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Ask the Money Doctor. Years ago, when my son was in preschool, he told the teacher "My Daddy is a doctor for money and not for checkups." Ever since then, my family has called me the "money doctor." I kind of like the way it sounds. Lately, my patients have been asking several similar questions.

What impact will Sandy have on the economy?
Overall, the ferocious storm will subtract about half a point from fourth quarter real Gross Domestic Product (GDP) growth and at least that much from the first half of 2013. Remember, real GDP measures current production. So all that destruction of property and infrastructure only hurts GDP to the extent that it limits current production by, e.g., flooding factories. However, the rebuilding effort that's already underway will add to real GDP until the task is completed.

What difference will President Obama's re-election make for the economy?
That's a good but tough question. In contrast to what would have happened under a Romney Administration, "Obamacare" will continue to be implemented as will the Dodd-Frank financial regulation legislation. However, the biggest uncertainties arise from the need to deal promptly with the fiscal cliff and the debt ceiling as well as the longer term fiscal deficit problems. It wouldn't surprise me to see some form of temporary agreement to delay the days of reckoning and allow more time for working out the difficult tax and spending issues.

I recently read an article in *The Economist* magazine, whose findings may come as a surprise to some people. From 1929-2011, the stock market has risen about 11 percent annually under Democrat presidents vs. 3 percent under Republicans. The results still hold – although the gap is a bit smaller – if we leave out Herbert Hoover's term.

For coupon clippers, the results are reversed but the difference isn't large: with bonds returning 2 percent when the GOP has the White House vs. 1 percent when Democrats hold sway. Inflation is only a tad higher under Democrats: 3.5 percent vs. 3 percent.

Sure, the stock market took a nosedive the day after the election. This has happened several times in the past without disturbing the record noted by *The Economist*. I'm not sure what this all means but it is certainly very good cocktail party conversation.

Is the economy "rebounding" as some "experts" claim?
Rebound is too strong a term, but there are some positive trends. Third quarter real GDP rose 2 percent, beating expectations. However, about a third of the rise came from a surprisingly large jump in defense spending as the fiscal year drew to a close. It was a case of "use it or lose it."

The labor market is looking brighter. Unemployment has dropped from over 10 percent to just less than 8 percent. Some claimed that recent improvements were the result of politicians tinkering with the data. I've worked with these numbers most of my professional life and it is virtually impossible to pull off such a caper – even for the folks from Chicago! And it is highly irresponsible to even suggest this was done when one doesn't have a single shred of evidence.

Housing isn't exactly humming but it is getting better. Housing starts have picked up and prices have begun to rise. Yet, there's still a very long way to go. Starts are not even half the level that would be considered normal in light of demographics and demolitions. And it will take years for home prices to get back to their 2006 peaks.

Business capital spending and exports have both weakened recently and are cause for concern. The uncertainties arising over the fiscal cliff and the recession in Europe are at least partly responsible.

The consensus among forecasters seems to be that U.S. growth will remain sluggish for at least another year.

Musings & Amusings: *Hurricane Humor*

"The stock market was closed for two days... Although our lives were in danger, at least for two days our money was safe." –Jay Leno

"Lindsay Lohan sent out a tweet urging people not to panic over Hurricane Sandy... the correct time to panic is if anyone sees her in a rental car. Then you should evacuate the area." –Conan O'Brien

"This storm could be the biggest power outage since the Yankees in the playoffs." –David Letterman

Who's to blame for the slow growth?
This is like asking who is responsible for climate change. Among the usual suspects are: not enough of the right kind of stimulus; not enough monetary accommodation; too much uncertainty; too much obstructionism in Congress – and the list goes on.

However, there's been some interesting research recently that blames the financial crisis and the explosion of debt for the sluggish expansion. Much of the work has been done by a trio of economists: Carmen Reinhart, Vincent Reinhart and Kenneth Rogoff. What's troubling about the research is it seems to lead to the conclusion that there's not a lot that can be done to speed up the recovery.

By looking back, two important findings emerge. Nations take longer than usual to recover from recessions when the downturns are caused by financial crises. And more recently, the research has found that nations which have become highly indebted tend to grow less rapidly for a protracted period of time. This seems to manifest itself when the ratio of federal debt to GDP exceeds 90%. The U.S. is currently in the vicinity of 100 percent.

This puts us between the proverbial rock and a hard place. Near term fiscal stimulus (tax cuts and/or spending increases) may help the economy but they come back to haunt us by raising the debt/GDP ratio. On the other hand, fiscal austerity will first slow the economy before bringing the ratio down. However, I think this emphasizes the need for even more monetary accommodation by the world's central banks – including the Federal Reserve and the European Central Bank.

Speaking of the monetary policy, what's going to happen to Ben Bernanke and the Fed?
Mr. Bernanke's term as Chairman expires on January 31, 2014. Had Mitt Romney been elected, Bernanke might have left even earlier because Romney expressed dissatisfaction with Bernanke on the campaign trail. Had Rick Perry been elected, Mr. Bernanke would probably not visit the Federal Reserve Bank of Dallas very often because Mr. Perry said they would "treat him pretty ugly down in Texas."

A Romney victory would also have meant greater oversight of the Fed's monetary policies by Congress as advocated by a number of conservative legislators such as Ron Paul and Paul Ryan. It's not clear how world financial markets would have reacted to increased meddling by the same legislative bodies responsible for the near-default on U.S. Treasury obligations during the debt ceiling fiasco last year and for the fiscal cliff this year.

Bernanke has been expressing his desire to leave in 2014 and will probably still do so. However, there's always the chance that President Obama will ask him to stay a while longer. Meanwhile, we can expect the Fed to continue with holding short-term interest rates close to zero and keeping the lid on long-term yields though Quantitative Easing.

Finally, what's happening in the region?
Hurricane Sandy hit parts of the region very hard – the Connecticut shore, nearby portions of New York and Rhode Island. Heavy flooding and high winds caused extensive damage.

The available data on economic activity were gathered well before the bad weather. They show a rather mixed picture. Connecticut has been losing momentum after a reasonably decent recovery through early 2012. Part of the problem may be the recent introduction of new estimating techniques that seem to have made the monthly data much more volatile. However, the slowdown in Europe may well be acting as a drag on Connecticut.

Rhode Island has also lost some momentum. Its unemployment rate has fallen from a peak of 11.9 percent to 10.5 percent this past June. The Ocean State was one of the states hardest hit by the "Great Recession."

In contrast, Massachusetts fared better during the downturn and has continued to grow during the recovery. Jobs are being created as fast as the nation, and unemployment is considerably lower. During the past year, Massachusetts' job gains have been noticeably better than Connecticut and Rhode Island in a number of services sectors: information, financial, professional and business services (such as consulting, law firms, etc).

While New York has undergone small declines in financial services, it has been buoyed by large increases in the information, professional and business categories.

Unfortunately, the damage and recovery from Hurricane Sandy will make it difficult to identify the underlying economic performance for Connecticut, Rhode Island and metro New York City for the next few months.

Labor Market: September 2012

	Unemployment %	Jobs %CH**
Connecticut	8.9	0.1
Massachusetts	6.5	1.4
Rhode Island	10.5	-0.4
New York*	8.7	2.1
United States	7.8	1.4

**Metro area   **Since September 2011*

So, Money Doctor, do you have a prescription?
Take two aspirin and call me in the morning.

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