

The Phase Before Things Go Wrong

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On Monday indexes were mixed. One might have expected a further decline following the negative jobs report on Friday or, since China is getting so much attention, the report that exports fell 1.8% in April and imports 10.9% (18th month in a row for the latter). Proof that the vaunted March rise was a flash in the pan caused by the long lunar holiday in February. On Tuesday American indexes saw their highest rise in two months. Reason cited: China's producer prices continued to fall, but at a slower pace and its CPI was up 2.3%; oil prices regained the few cents lost on Monday (that was considered more significant than Saudi Arabia's announcement that it would increase oil production); expectations that Disney would issue a positive quarterly report (after hours it came in below expectations for the first time in 5 years); a report that March jobs listings were the highest in a long time (its significance not helped by the April Establishment Survey). Then on Wednesday they gave all of Tuesday back -- almost to the exact number. That might have been influenced by a Chinese published report citing a top "communist" official as saying they can't keep blowing money like they did in the first quarter (over \$1 trillion in credit) to goose the economy. China's debt is 247% of GDP (in Japanese range). Now it may be time for de-leveraging. Thus, shaken hopes that China will help the rest of the capitalist world out of its funk. Macy's (America's biggest retailer) reported its 5th straight quarterly decline -- 7.4% in revenue and 40% income. In the UK industrial production fell for the second straight month -- that sector is in recession for the third time in 8 years.

Not a day goes by without brilliance of Elon Musk spewing from his PR machine. Where would the country be without his creative genius? Better answered with a more appropriate question -- Where would Elon Musk be with the American taxpayer funding his dreamy schemes. May 9th Detroit News article by Eric Peters, *Elon Musk, Crony Capitalist King*, contained some facts. The Tesla -- Nevada provided \$1.3 billion in special incentives for the battery factory plus \$195 million in transferable tax credits (can be sold for cash). California has doled out similar gifts to Musk. He has also picked up \$517 million selling carbon credits to internal combustion car companies because some states require a certain number of zero emission cars to be sold. Thus Musk loses millions making zero emission electric cars but makes millions getting polluting cars on the road. Between Tesla, SolarCity and SpaceX, Musk has received almost \$5 billion in taxpayer grants. There is where his brilliance really shines.

April retail sales were presented as clear evidence of a strengthening economy. The 1.3% growth from March was the largest in a year. Core sales were 0.9% as against 0.3% expectations. Yet the indexes, far from being buoyed by the good news had a major down day. Could there be something fishy about the stats? Yes, according to Jeffrey Snider. Unadjusted retail sales for April 2016 were \$450.9 billion, \$9.2 billion less than they were in March. In April 2015 unadjusted retail sales were \$5.9 billion less than they were in March. The Commerce Department used Easter coming early this year as cover for an unreasonable seasonal adjustment. Thus the lack of euphoria in the financial world. Total unadjusted

retail trade (excludes food) grew 2.2% in the year between Aprils. Excluding autos, 1.9%. Growth below 3% is considered nothing to be excited about.

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