

**Gregory E. Cater CWS® CRC® AIF®**  
Certified Wealth Strategist®  
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September 14<sup>th</sup>, 2019

The big news Friday September 14<sup>th</sup> was “retail sales beat expectations”. This is an example of cherry picking the data. The numbers did beat “expectations” (0.4 vs 0.2 MOM) but they are down 50% from last month (0.4 vs 0.8).

The rest of the story:

	Expected	Actual	Prior
Retail Sales Ex Auto MOM	0.1	0	1
Retail Sales Ex Auto and Gas	0.2	0.2	0.9
Retail Sales Control Group	0.3	0.3	1

The other 3 releases related to retail sales did not beat expectations and are down substantially from last month.

The other “inflation” news released Friday track both import and export prices. MOM and YOY prices continue to drop.

Import Prices YOY down 2.0%

Export Prices YOY down 1.4%

Aren't Tariffs inflationary?

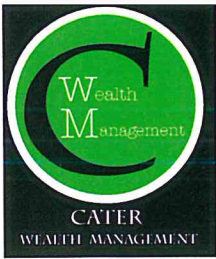
The Fed maintains its 2% inflation target is "symmetric". Running a little hot after years of running a little cold is fine. I don't buy it for a minute. The official preferred measure of inflation is the headline PCE but we all know the one they really follow is the core PCE. Core PCE started 2019 at 1.98%, dropped to 1.46% in May and the last read is 1.58%. Headline PCE, the Fed's “official” measure is even lower, 1.4%. The Fed seems to be a long way from its 2% target. The press focuses more on the CPI. Headline CPI started this year at 1.9% and the latest read is 1.7%. Core CPI, however, has actually risen this year. It has moved up from 2.2% in Jan to 2.4% this week. This week everyone is focusing on 2.4%, and everyone is panicking. The attached chart helps to put this in perspective.

The recent peak in the 10 year treasury is 3.13% on 11/01/18, today it is 1.90%. Since then the world dollar index (DXY) has moved higher (96.27 to 98.22) and the Core PCE has dropped (1.96% to 1.58%).

CPI stands for Consumer Price Index. PCE stands for Personal Consumption Expenditures. They are very different. The CPI is a fixed basket of goods and services whose prices are tracked each month. It assumes our buying decisions don't change when prices change. The PCE is "chain weighted". This means if pork gets expensive we will probably buy more chicken or beef, etc. The Fed believes PCE more accurately reflects what we really buy. I agree. Headline counts everything; Core excludes food and energy because they tend to be very volatile.

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We have had a dramatic increase in interest rates recently. If we focus on the U. S. 10 year Treasury bond, after hitting a low of 1.46% on 09/03/19 we closed yesterday at 1.90%. 30% increase in rates in less than 2 weeks, WOW! But hold on a minute, weren't we at 2% just 6 weeks ago? Didn't we hit 2.50% last May and 3% last November?

Let's focus on the real economy and ignore the hysteria:

- 1) Globalization continues – the world labor force over the last 25 years has added 1 billion workers, 40 million per year. There is slack in the global labor force.
- 2) Not just the US, but all of the major developed economies have a 2% inflation target they can't seem to hit.
- 3) Government debt trading at negative yields is at an all-time high, > \$17 Trillion.
- 4) Central banks around the world are taking negative deposit rates to a new level. The Swiss National Bank charges -0.75% while the Riksbank's deposit rate is -1%.
- 5) Last week the ECB lowered its deposit rate to -0.50% and restarted QE.
- 6) Global growth is slowing; China and India are both proposing new stimulus measures to help their economies.
- 7) Non-farm payrolls are averaging 158,000 per month so far this year, the lowest job growth since 2010.

The on-again-off-again tariff saga, regardless of whose side is right, has absolutely reduced business investment. Business is reluctant to spend on new plants, etc. when they don't know what the future holds. The Tariff story started almost 2 years ago. A lot of business investment has already been lost.

The Cass Freight Index, a monthly measure of rail, trucking and airfreight volume, dropped 3% in August from a year earlier, the ninth consecutive month of declines.

The odds of recession have increased dramatically.

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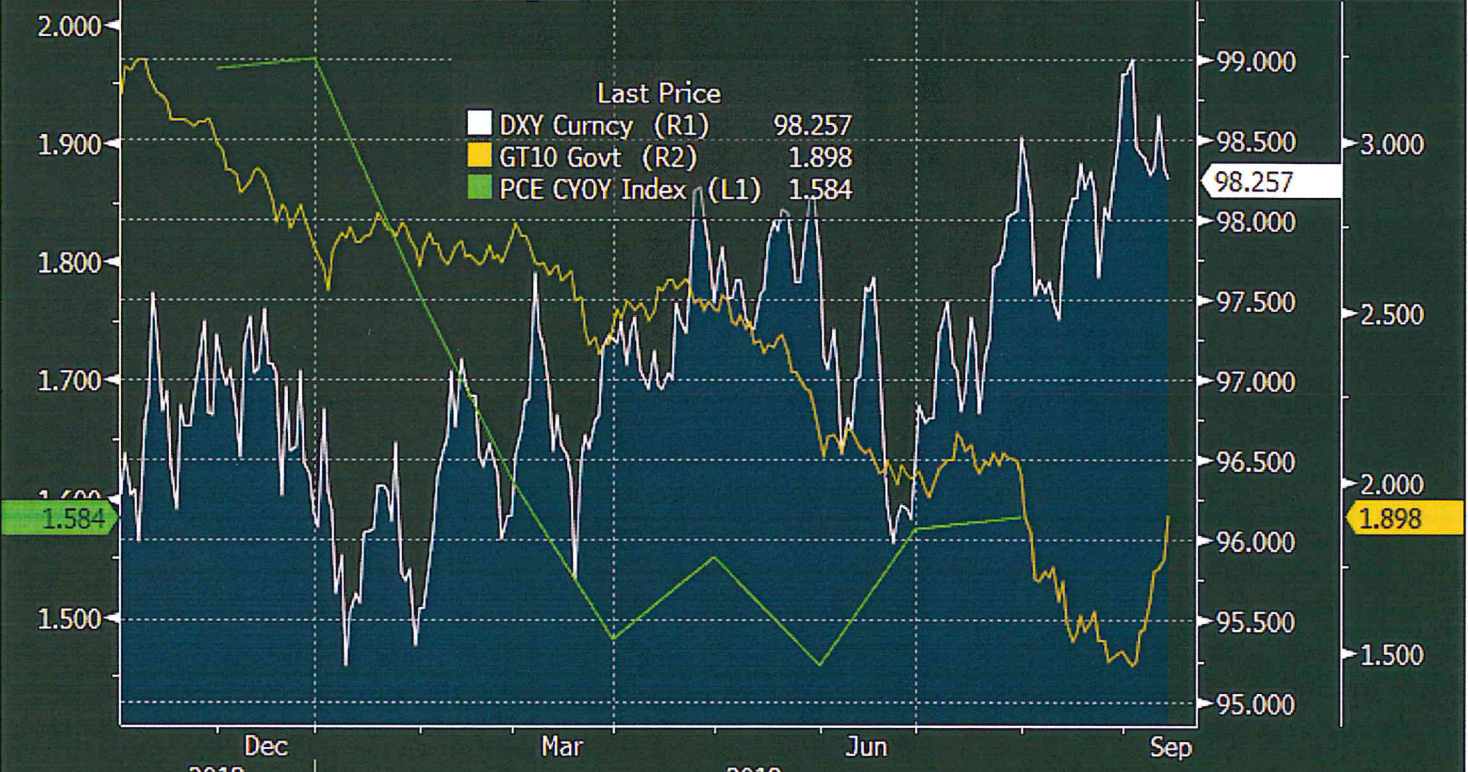
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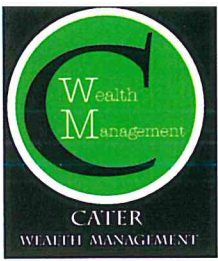
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DXY Curncy 95) Compare 96) Actions 97) Edit Line Chart

11/01/2018 - 09/13/2019 Last Px Local CCY Mov Avgs Key Events

1D 3D 1M 6M YTD 1Y 5Y Max Daily Table Chart Content





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**Works Cited:**

Retail Sales, Import/Export Prices, Inflation Measures, Treasury & Bank rates: Bloomberg Terminal

Non-farm Payrolls: data.bls.gov

ECB Interest rate Cut and QE: <https://www.economist.com/finance-and-economics/2019/09/12/the-ecb-cuts-interest-rates-and-restarts-quantitative-easing>

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