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**The Elliott Wave**  
**THEORIST**

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### A PREVIEW OF COMING FINANCIAL AND ECONOMIC TRENDS

In the 1930s, commentary in financial magazines was more sophisticated than it is today. *Bradstreet's Weekly* was a "business digest" designed for "topmost executives," and it lived up to its name. You may recognize the name as being part of today's company, Dun & Bradstreet, a provider of business information.

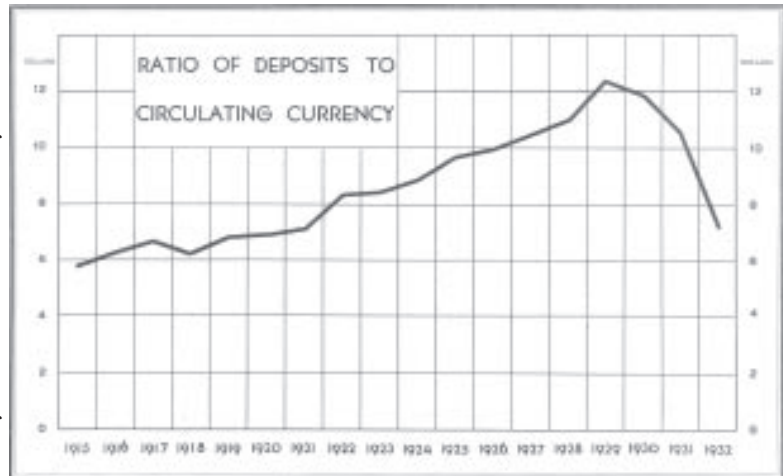
At the bottom of the Great Depression, *Bradstreet's Weekly* presented a "Business Year in Review" for 1932. It featured dozens of charts and thoughtful comments about each one. This issue of *The Elliott Wave Theorist* presents a preview of the coming depression in the form of a retrospective look at the effect the 1929-1932 bear market had on various measures of financial activity, as provided in the *Bradstreet's Weekly* dated January 28, 1933.



**INDICATORS OF DEFLATION**

**Figure 1: Ratio of Deposits to Circulating Currency**

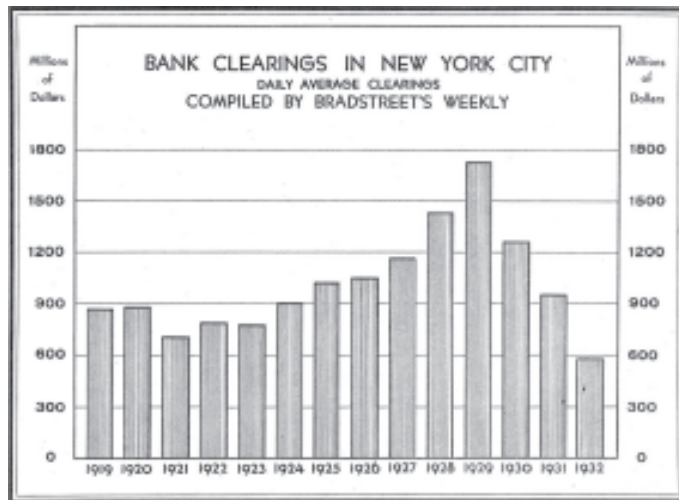
This chart depicts an aspect of deflation during the bear market. The data end at mid-1932, and the contraction continued for at least another six months, so it is safe to say that dollar bills in circulation at least doubled relative to bank deposits, as some people sought the safety of cash. In the following year, many banks failed, causing the amount of deposits to fall. The banking system today has just begun a contraction in lending, which will ultimately cause the same problems.



*Figure 1*

**Figures 2 through 4: Bank Clearings/Bank Debits/Turnover of Deposits in New York City**

People wrote fewer checks as the depression progressed, in fact 2/3 fewer by its end. Checks are now old-fashioned, so this time around the decline in transactions will be more evident from a decrease in credit-card purchases.

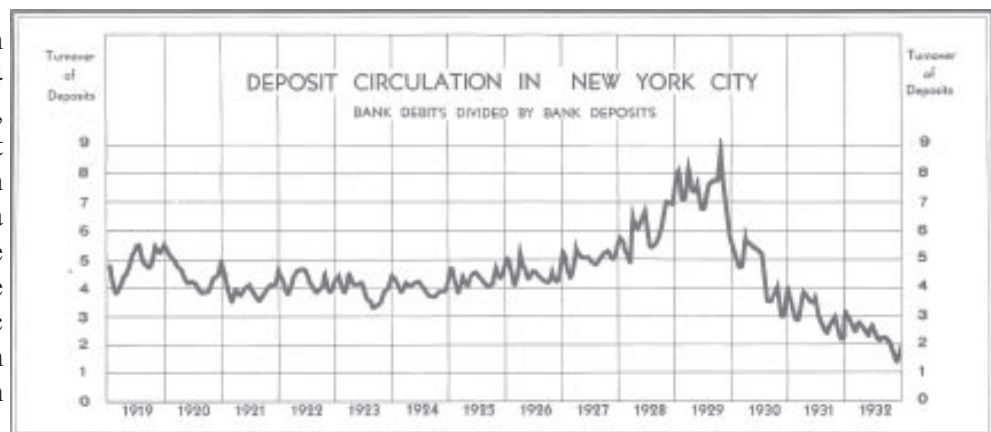


*Figure 2*



*Figure 3*

Note that the high in Figures 3 and 4 occurred in *late* 1929, at the *bottom* of that year's crash, which apparently caused a lot of money to change hands. Afterward, the slowdown in economic activity coincided with an 85 percent drop in transactions.



*Figure 4*

**Figure 5: Federal Reserve Credit in Use**

This is an important chart. Notice that the Fed provided liquidity as the banking system demanded it from mid-1931 through 1932. But deflation happened anyway. Today, as then, the Fed offers repo service only to banks in good shape and with good collateral. The weak banks were stuck then, and they are stuck now.

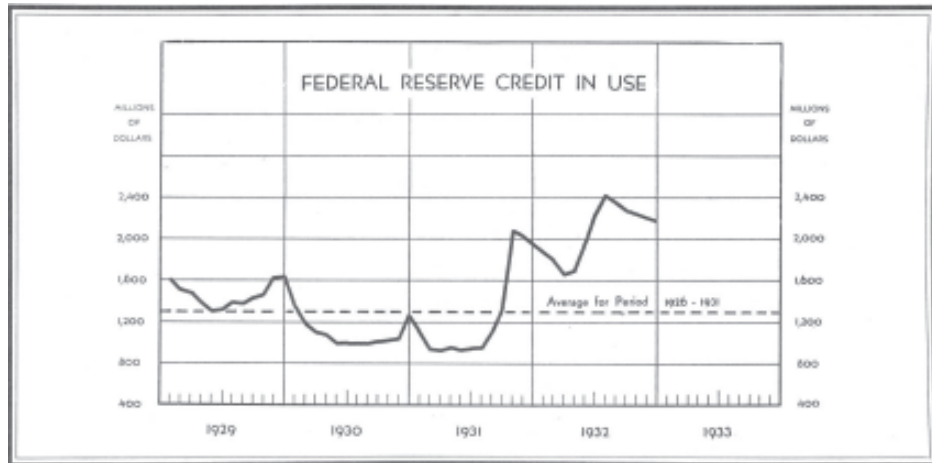


Figure 5

**INDICATORS OF FINANCIAL CONTRACTION**

**Figure 6: New Corporate Security Issues**

Wall Street was in manic mode in 1929, giving the public what it wanted: *more stock*. By late 1931, new issues had reached nearly zero. At the end of this cycle, investors will be running from IPOs, if anyone bothers to issue them.



Figure 6

**Figure 7: Automobile Industry Stock Prices**

From 1929 to 1932, the auto *index* dropped 91.5 percent. One can imagine how the stocks of companies too small to make the index fared. The auto industry was one of America's biggest in 1928. This time around, expect equivalent drops in today's largest industries: those relating to real estate, finance and computers.

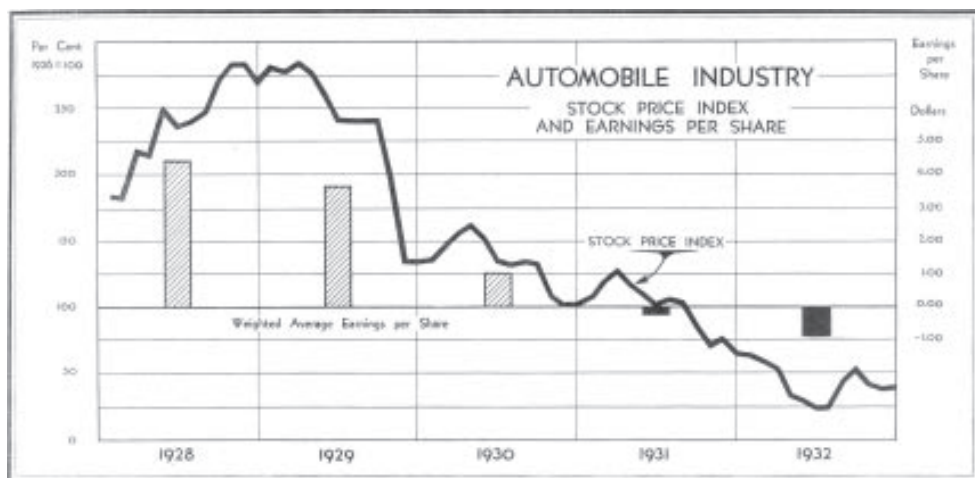


Figure 7



**Figure 8: Overall Financial Activity**

This one chart depicts the total of bond sales, stock sales, dividend and interest payments, new security issues, and NYC bank debits and deposits. Today's howling blizzard of financial activity makes 1929's look like a serene snow globe, and the emerging contraction will be commensurately large as well.



**Figure 8**

**INDICATORS OF ECONOMIC CONTRACTION**

**Figure 9: Corporate Earnings**

Changes in earnings typically *follow* the stock market. But in 1929, the onset of recession was coincident with the start of the stock-market decline. Nevertheless, you can see at the end of this chart the tendency of stocks to lead earnings. Stock prices turned up in 1932, but earnings continued to fall into early 1933 before turning up. Keep this chart in mind as the bear market progresses. The P/E ratio cannot improve very much when E is falling along with P.



**Figure 9**

**Figure 10: Index of General Business**

Business was booming on the left side of the 1929 crash. Then it went flat. Then it shrank fast.



**Figure 10**



Figure 11

**Figures 11 and 12: Department Store and Mail-Order Sales**

In the Great Depression, department store sales dropped in half and mail-order sales fell by about a third. In the current depression, even greater declines should attend store sales and Internet sales, respectively.



Figure 12

**Figure 13: Magazine Advertising**

The advertising industry got clobbered in the depression. Space in magazines dedicated to ads dropped by 70 percent. This chart does not take into account lower prices for ads, either, so the revenue decline over three years must have been breathtaking. This time around, the decline will occur in TV ads for sure and probably for paid Internet advertising as well.



Figure 13

**Figure 14: Crude Oil Production**

This chart is important because it shows that in a depression, oil production falls as oil usage falls. From 1929 to 1932, crude oil production in the U.S. declined by a third. Today's \$100/barrel oil price is not likely to sustain in an environment of weak demand.

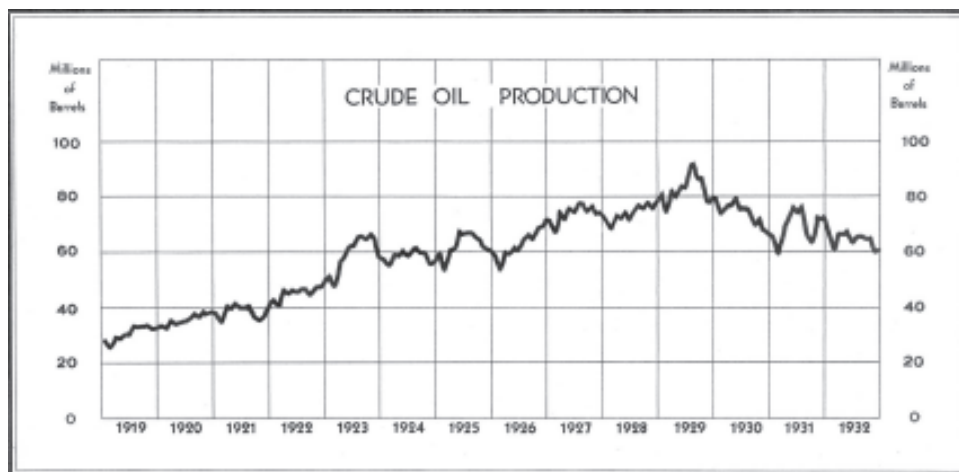


Figure 14

**Figure 15: Cement Production**

As construction and road-building slow, cement production falls. This time, many state governments will be broke, and the federal government will be drowning in red ink. Expect far fewer public construction projects to take place as this depression progresses.

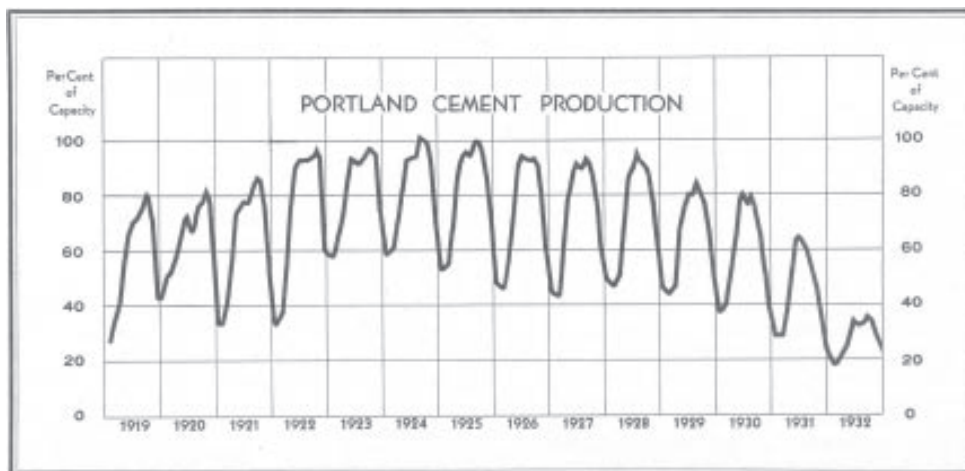


Figure 15

**Figure 16: Shoe Production**

This is an interesting chart because it shows that people still spring for necessities in a depression. There was a spike of shoe-buying (probably of those with spike heels) in 1929. But even in 1932, the highest month of production wasn't that much lower than it was in 1929.

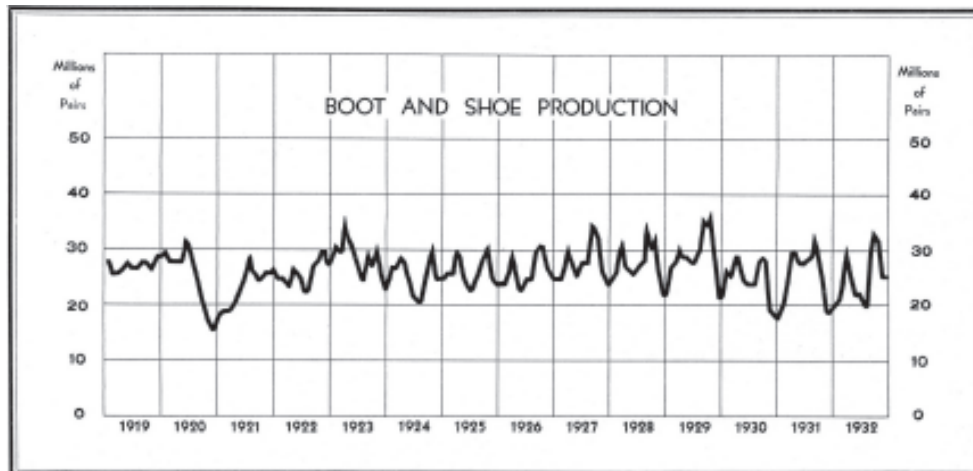


Figure 16

**Figure 17: World Trade**

The depression was a world-wide affair. Between 1929 and 1932, trade around the globe declined by 61 percent.

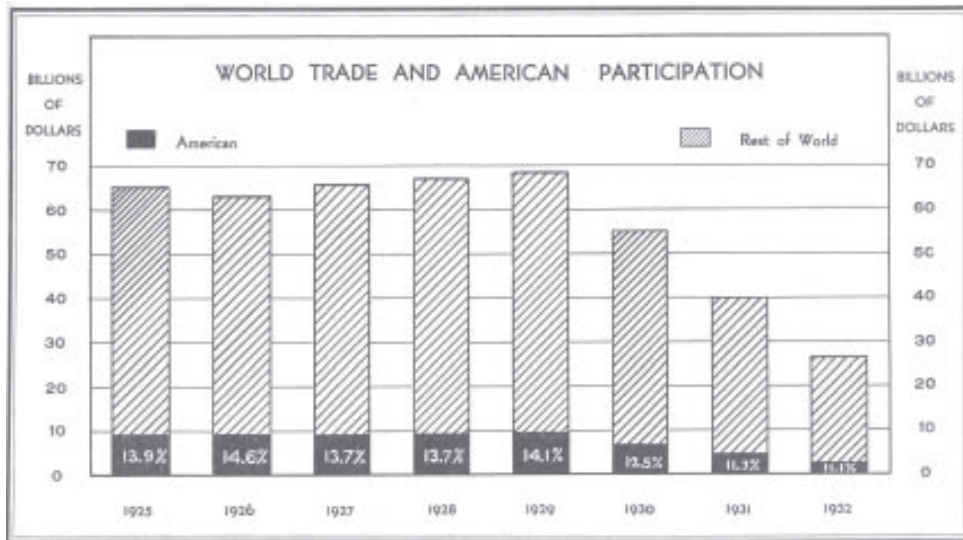


Figure 17

**CONTRACTION IN THE HOUSING MARKET**

**Figures 18 and 19: Construction Contracts and Home Construction**

Look at this: The number of construction contracts and the value of homes built both peaked a year early, in 1928, not 1929. This time around, house prices peaked early as well, in 2005, while housing construction peaked in 2006. They both topped out more than a year before stocks, befitting the larger degree of this top. And look at the size of those declines: 90 percent!

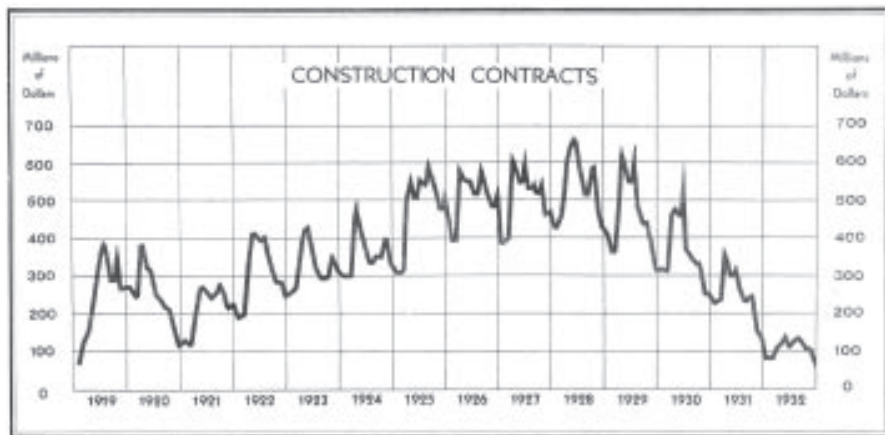


Figure 18

**COMMODITY VALUES**

**Figure 20: Purchasing Power of Silver**

This chart (next page) shows that silver lost value against most other commodities from 1896 all the way to 1932, in fact December 1932, after the stock-market low. The long decline spanned 36 years. In this cycle, silver has likewise been losing value against virtually

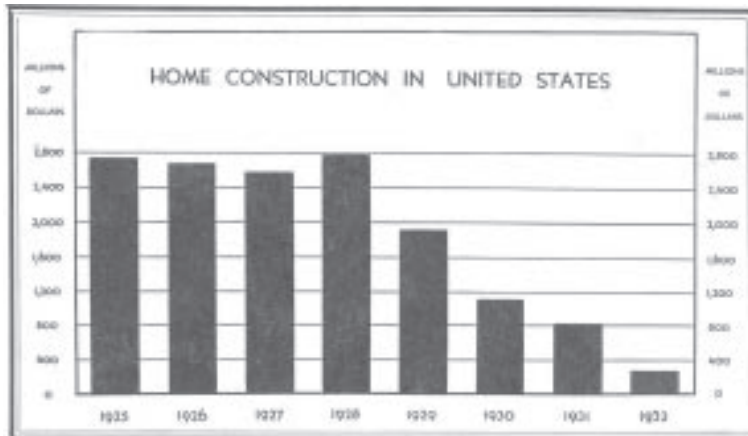


Figure 19



everything else, so far for 28 years. I have been expecting silver to bottom with the depression again, just as it did last time. With a bottom for stocks not likely until at least 2010 (but probably later), the total time of decline for silver this time would be over 30 years, just like last time.

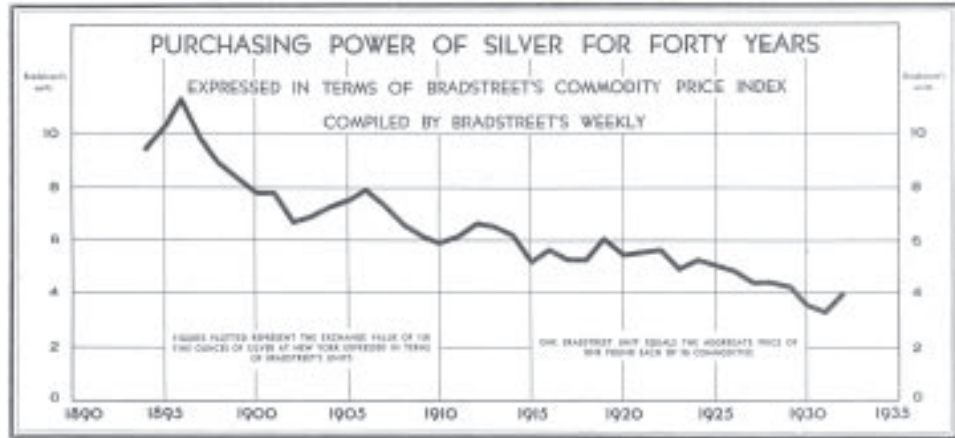


Figure 20

**Figure 21: Purchasing Power of Wheat**

Investors who think that buying currently flying wheat futures will protect them against depression might want to look at this chart. Wheat's value relative to commodities hit a low in 1932, at the bottom of the depression.

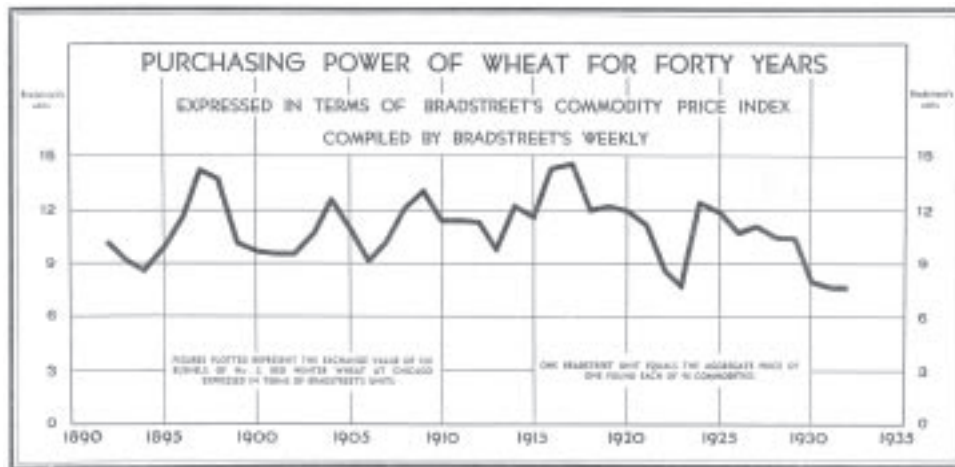


Figure 21

**STOCKS & SEX IN EUROPE AND JAPAN**

In September 1999, EWT showed how major movements in the Dow Jones Industrial Average have tended to correlate with conception rates (birth rates minus a year) in the United States. Stock market bottoms in 1932 and 1974 preceded the beginnings of the two major baby booms of the 20<sup>th</sup> century by one year using annual data (i.e. approximately one pregnancy term). That correlation suggested a socio-economic explanation, that social mood motivates trends in conceptions. The data always diverge in a fifth wave (the last advance in a bull market), as you can see by the six lines on the chart. We speculated, not entirely with tongue-in-cheek, that



Figure 1



in fifth waves the population is too distracted chasing investment profits to care as much about conceiving children. This correlation is far better than the one associated with the idea that demographic trends drive the stock market, an assumption commonly held in the investment world even today. As stated at the time, there were not enough data to be certain that our explanation was correct, but at that time all the available data fit the hypothesis.

In the meantime, we have considered the impact of abortion data on the profile of conceptions. Abortions hide conceptions from the birth-rate data. The decriminalization of abortion in 1973 in the U.S. allowed doctors openly to collect data on abortions, but of course its criminalization prior to that time kept them from keeping data at all. Since doctors and others did perform abortions prior to 1973, adding abortion figures to our graph from 1973 forward biases the conception rate for that period upward by an unknown amount. We do not even know for sure whether abortions increased after the law was passed, though one would suspect that they did.

Another question is whether we should include abortion data in our tally at all. Perhaps a positive trend in social mood should lead not only to conceptions but also to decisions to carry to term. But I doubt this line of reasoning. In the early days of human evolution, a mechanism that regulated conceptions would more or less have equated to regulating births.

Regardless of whether we include abortion data, the correlation in the U.S. still holds up well. Figure 1 updates the 1999 study for the U.S. by including reported abortions in our calculation of total annual conceptions, figured as births backdated by one year plus abortions (not backdated, since they occur within the first trimester). This addition has the result of pushing conceptions to a new high along with the stock market in the 1980s, making this aspect of the data even more compatible with our hypothesis. But it also changes the low in conceptions from 1974, when the stock market bottomed, to 1968, shortly before abortion data became available, a less compatible result. Yet either way, the overall ebb and flow of the two trends is still quite close.

Further research shows that data from some other countries seem to support, though not as well, the connection between our measure of social mood—the stock market—

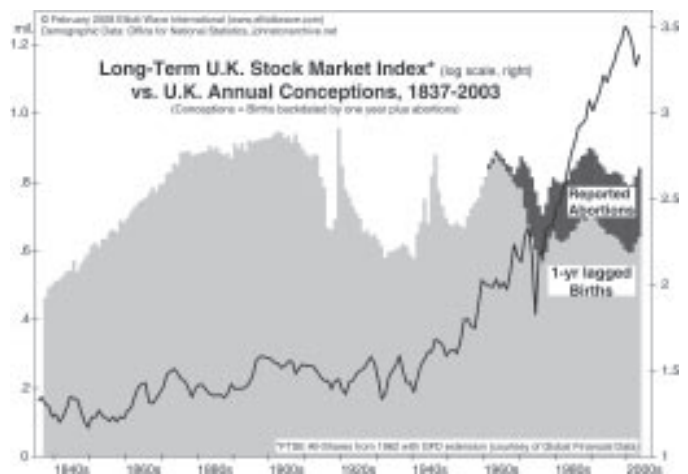


Figure 2

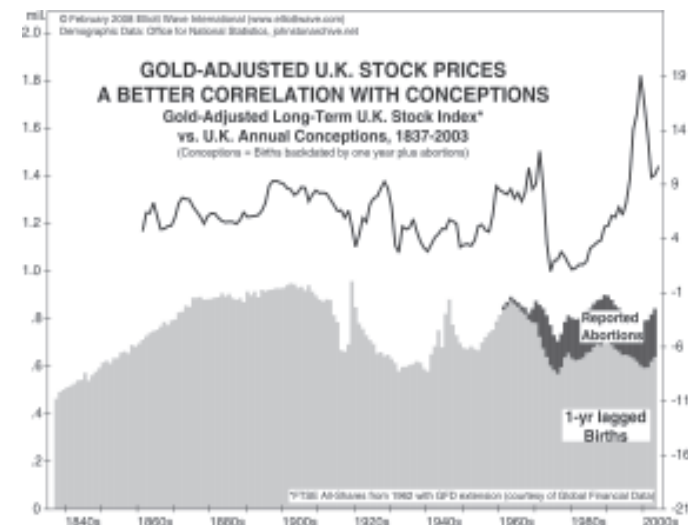


Figure 3

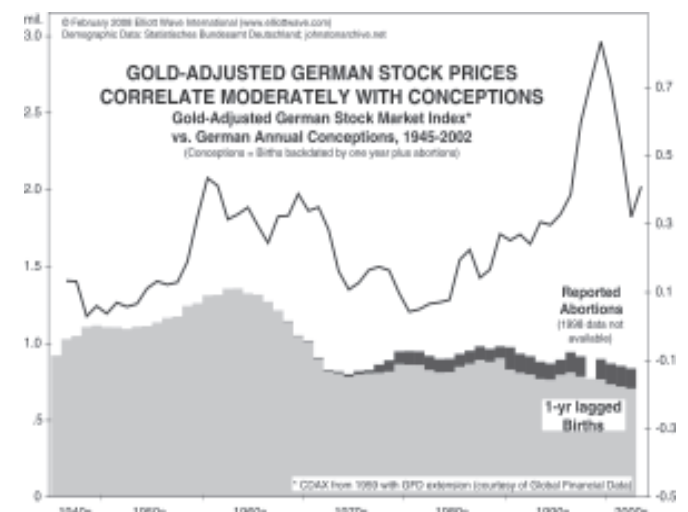


Figure 4

and the conception rate, at least so far as we can determine it to be. Figure 2 charts the record of total annual conceptions in England and Wales against an index of U.K. stocks back to 1838. While there is a rough fit between the peaks and troughs in these two measures of human activity, the overall correlation is not as good as that in the United States.

Raw stock market indexes do not always tell the whole story. Sometimes inflation-adjusted measures of stock prices, revealing their value relative to things, better reflect other social activities deriving from social mood (such as, for example, presidential popularity). Figure 3 shows that the gold-adjusted index of U.K. stocks tracks conceptions better than the nominal index in Figure 2.

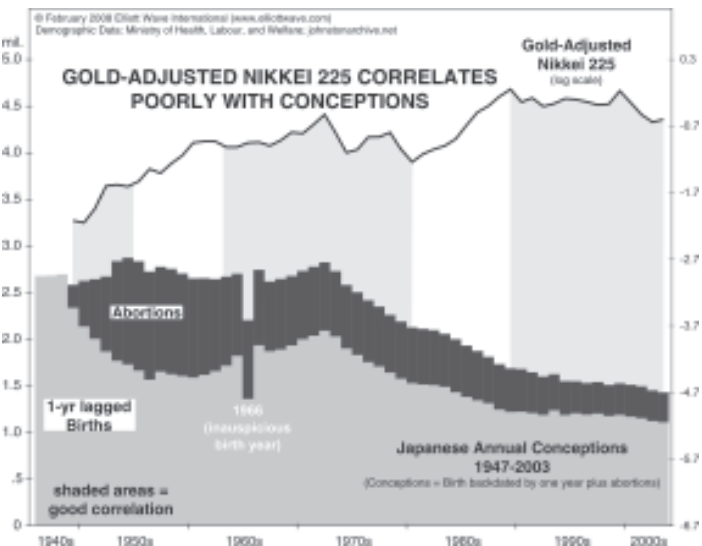


Figure 5

Figure 4 shows German conceptions against a long-term index of German stock prices in terms of gold. The correlation is fairly close through 1992 and diverges in the final stock-market advance, as in the U.S. data.

Japan's birth data, however, present a serious challenge to our initial conclusion. Figure 5 shows that conceptions peaked in 1954 and diverged severely from the gold-adjusted stock trend in the two non-shaded (white) areas on the chart. The second white area was a fifth wave, so some divergence would be normal, but in this case there is no rise at all in conceptions. By our hypothesis, we would have expected a baby boom somewhere in the middle of the 1949-1989 impulse in the nominal Nikkei 225 (not shown), yet none appears in this record.

Perhaps we would be remiss if we were to overlook the possible role of some aspects of culture in regulating conception trends. There is, for example, a precipitous decline in pregnancies during the year 1966 because it was deemed an inauspicious year for female births according to Japanese superstition. What other cultural influences may be at work in all these measures we are not equipped to speculate.

### Bonus Video

I rarely do speeches any more, but I always make an exception for the annual New Orleans conference. As an added feature this month, we are posting my speech from last October, the month the Dow and S&P registered all-time highs. You can access it here: [www.elliottwave.com/wave/NOICvideo](http://www.elliottwave.com/wave/NOICvideo).



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