THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) was down 0.35% this week, closing at 2,390.90. It is still up 2.66% for the trailing month, 6.79% year-to-date, and 16.82% for one year. The U.S. ten-year Treasury note was yielding 2.325% at the close, almost the same as it was last week. Gold stabilized at $1,228.30, only dropping 90 cents per ounce this week.

Longer term the SPX is up 254% from its 2009 low, eight years ago, about 31% from the February 2016 low, and even 12.21% from its high in May of 2015, just before the world was supposed to end because of (a) China imploding, or (b) low oil prices destroying the world. In the midst of all the noise and confusion, remember that you are living in the largest, strongest, most resilient, economic system on the planet.

The Economy

The Labor Department reported that the Consumer Price Index ("CPI") only rose 0.2% in April, and when the volatile areas of food and fuel were excluded, the core CPI rate was only up 0.1% from March. For one year, the CPI was up 2.2%, but that rate slowed in the last few months. Again, the year over year average gain was less if we take food and fuel out of the picture, coming in at an even 2%. Note here that 2% inflation was and is the stated goal of the Federal Reserve, so it appears they got what they wanted. In March, we saw a 0.3% *decrease* in the CPI, and February's 0.1% rise was, like this report, below the trend line. Once again it is good to remember that less than a decade ago, the talking heads on the TV political-talk shows were proclaiming that hyperinflation was a sure thing and that the American economy was sure to collapse under a tidal wave of cheap currency. Note that we have since been fighting *deflation*, which is a money shortage. We are still fighting to keep the inflation rate above zero both here and around the world.

On the other side of the equation, average weekly earnings for private-sector workers were up 0.4% from March, but are only running about 0.3% ahead of inflation for the 12-month period. Those figures are indicative of a couple of things. First, there is a lot weighing in against any ability of retailers to raise wages or prices. Second, worker productivity has been largely flat, leaving no room for wage increases in an economy where massive technological change is underway.

The Commerce Department's Census Bureau also had some news, reporting that sales at U.S. stores, restaurants, and online retailers rose at a seasonally adjusted 0.4% in April and were up about 4.5% from a year earlier. One of the immediate conundrums that appears regarding all those numbers is the question of why wages aren't rising faster if sales are up so much. The answer can be seen in the split between traditional brick and mortar retail sales and online sales. Big department stores' sales were down about 4% while internet sales were up 11%. As you may well guess, more goods can be sold over the internet per employee, so employment in retail sales is dropping. When there is more supply than demand, prices don't rise, and in this case that applies to what an employee is paid for his or her time.

The closed shopping center or mall or one converted into a local educational facility is a spreading phenomenon across America. Small shops, once an entry point for low skilled workers, are declining. There is among some economists an assumption that displaced retail shop workers can find employment in e-commerce, but a survey by the *Economist* magazine strongly suggests that the math and computer skills required in the digital workplace are considerably higher than those needed to work in face-to-face retail. Once again, the message is clear: We need a better educated workforce or we will not see a lot of growth.

Businesses may not be giving out much in the way of raises, but they aren't laying people off either. Last week, the number of first-time applications for unemployment benefits fell to the lowest number since 1988, when the workforce was a fraction of what it is today. Even the four-week moving average was at near-record lows. The number of new jobless claims last week was at 236,000. To put that in perspective, as recently as 2010, as we were well into rehiring from the 2008-2009 recession, there were typically nearly 500,000 newly unemployed workers in the average week.

That absence of layoffs, combined with corporate guidance on future earnings has resulted in estimates that the annualized U.S. GDP growth will rise to over 3.5% in the second quarter. Just in case you forgot, or failed to notice, the current estimate of first quarter GDP is 0.7%, so a good number in the second quarter would still only bring us up to just over 2% when averaged together. This is the pattern we have seen for several years as the first quarter sees a severe blizzard in the Northeast and that puts a damper on output, but is followed by a second and third quarter catch-up.

Some of that future earnings optimism for "American" corporations is, in fact, a result of the substantial overseas holdings of those nominally U.S. companies. Germany reported first quarter GDP growth this week and it came in at 0.6%, or 2.4% in annualized terms. That is about the same growth rate we have seen in the U.S. for several years, but for Germany it is a major breakout. Not coincidently, Germany had a mild winter and no economy-slowing blizzard this year. The longer term forecast for Germany is not as impressive as the government is predicting a 1.7% annual rise in GDP. Still, for the past eight years the question is whether there would be growth or contraction in Europe's biggest economy, and growth, even at 1.7% is a huge improvement. Since U.S. corporations do a lot of business there, their good fortune is ours as well.

Across the U.S. stocks remain near record highs, interest rates and inflation are low, and home prices are up and rising. More importantly, income, both collectively and individually is up. Wages are rising faster than inflation and the number of employed people is at a record high. What is missing in this equation is borrowing. Americans are not deploying their credit cards in anything close to the level they have in past expansions. Total household debt tends to run well above annual income, which makes sense as many Americans have a mortgage that is significantly higher than annual income. In 2007, for example, American household debt averaged 129% annual income. Today that number is just over 100% of annual income.

As usual the question is, "Why?" The answer appears to be like that restricting business investment, much of which again involves borrowing money, and it is that dreadful word, "Uncertainty." That uncertainty appears to be generated by fear that something will happen out of Washington that will cripple the recovery. Fortunately, one of the big threats, a trade war with China, appears to be receding with some new, if minor, trade concessions by the Chinese government. A trade war with Mexico seems to be next on the list of worries, but that too seems to be relatively unlikely, at least in the short term, as the President has agreed to negotiate rather than scrapping the North American Free Trade Agreement (NAFTA). Still, the barrage of disturbing news and threats appear to be damaging longer term economic confidence.

At the same time, those same consumers are reporting to surveys that they are the most confident they have been in decades! We, thus, tend to not pay a great deal of attention to the consumer confidence polls. We have found that what people do with their money is a great deal more indicative of what they feeling than what they say to a survey taken over the phone.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

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