

Bad News Has Been Made Good

October 16, 2006

Several economic reports came out last week that were spun as bullish for the economy and, of course, the stock market. The first was the retail sales number. Month-to-month sales in September were down 0.4%. Also, the retail sales figure for August was revised downward from +0.2% and +0.1%. How did all of this become bullish? If you record the sales not counting gasoline, the number was +0.6%. The implication is that gasoline prices are down; therefore, money is available for other items. If that is the case, shouldn't the total retail sales figure be up? If the money saved on gasoline had been spent on other things, wouldn't the number at least be even? Maybe the explanation is that the "extra" money is being saved. Regardless, the fact is that total retail sales are in decline, which does not bode well for the economy in the near future. If in fact savings increased, that is bullish for the future, but that is a story for down the line.

The other item that was pictured as bullish was the 850,000 upward revision in past employment numbers. This was for the period ended last March. Now admittedly, that is good news. The more employed, the better. However, that is all old news and has little to do with the future, unless one can make the case that the current numbers we get are always too low. The amount of new jobs for September was reported as up 51,000, which is a very weak number. One gets the feeling that many of those 850,000 additional jobs came from Katrina. We wonder, is that good news? If so, let's have some more hurricanes and floods.

Another sign of weakness is the break in commodities. Please note the chart below. The stock market and commodities have moved together until just recently, but that is no longer the case. Which one is right?

The answer, of course, is that the economy is slowing due to the housing bust and the heavy consumer debt burden. Is it possible that the recent enthusiasm for the stock market is akin to late 1999 and 2000? We believe it is entirely possible.

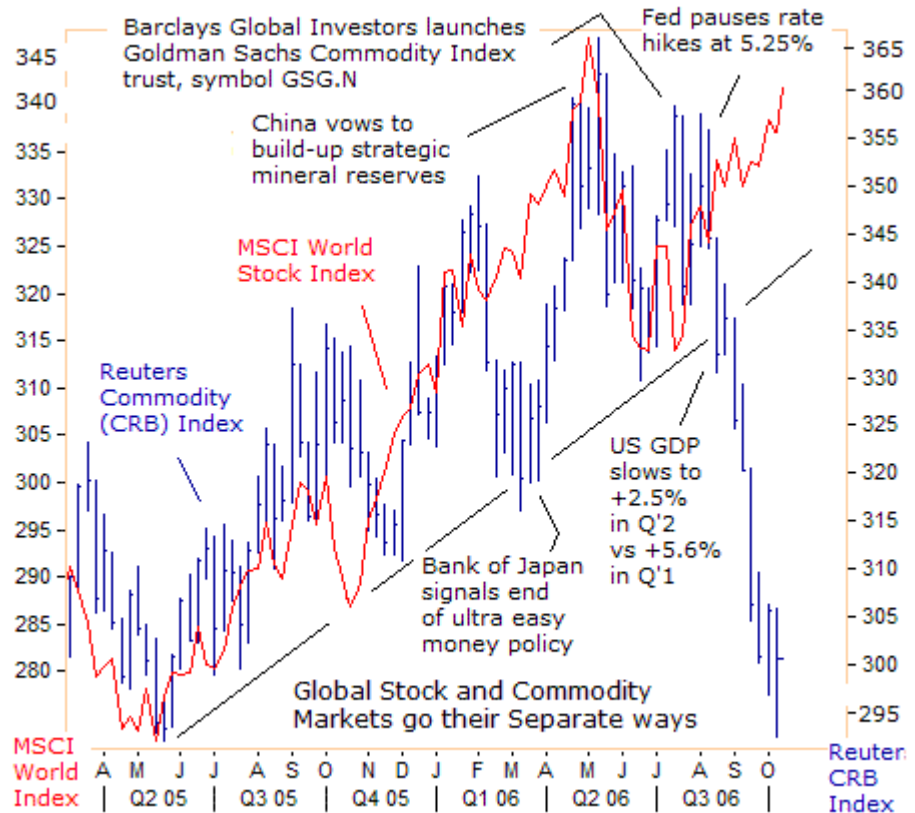


Chart from www.financialsense.com