnings and have looked at Europe and the deal we got there, I think the focus will switch to this city, where there's real gridlock, potentially, on three big stories that I'll talk about in this month's call.

First of all, of course, most importantly, is the 'deficit super committee' that has been charged with coming up with \$1.2 trillion in 10-year savings. I don't think they're close to a deal. The talk by some optimists that we could get a grand compromise, frankly, sounds very far-fetched. The 'deficit committee' is deadlocked, as you might expect, on two big issues. One, is raising revenues, raising taxes, which the Republicans adamantly refuse to consider and the other is dramatic cuts in entitlements—Social Security, Medicare, raising retirement ages, tampering with the COLA. Lots of ideas are bouncing around, but I think that any significant entitlement reform would never win the approval of Democrats unless there's something on taxes.

So I think that as this committee nears its deadline of November 23rd, it's going to be increasingly obvious that the most they could do is get something close to \$1.2 trillion, and, frankly, even that is looking like a stretch. I think the better likelihood is that they will come up with \$600- or 700 billion in cuts, which means that down the road, in January of 2013, we might have to have automatic across the board cuts to make the total get to \$1.2 trillion. So I don't see a blockbuster. I see something. There's a chance, obviously, that this committee could breakup in acrimony, there's a chance they could ask for an extension, and there could be a delay into the spring. But, I do not see a blockbuster coming out of this committee. So that's the first story.

The second big story, of course, is whether we get any kind of stimulus, any kind of jobs package to help the economy. I'm recording today after seeing a pretty decent GDP number for the third quarter, up 2.5%. At the least, it shows that we're not in recession, and I don't think we're close to recession, so the sense of urgency probably has faded a bit to get any jobs package. I think though, that there still will be an effort to do something. I think that while spending increases are dead, totally dead—I don't think there's any sentiment to raise spending in light of the Solyndra scandal—I do think there could be something toward the end of the year on taxes. There's still a decent chance that the payroll tax cut will be extended, although I must tell you the chances were better five or six weeks ago. It's going to be a close call, but I do think we'll get an extension of the payroll tax cut, maybe some extension of unemployment benefits, but finally tied to mandatory job training programs. What I don't see is repatriation, allowing U.S. multinationals to take big chunks of money that they have in foreign banks and bring those revenues back to the U.S. at a very low tax rate. I just don't see the proponents making a compelling case that this should be done. So I don't see much on a jobs package. I think that it would not add much to GDP next year, and if we didn't get an extension of the payroll tax cut it would actually detract from GDP by, you know, several tenths of a percent of GDP as we look at 2012.

So then the final big story is whether we keep the government afloat. I think that the deadline, the next one, on November 18th, will probably require still another continuing resolution. And we'll probably get right up to Christmas before we see any kind of final spending plan for 2012. So on these three big issues, I think it's business as usual, unfortunately. As I joke to people, please don't shoot the messenger. I'm simply reporting that there is still a very gridlocked climate here, with the President moving toward a much more partisan populist rhetoric, embracing some of Occupy Wall Street's rhetoric. I personally think it's a gross miscalculation for him to do that, but he is. And I think that we're going to see everyone now just jockeying for position ahead of the 2012 elections.

Perhaps in next month's call, we'll talk about 2012. I still think this president is in real trouble. I think that Mitt Romney may have an easier time getting to 270 Electoral College votes than Barack Obama, and a major reason is that the unemployment rate will probably stay in the high 8s or around 9% for the next year.

So that's it for this month. Sorry about the gloomy news on gridlock, but you've got to call them like you see them. Have a great month, everyone, and I look forward to talking to you again soon.

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