

A New Ball Game

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There is growing evidence that the American consumer is moving to the sidelines. For example, retail sales have declined for two months in a row. Wal-Mart has reported that their internal indicator of future sales is the worst in the last five or six years. The individual savings rate is moving upward, the latest number being 4% up from 0% two years ago. In the short run, this is negative for the economy; in the long run, it's bullish. America's major economic problems are many, the two worst being spending in excess of income and Federal Reserve action which is flooding the world with Debt and Dollars.

Another interesting recent statistic is the wholesale and consumer reports for October. Wholesale prices were up 0.8% and consumer prices were unchanged. Why this divergence? Our answer is that primarily excess money has flowed into commodities as a hedge against inflation. Why? Because it has happened time and time again since WWII as the Fed pumped up the money supply. The consensus does not realize that we are in a **new ball game** – globalization and a post bubble economy, which is fundamentally different than anything since the 1930's. Consumer prices are not moving up, as business has no pricing power. So what happens to business? Profit margins decline and profits are difficult to come by.

Now the question is: if the consumer is out of gas and business is having trouble making profits, what are the financial markets going to do? We think you have your answer.