

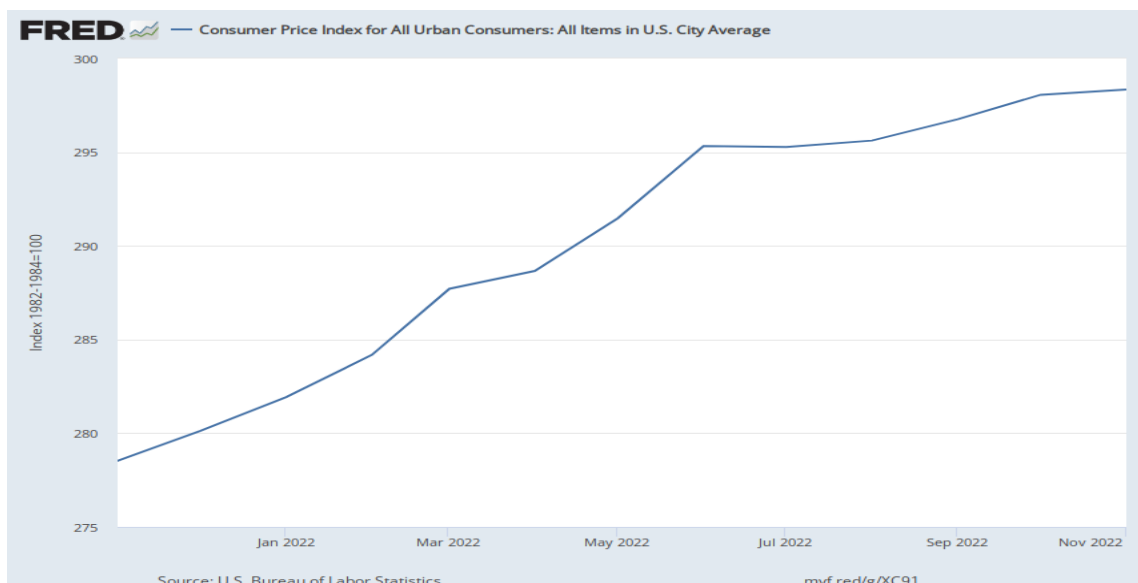
US OFFICIAL DATA BECOMES MORE REALISTIC ROCKING THE MARKETS.

Ever since the economic war with China I have become more sceptical about the economic and financial data published by the BEA, BLS, FED and the Census Bureau. In 2022, this data has become even more suspect. However, this week the statisticians could no longer paint a picture of resilience, providing the markets with a reality check and a wake up call.

On Tuesday the Consumer Price Index (CPI) came in lower than expected pleasing the market and cementing its view that the FED would hike rates by 0.5%. On Wednesday came a rebuff and on Thursday came two disappointments. The rebuff was FED Powell coming out swinging over interest rates. Given the step down in the hike it was predictable he would talk tough particularly after the bounce in the markets the previous day. I will not dignify the debate around the course of future rate rises and their expected ceiling. Instead as before I will focus on the consequences of the FED basing its decisions on faulty data.

First inflation itself. Below in the first graph is the current trajectory of the CPI. Since it moderated in July, the annualised increase in prices averaged over the five months has been 2.4%. This is the current trend. Even then, it is overstated because of the presence of owner occupier rents which are still rising. We should not be confused with year on year comparisons because over the course of the last 12 months, the first half evidenced rapid inflation which then moderated over the second half of the year. The outlook for December inflation based on current surveys is also subdued.

Graph 1.

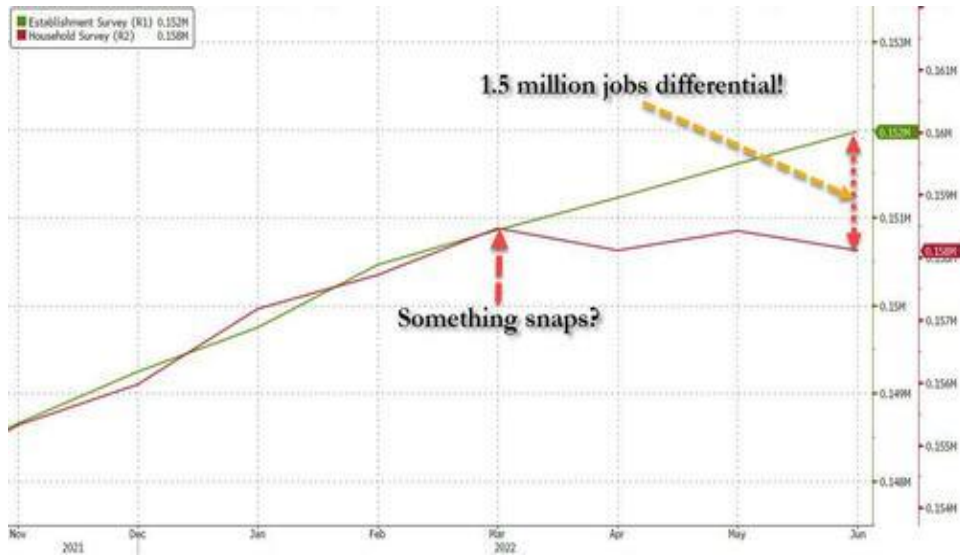


The key takeaway is this. If the trend in inflation is currently between 2.0% and 2.5% it means that interest rates for the first time are becoming positive. The new FED rate is 4.25 to 4.50% or 2% above the rate of inflation. Such a positive rate is restrictive and will impale the economy, despite all the dot plots.

The second issue behind Powell's tough talk is his view that the labour market still remains strong which acts as a barrier to bringing down inflation. However, once again the considered data does not lend itself to this interpretation. If anything, since March there has been a slight decline in employment not a significant increase. This can be seen in the following two graphs. The first from *Zerohedge* shows the

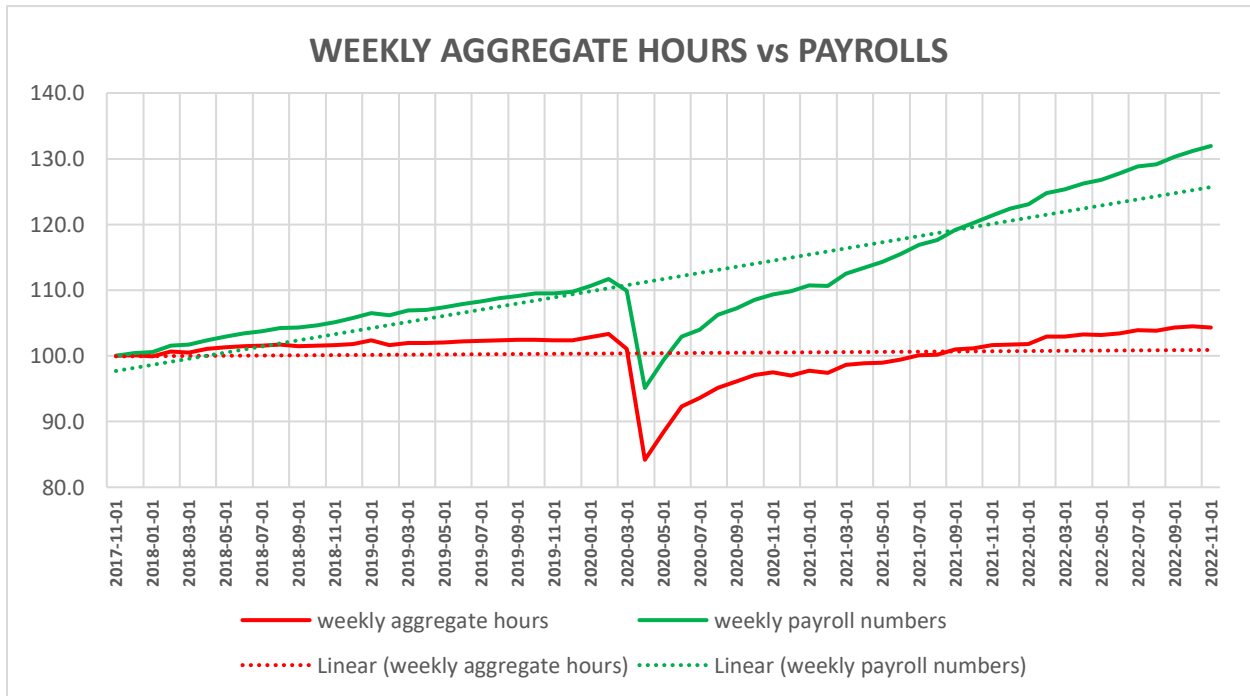
divergence between the establishment and household data as found in the BLS employment release, while the next graph which I believe to be more accurate, showed the divergence BLS began before March.

Graph 2.



(Source: Zerohedge)

Graph 3.



Sources: Fred Tables AWHI for hours and CES050000035 for payrolls)

The importance of Graph 3 is that it is not disturbed by seasonal adjustments. The trend shows that while payrolls increased sharply aggregate hours did not. The key figure to consider is the aggregate hours for non-supervisory workers, because it is not the number of jobs that matter, but the labour time expended on production. What the aggregate hours reveals is that it is not the demand for labour that is problematic, but the supply of labour which is, due to a unhealthy society being ravaged by a pandemic and only partially recovering from it.

In case the reader thinks the questioning of the data is limited to those on the left and right fringes, that is no longer the case. The Philly FED (Philadelphia FED) has conducted its own investigation and come to more or less the same conclusion by examining the period March through to June. “ [In the aggregate, 10,500 net new jobs were added during the period rather than the 1,121,500 jobs estimated by the sum of the states; the U.S.](#) Now mark, this is only up to June and already the discrepancy exceeds 1.1 million.

Retail & Industrial Production.

Still reeling from Powell’s tough talk, Retail Sales on Thursday came in much weaker than expected at minus 0.6% compared to an expected -0.2%. This was followed by Industrial Production at -0.2% compared to an expected +0.1% rise. In fact by Friday, *Econoday’s Consensus Divergence Index* fell to -40, its lowest level since July. This index compares actual results to economists’ predictions. It shows how off planet Wall Street is. No doubt by painting lipstick on predictions the banks hoped the markets would retain their recent gains into the year-end thereby helping support banker bonuses. They failed, the S&P 500 was down 4.5% and the Nasdaq 6% from their Tuesday highs by the close of the markets on Friday.

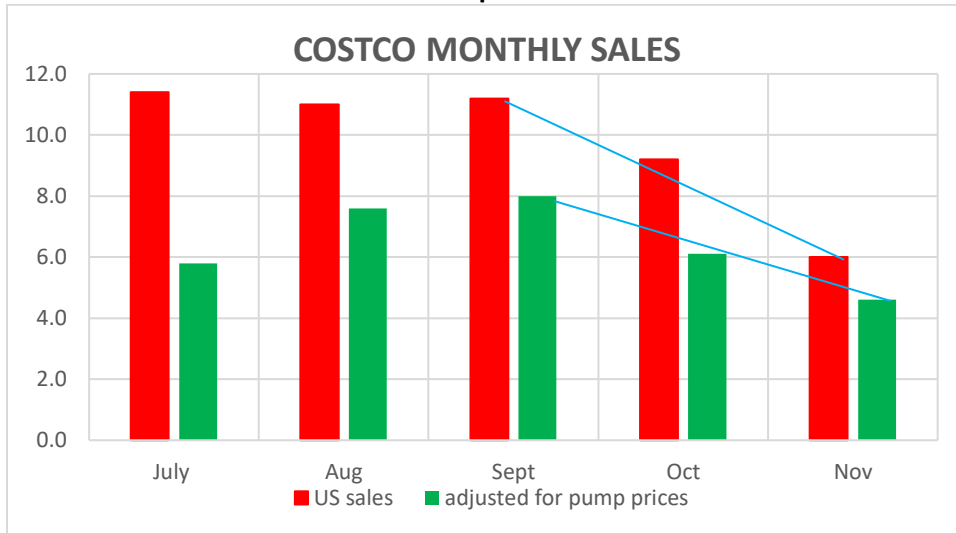
The weakness in the November data also caused the GDPNow predictor to fall to 2.8% from 3.2% a week earlier. Must be still sunny in Atlanta.

For a couple of month’s murmurings grew on the financial channels about the growing schism between the official data and surveys, including reports from Corporate Executives themselves. The soft data was so to speak much softer than the official data. The fall in retail sales begins to remedy this, but it is still not a fair reflection of the actual state of retail. I will cite two pieces of evidence. The first is to do with ‘Gas Station Sales’ because they are a large and volatile chunk of retail sales and because we can check these figures with an alternative source provided by the IEA (The International Energy Agency) itself.

Gas Station sales comprise >80% gasoline and <20% diesel sales. According to November’s [MARTS](#) unadjusted gas sales amounted to \$60.354 billion in November as against \$52.283 billion a year earlier, an increase of 15.4%. Let us turn to the data from the IEA. Starting with gasoline prices, the price was 7.8% higher on average in November, while the gasoline supplied (adjusted for net exports) fell 4.3% YoY. The link for gasoline supplied is [here](#) and for gasoline prices is [here](#). Thus, the expected change in the nominal value of gasoline sales is 3.5%. On the other hand the census bureau in its advance report on Gas Station Sales estimates an increase of 15.4%. Admittedly, the price of diesel fuel which increased by >25% YoY would have inflated Gas Station Sales, but as it only accounts for less than a fifth of sales, it is unlikely to have bridged the gap of 11.9%. Perhaps it was the higher price of *Pepsi* sold in the shop wot caused it.

When assessing the veracity of the census data on retail sales, it is useful to introduce COSTCO. There are two good reasons for this, firstly, COSTCO has been grabbing sales from other retailers so its sales growth should be above average, and secondly, COSTCO sells a broad range of goods including gasoline. In the graph below are the monthly figures for COSTCO (it is one of the few shops which publishes monthly data).

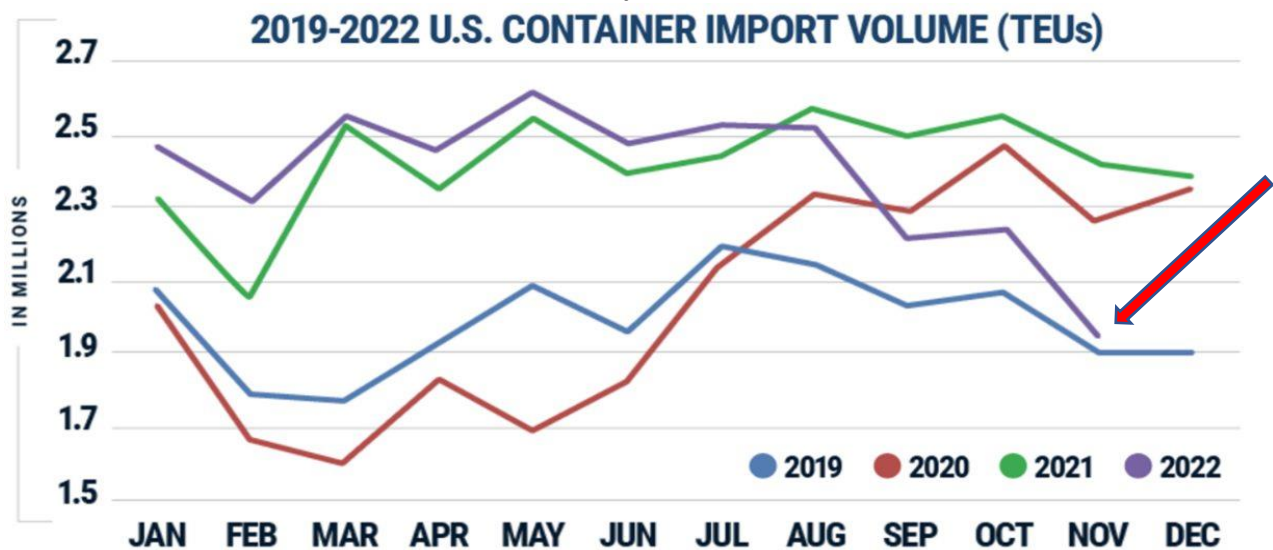
Graph 4.



What we see is a sharp contraction in nominal sales both unadjusted and adjusted. This is not due to base year effects, as October 2021 was stronger than November 2021. The fall in nominal monthly sales between September and November is \$2.29 billion or 10.6% from \$21.46 billion to \$19.17 billion. (These are overall sales not USA sales as these are not available yet.) It is this fall in monthly sales that is mainly responsible for the nearly 60% plunge in the YoY growth rate in November down to 6.2%. Little wonder Costco's management is discussing raising membership fees in the new year to compensate for the fall in sales. On the other hand the MARTS data shows that unadjusted retail sales grew by 6% between September and November and by 7.4% when excluding motor vehicle sales which COSTCO does not sell.

Thus from a period in which Costco's sales far outstripped that of total retail sales, the subsiding of its sales now puts it no higher than the annual growth in sales as registered by the Census Bureau. Either COSTCO is falling out of favour with customers or the official retail sales continue to be inflated. I suspect the latter given what is happening to goods imports and internal truck traffic

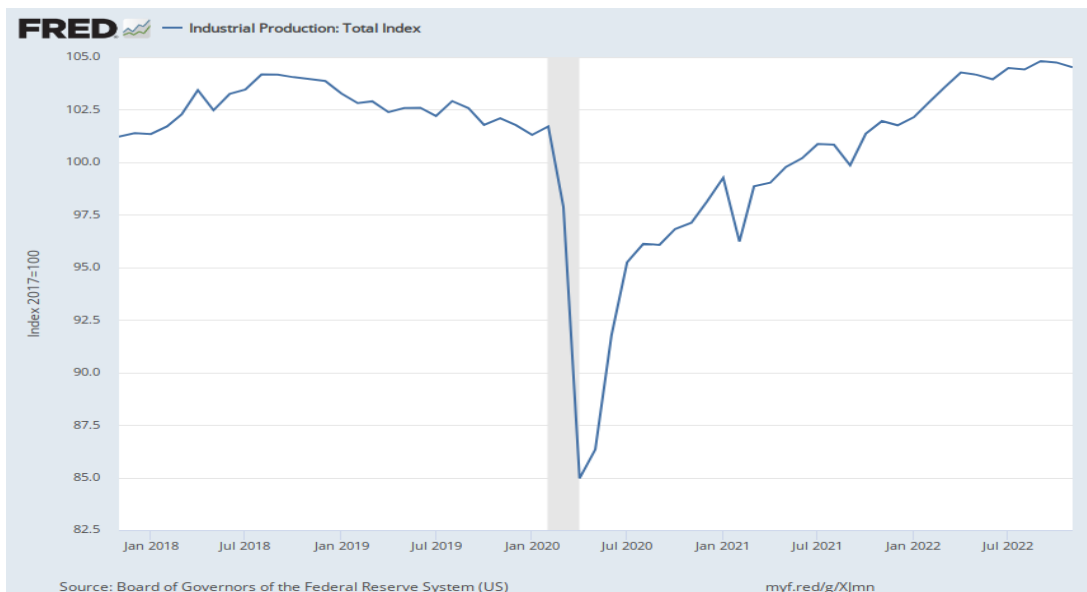
Graph 5.



Here the red arrow points to the fall in imports via containers (TEUs), the mode in which most retail goods are carried on the high seas. We note that in November the number of containers imported into the USA via all ports was barely higher than its 2019 level for the time of year. In fact the fall of half a million containers is the sharpest over the four years and mirrors the sharp rise in May 2020. Just behind this fall in inward TEUs, [van deliveries](#) within the USA fell around 15% YoY with no end in sight.

Clearly this fall in the demand for goods has impacted production. Despite the increase in gas and oil production over the year, and utilities recently, the production index has more or less plateaued over the last 7 months.

Graph 6.



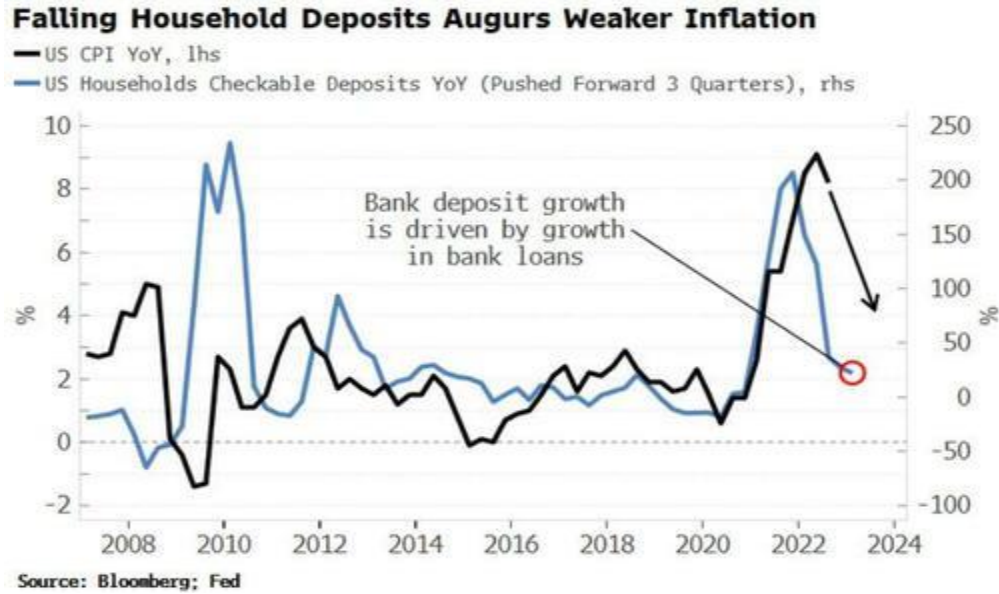
Two areas of strength capitulate.

According to Jamie Dimon and other banksters, their depositor bank accounts are overflowing. And as it is said, overflowing accounts leads to resilient demand. That may have been true until recently but as Graph 7 below shows, even these accounts are starting to dry up. (The curve is the inverse in the run up to the financial crisis in 2008, when following the crash spending crashed.)

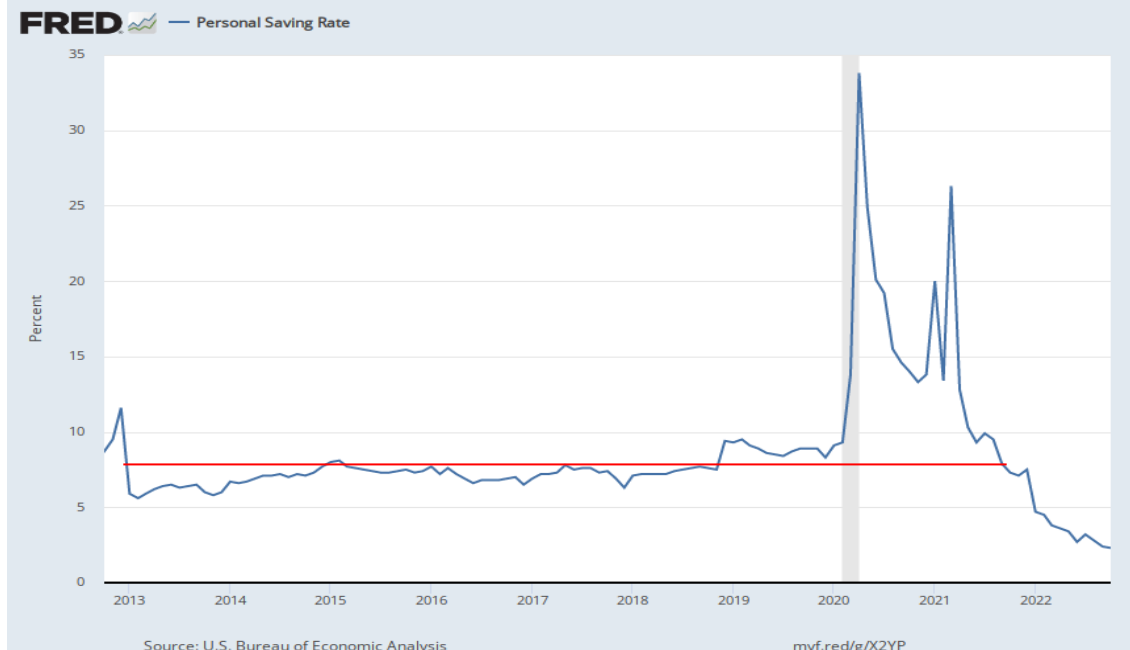
But there is another overlooked issue to do with these bulging accounts. Graph 8 presents the trend in the personal savings rate, you know the one that is supposed to fill these bank accounts. Well it tells an entirely different story. The savings rate is at a 10 year low currently. For the whole of 2022, the rate has stood below 5% falling to a current 2.3% rate, less than half the rate prior to the pandemic. So how can we have two contrasting pictures? Which one is real? It is the bank reports not the official savings rate. As I have said repeatedly, the savings rate is not a real number but a balancing item. It ensures the T accounts, with income on the one side and spending on the other, balance. (The savings rate **rises** when investment **rises** for reasons I will not discuss here but it **falls** when consumer spending **rises**.)

So how to explain its fall? Simple, spending is inflated as I have repeatedly pointed out. It is inflated relative to income. And if it is inflated then it must depress the savings rate to abnormal levels, in contrast to what the banks themselves report. Just one more exhibit in the case against official spending data.

Graph 7.



Graph 8.



And just as depositors are about to empty their bank or checking accounts, so too with corporate bank accounts. For the first time, on the financial channels, the worried chatter about the financial health of corporations is beginning to intensify. It appears Zombie companies who were refinanced with Covid grants and who took advantage of cheap money are finally beginning to experience liquidity issues as

demand and profitability fall. However, I will not go further because I intend to research both the high yield market and the mortgage market in a future post.

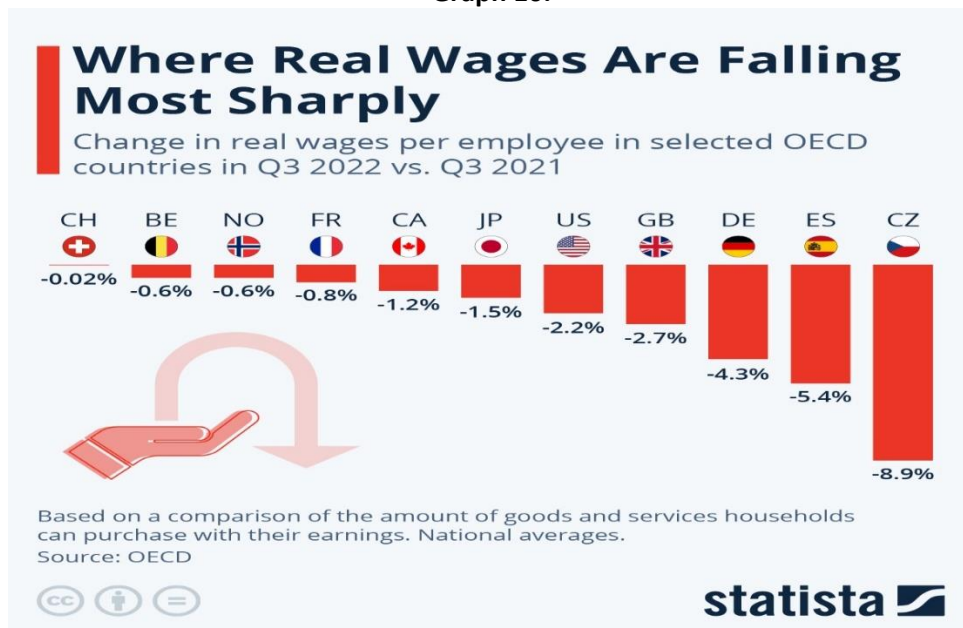
The second resilience which is withering is airline traffic. Truly a tear could be seen in the eye of airline executives when they proclaimed how the masses were yearning to travel after all the lockdowns and would do anything to see their loved ones. Well even love cannot compensate for falling incomes. Delta airlines has become the latest corporate to say that the airline business is just about to hit an air pocket.

Graph 9.



Before leaving this section I thought I would share Graph 10. What is important is not the absolute falls which are understated, but the relative country falls. Britain and the USA are about in the middle of the relative falls.

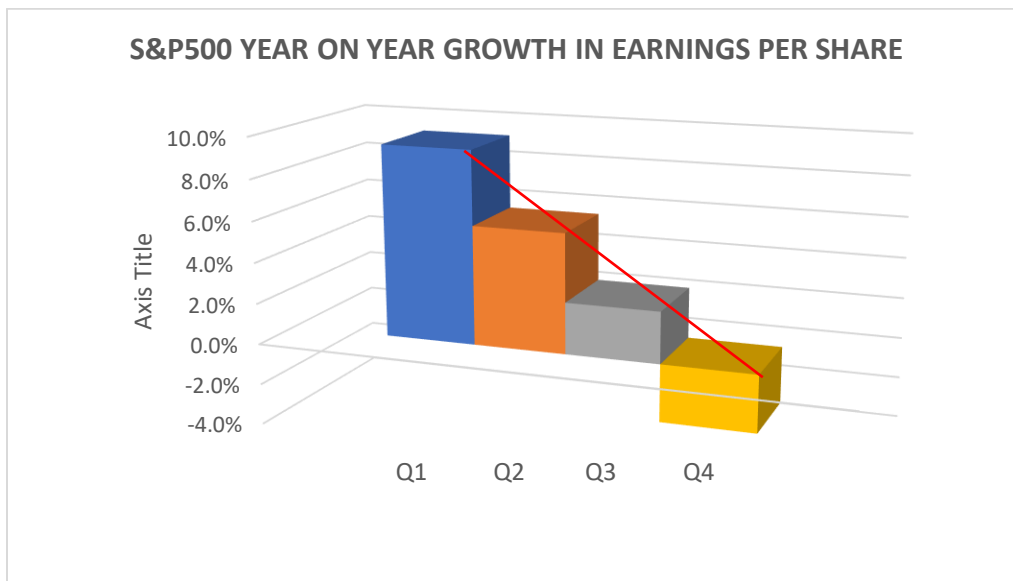
Graph 10.



Profitability being shown the door.

[FactSet](#) reports “most of the (year-over-year) earnings growth for CY 2022 occurred in the first half of the 2022. For Q1 2022 and Q2 2022, the S&P 500 reported earnings growth of 9.4% and 5.8%. However, the index reported earnings growth of 2.5% for Q3 2022 and is projected to report an earnings decline of -2.8% for Q4 2022.” For the first half of 2023 they are predicting just 1% growth. Given the recurring downward revisions, for example, FactSet’s first estimate for Q4 2022 at its opening was 3.7% not -2.8%, a downward revision of 5% is not improbable. As Graph 11, shows, the fall in EPS is in a straight line and if this trend continues then by mid-year the mass of S&P profits will be falling by 10% a year rather than rising by 1%.

Graph 11.



What is worthy of interest is that while the [BLS productivity and costs report](#) for the third quarter improved, the outcome, corporate profits, actually fell. On the other hand, in the second quarter, considered a disaster for productivity and costs, corporate profits actually rose. Capitalism does indeed move in mysterious ways.

Conclusion.

It is not the extent of the fall in the share markets this week which is important but the nature of the fall. For the first time investors and analysts were shaken by the bad economic news which was reinforced on Friday by the first PMI composite flash report for December which came in at 44.6 rather than the consensus estimate of 46.7. This near 2 point fall puts the index deeper into recessionary territory. But it is not only in the USA where economies are subsiding, it is now everywhere. India, which had bucked the trend in terms of economic performance, did a handbrake turn when its industrial production index fell 4% in October after rising 3.5% the previous month, (manufacturing fell 5.6%).

FED Powell and his crew are poorly trained pilots on steroids relying on a faulty altimeter and compass. This does not make for a safe flight especially now they are in the mountains. The financial media, *Bloomberg* and *CNBC*, still gravitate towards the narrative that a recession, if not avoided will be mild, and the FED itself has reiterated it will be mindful of the data. Many of the analysts interviewed substantiate

their benign views on a recession by referencing the absence of financial tremors. But this will change soon.

All the fast frequency data is deteriorating. The weekly economic index prepared by the New York Fed grinds relentlessly lower, the freight news borders on the catastrophic, the corporate reports and the surveys especially the regional surveys all point in one direction, a deep recession. (The Philadelphia FED index, -13.8 vs expected -9.9, the Empire State Index -11.2 vs -0.4 and the Dallas Fed -14.4 vs -11.0 expected.) It really is unclear in which direction the FED is looking. What is clear is that the capitalist class does not engage in self-harm. The FED is not deliberately provoking a recession to hammer workers. Rather it is sleep walking into the mine field.

Brian Green, 17th December 2022.