Resolving Revolving Debt

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There was a very unusual rise in revolving credit (credit cards) the last two months of 2016. In September is was only a few billions, October about $7 billion, but the first reading for November was $11.2 billion. Then the Fed revised that up to an astounding $24.8 billion. December topped November with $25.8 billion. The combined $50.6 billion for the two months is the most since that statistic was first used in 1943. Maybe people are pre-spending their tax cuts, if so that will have a corresponding negative effect the first quarter. But given the extremely low savings rate, maybe they are just tapped out but have no worries about going into serious debt because they've been sold that a booming economy will soon fatten all wallets. No doubt grief counselors are on standby.

A brief reminder about the most common explanation for the decline in the Labor Force Participation Rate. It's true that aging Baby Boomers are retiring, but the rate for the prime age group (24-54) is below pre-recession levels and well below where it was in 2000. This is true regardless of gender and educational level. Apparently claims of a vast supply of available jobs is false, or there aren't enough of the sort that people want – therefore, while they wait they live off savings, other people, or find something under the table.

China's Producer Price Index problem. For 53 straight months it declined. That's bad. But since September 2016 it's rising as much at 7% a month. That would be good if it triggered CPI growth – but it hasn't, remaining well below the 3.0% rate China regards as price stability – CPI was only 1.5% in January. The likely cause is the rapid rise in commodity prices due to the world's synchronized dream of rapid growth and increased consumer demand. That hasn't happened in the China or the US and no doubt the rest of the developed world. But consumers won't object if the maker and seller of products have to eat the added cost in order to make a sale.

This was a week of gradual recovery which usually occurred after steep declines. Negatives: Tuesday – growth in same store retail sales slowed to 2.8% from the previous 3.0%. Wednesday: MBA Mortgage Applications week to week. Composite – 4.1%, previous 0.7%. Purchase Index – 6.0, previous 0.0%. Refinance Index – 2.0%, previous 1.0%. Retail Sales month to month – 0.3%, down from a prior 0.4% revised to 0.0%. Same without autos down 0.0% from a

prior 0.4% revised to 0.1%. The big Positive: CPI month to month rose 0.5% from the previous upward revised 0.2%. Year to year the same 2.1%. Less food and the highly volatile energy month to month 0.3% up from a revised downward (3.0%) to 0.2%. As for year to year, the number that gets all the attention because it has been expected to reach 2.0% from month to month for the last few years remains exactly the same at 1.8%. Thursday another significant gain even though the most critical reading along with the GDP, Industrial Production not only was poor but indicated that some of the earlier positive readings were related to hurricane damage: Production Month to Month – 0.1%, down from 0.9% revised to 0.4%. Manufacturing: 0.0%, flat after a downward reduction from 0.1%. Capacity utilization: 77.5% down from a downward revised (77.9%) 77.7%. The big positive: Producer Price Index up to 2.7% from 2.6%, but without food and energy 2.2% down from 2.3%. This data merits a big market rise only because speculators focus on credit and the cost of speculating, thus what the Fed may do is far more important than weakness in the real economy. Finally on Friday the markets were mixed. After early large rises they closed slightly up or down with the trend toward the latter. A slight case of end of week shattered nerves.

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