In the midst of the Russian debt default and Asian financial crisis of 1998 then Fed Chairman Alan Greenspan asked rhetorically at a Jackson Hole symposium how long the U.S. could remain an oasis of prosperity. The answer was “not long” and during that fall the Fed eased credit. Now the same question looms as Europe slides closer to deflationary recession, parts of South America are in recession as is Russia, and measurable weakness is spreading across Asia.

From our perspective the current answer to that oasis question is again “not long” and from the latest FOMC notes a similar conclusion may be being reached. Yet the Fed is set to conclude its asset purchase program and debate within and outside the Fed is raging over the timing of raising short term interest rates. This debate seems wrongheaded.

Indeed, the spring-summer spurt in domestic activity is already showing signs of sputtering. The farm economy is in a recession. The equity performance of the cyclical airline and automotive sectors is poor relative to background indicators, suggesting weakness in the quality of demand. Housing construction and demand remain weak and evidence of a relapse in home prices is mounting as investor demand dries up and the first time homebuyer remains missing in action.

The sustainability of strong export demand is becoming worrisome given weakness abroad and a strong dollar exchange rate. Similarly, the boom in the domestic energy patch is at risk. Whereas in the past lower oil prices were an unqualified plus for the U.S. economy because of this country’s reliance on imports, lower prices are now a mixed blessing. The household sector benefits from the boost in discretionary income which is a definite positive. But the domestic producing sector has been the strongest sector of this recovery and prices are moving toward levels that make drilling unprofitable. We are not there yet, but a move below $80 for domestic oil would imperil the boom. This bears watching.

We are not signaling an emerging recession although in our view the downside risk is building. We are signaling though that expectations of 3% to 4% growth are too optimistic and that a more likely pace continues to be in the vicinity of 2.5%. If so, labor markets will remain very competitive suggesting an absence of wage pressures and significant price competition will prevail which translates into lower and lower inflation. The jobless rate is an anachronism in this environment.

Rather than debate when the Central Bank may begin to normalize policy, we continue to think a debate may soon center on what more Central Banks can do to support global growth. Of course, effective fiscal stimulus would be a major plus and signals to this effect should be watched. In the meanwhile, though, the first response from Central Banks is likely to be moral suasion whereby policymakers seek to convince markets that interest rates will remain at the zero bound forever. Beyond this any new policy needs to be believable because if markets lose faith in the power of Central Banks there will be hell to pay.