Financial Markets This Week

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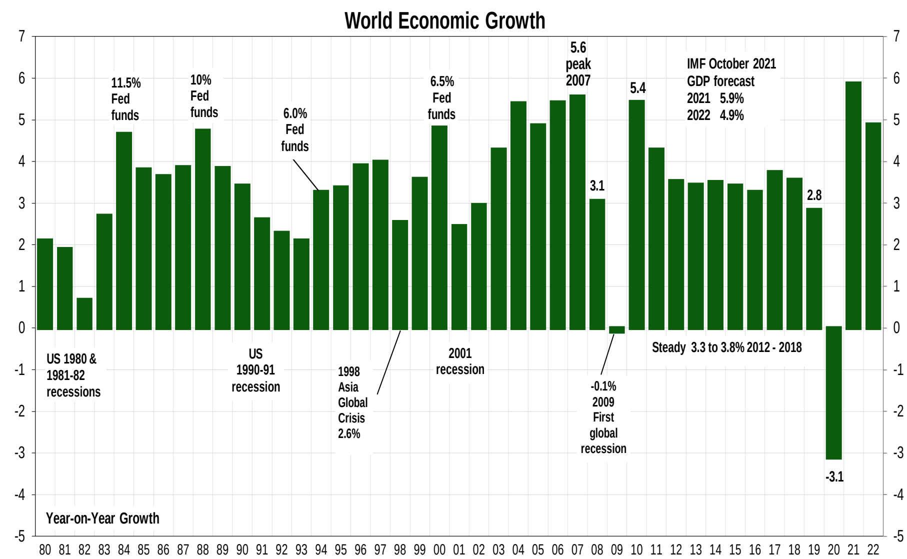
MODEST DOWNGRADE FOR WORLD ECONOMY FROM THE IMF

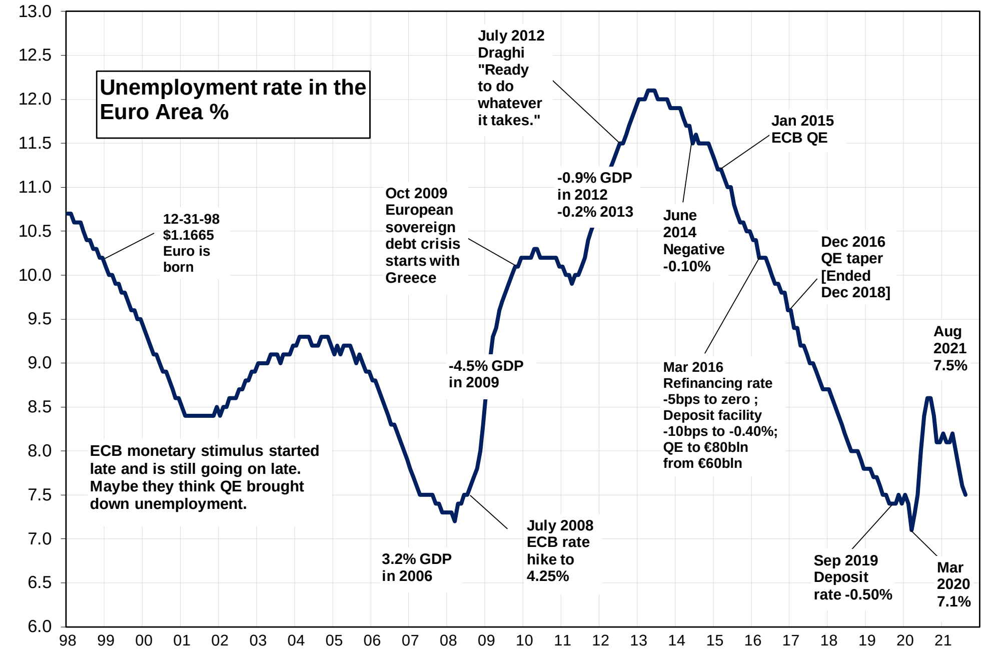
Breaking economy news. The IMF World Economic Outlook was released Tuesday at 9am ET. The outlook is produced four times a year with the economic database updated in April and October. The report has often had negative headlines that can move global markets (down), but U.S. stocks were little changed this time around. It's not as if the IMF didn't try with a dismal news headline of "Recovery During a Pandemic – Health Concerns, Supply Disruptions, and Price Pressures.



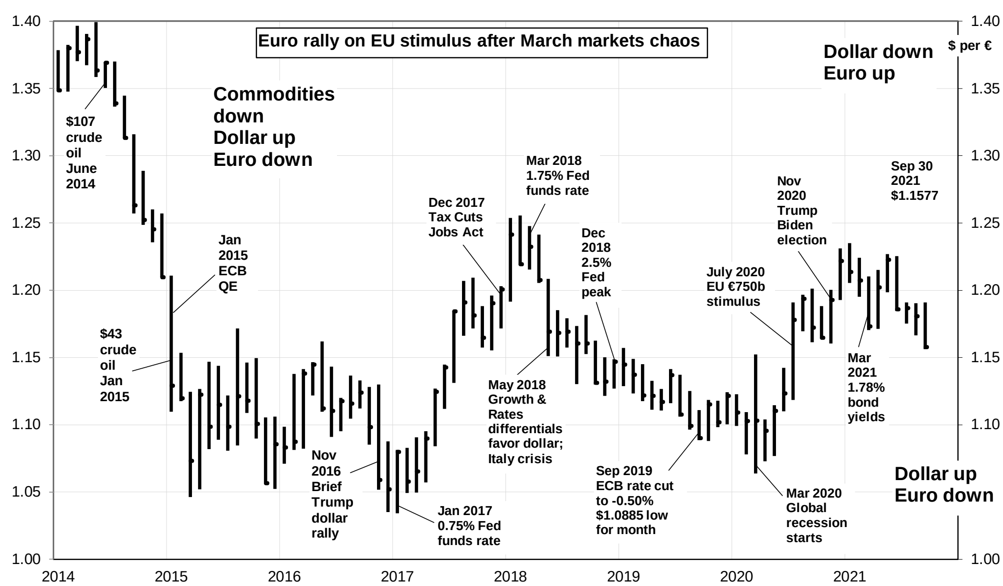
There was just a modest change in the world growth forecast this year from 6.0% in the July forecast to 5.9% in the October outlook and growth in 2022 was left unchanged at 4.9% for 2022. Advanced Economies saw significant downgrades in 2021: USA -1.0 to 6.0%, Germany -0.5 to 3.1%, Spain -0.5 to 5.7%, Canada -0.6 to 5.7%, Japan -0.4 to 2.4%. In Emerging Market and Developing Economies, the ASEAN-5 was downgraded 1.4 percentage point to 2.9% in 2021. (ASEAN-5 Indonesia, Malaysia, Philippines, Thailand, Vietnam.). Despite all the talk on twitter of zero growth in China, the IMF moved the forecasts down just a tenth to 8.0% in 2021 and a tenth to 5.6% in 2022. Although, on a Q4/Q4 basis, the China GDP guess is down to 3.3% in 2021.

	World		Euro	IMF OCTOBER 2021 WORLD ECONOMIC GROWTH FORECASTS											
	GDP	U.S.	Area	Germany	France	Italy	Spain	UK	Japan	Canada	China	Russia	India	Brazil	Mexico
2020	-3.1	-3.4	-6.3	-4.6	-8.0	-8.9	-10.8	-9.8	-4.6	-5.3	2.8	-3.0	-7.3	-4.1	-8.3
2021	5.9	6.0	5.0	3.1	6.3	5.8	5.7	6.8	2.4	5.7	8.0	4.7	9.5	5.2	6.2
2022	4.9	5.2	4.3	4.6	3.9	4.2	6.4	5.0	3.2	4.9	5.6	2.9	8.5	1.5	4.0

Supply chain disruptions in raw materials and intermediate producer goods in Europe has hurt the outlook for business, especially in Germany this year. Retailers are having problems restocking the shelves for consumers as well which is taking a toll on confidence. Sentiment is not optimistic in the Euro Area, partly as the recovery is going to take another year. Lack of confidence is somewhat puzzling with some positive economic statistics, notably, the Euro Area unemployment rate was 7.5% in August 2021 almost returning to where it was before the pandemic.



Weaker economic growth in Europe relative to the USA is modest however, and the growth differentials do not appear to be affecting the foreign exchange rate. The dollar rallied in recent months on talk of interest rates rising faster in the USA, and the stock market weakness also helped the U.S. dollar. The dollar's moves have been modest since the Euro rallied last year on fiscal stimulus measures. More inflation, rising energy prices and a rally in commodity prices, have not hurt the dollar. The last major foreign exchange rate move, that U.S. corporations with overseas earnings complained about, was the huge dollar rally in 2014-2016 when commodities crashed. The dollar is up about 6% from the bottom in January 2021, just another cost of doing business, and it has to move a long way to affect the multinationals: the modest dollar rally this year hasn't been enough yet.



Finally, the world economic outlook looks pretty good in terms of growth for now. But there are risks, and there are even bigger risks the IMF says for asset prices. That IMF warning came in a separate report out during the October meetings. Stocks are too high as are home prices, and if prices crash… well, that's a risk to the economic outlook. The IMF Financial Stability Report said while the risks were contained for now, there were vulnerabilities in some sectors. The report said, "a prolonged period of extremely easy financial conditions may result in overly stretched asset valuations and fuel financial vulnerabilities." One section of the report said ominously: "Surging House Prices Raise Concerns About a Sudden Reversal." Stay tuned as the world turns. Keep watching here where the world goes next.

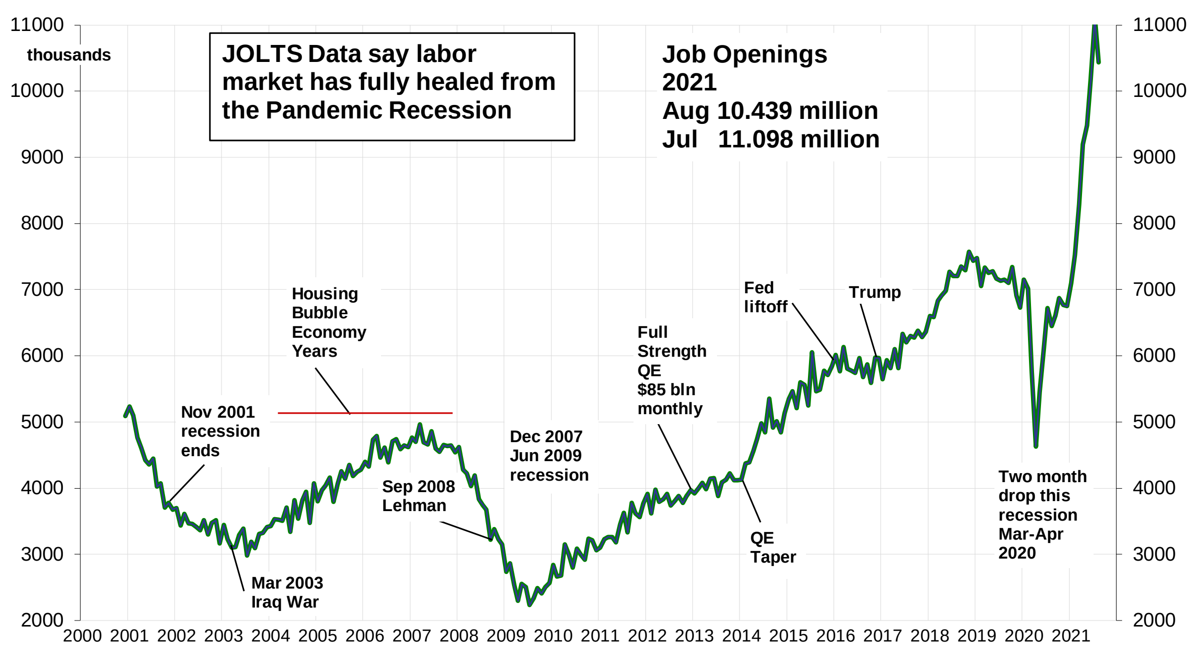
OTHER ECONOMIC NEWS

It's true, you can't be replaced: job openings remain above 10 million for a third straight month (Tuesday)

Breaking economy news. The Jolts data, Job Openings and Labor Turnover survey at the end of August. We already know nonfarm payroll jobs grew just 194K in September so that will not make a dent in America's critical need for millions of workers. Job openings at the end of August were 10.439 million down slightly from 11.098 million in July and 10.185 million in June. There's a record amount of quitters out there as well, 4.270 million in August, we are guessing someone told Millennials they actually had to work, but all kidding aside, these fed-up workers are only part of the reason for the sky-high job openings.

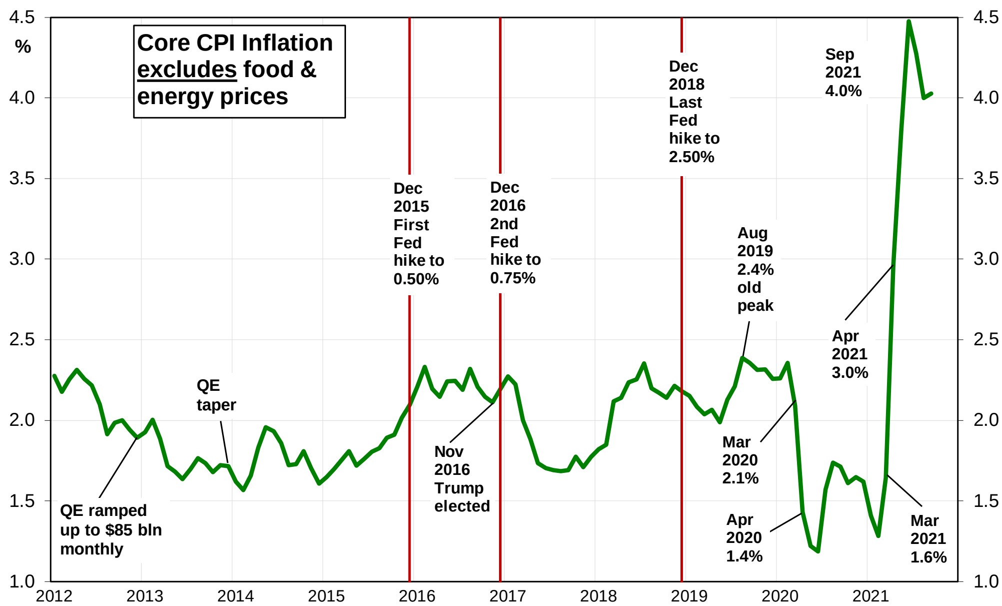
Net, net, the drop in job postings was quite modest and the number of help wanted signs remained sky-high for a third straight month at over 10 million workers needed. There is an enormous labor shortage in the country right now and it is not just because people are quitting or have child care problems, or can't get to work due to the Delta variant. The economy is strong as a bull, that is why there is a tremendous demand for labor. It is no longer necessary for Washington officials to pull out all the stops and throw money at the economy to create jobs. Business is open and ready to hire, they don't need to be incentivized, they need workers badly.

We have never seen an economy in recovery from recession move this quickly from job firings to job hirings. There are help-wanted posters in every shop window on Main Street, and the lack of workers is exacerbating the supply disruptions throughout the nation that is lighting a match to the fire of inflation. Job openings of over ten million, when the official jobless count behind the 4.8% unemployment rate is 7.674 million, can only mean that demand in America for goods and services is off the charts. Don't ask when the economy will create more jobs because the jobs are out there and waiting for the unemployed right now. The labor market has already recovered. Bet on it.



CPI Inflation Less Threatening, But Still A Problem (Wednesday)

Breaking economy news. Consumer price inflation. CPI. Core inflation is no longer raging across the country as it was in April, May, June with big monthly increases of 0.9, 0.7, and 0.9 percent, respectively. Core CPI inflation cooled, if that's the word, to monthly increases of 0.3% in July, 0.1% in August, and now today's report of 0.2% in September. Keep in mind, 0.2% is 0.2%, that is, annualized core inflation is 2X12 equals 2.4% before compounding. Add some energy inflation and food inflation to the core, and you still got a pretty serious problem where CPI inflation overall is running over 3%. And 3% over ten years, drops the $100,000 in the bank you have down to just $70,000 in the bank. Not good with the 10,000 babyboomers retiring every day to live on a fixed income. Inflation is less threatening, but don't let your guard down, it is still a threat to American workers and the economy.



This month's inflation report shifts the worry to energy prices and food. Gasoline prices jumped 1.2% and are up 42.1% year-to-year. Food at home jumped 1.2% and is up 4.5% from last year, and food away from home rose 0.5% in September and is up 4.7% from last year.

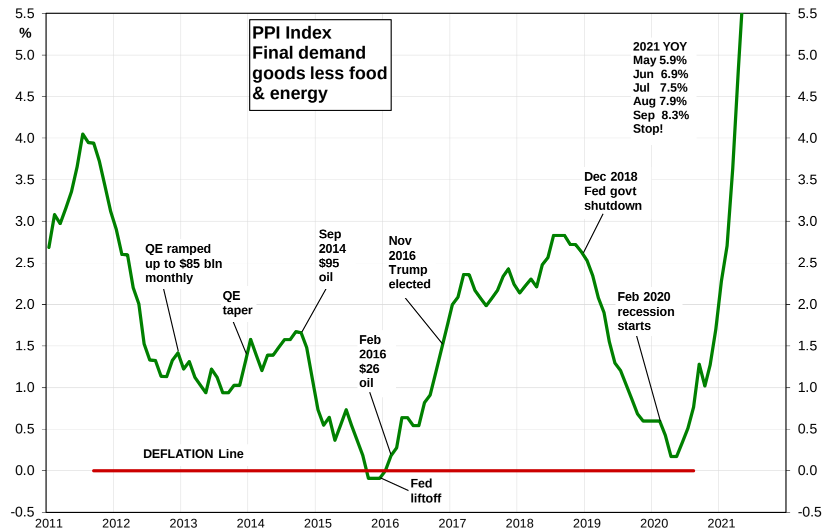
The other problem with CPI inflation is a big measurement problem in terms of concepts and definitions. Core CPI inflation is 4.0% but if housing costs were replaced by the 20% surge in home prices over the last year instead of the rental equivalent home price measurement of just 2.9% year-to-year, inflation would be up nearly 10% the last year. Housing ownership is a huge chunk of consumer expenditures with its weight of 30.0% in core CPI. What if the Bureau of Labor Statistics (BLS) went back to 20% home prices instead of their rental equivalent measure that says the cost of a new home went up just 2.9%. Housing inflation in my town wasn't less than 3 percent last year, was it in yours?

		Monthly Percent Changes			YOY %
Weight	CPI inflation	July 2021	Aug 2021	Sep 2021	Sep 2021
100.0	Total	0.5	0.3	0.4	5.4
13.897	Food	0.7	0.4	0.9	4.6
6.245	Food away from home	0.8	0.4	0.5	4.7
7.294	Energy	1.6	2.0	1.3	24.8
78.809	Ex-food & energy	0.3	0.1	0.2	4.0
3.806	New vehicles	1.7	1.2	1.3	8.7
3.427	Used cars/trucks	0.2	-1.5	-0.7	24.4
2.686	Clothing	0.0	0.4	-1.1	3.4
1.496	Medical care goods	0.2	-0.2	0.3	-1.6
32.552	Shelter	0.4	0.2	0.4	3.2
23.555	Owner equiv. rent	0.3	0.3	0.4	2.9
5.094	Transportation	-1.1	-2.3	-0.5	4.4
7.055	Medical care services	0.3	0.3	-0.1	0.9

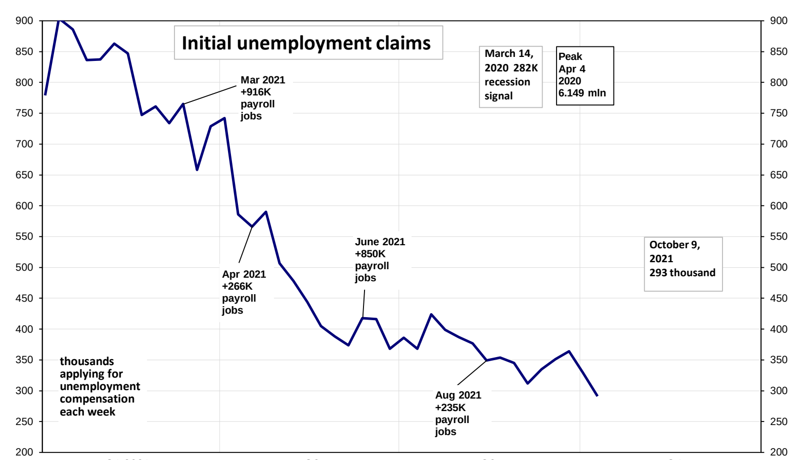
Net, net, the inflation threat is less threatening, but the overall danger is still very real with some prices still running out of control on the upside. Saying if there was just more supply there wouldn't be an inflation problem misses the point. That's exactly how inflation gets embedded in society. A strong economy with increasing demand pulls up prices before companies can respond. It's robust demand for goods coming out of the pandemic that is stoking the fires of inflation. As long as inflation remains a threat, Fed officials are likely to remain on track to pare back their monthly $120 billion of QE securities purchases at the November meeting. Demand in the economy is running hot, pulling up the prices of many goods that keeps the inflation fire burning, and there is a need for the central bank to take some of the punch away at this point of the economic cycle. Fed officials don't need to throw cold water on the inflation fire, but they also don't need to keep pouring gasoline on it either.

The real danger is that Inflation is hot and could grow even hotter. The economy is not out of the woods from this inflation threat, and Fed officials will be feeling the heat if they don't start moving to take the punch bowl away. The economic recovery has reached the stage where a majority of the public is more fearful of inflation than they are worried about losing their jobs or quitting and finding a new one. There's jobs, good, there's inflation, bad, and Fed officials are having trouble understanding the difference. Taper is coming in November. Bet on it. Bet the ranch.

No slack in the labor market, producer prices soaring (Thursday)



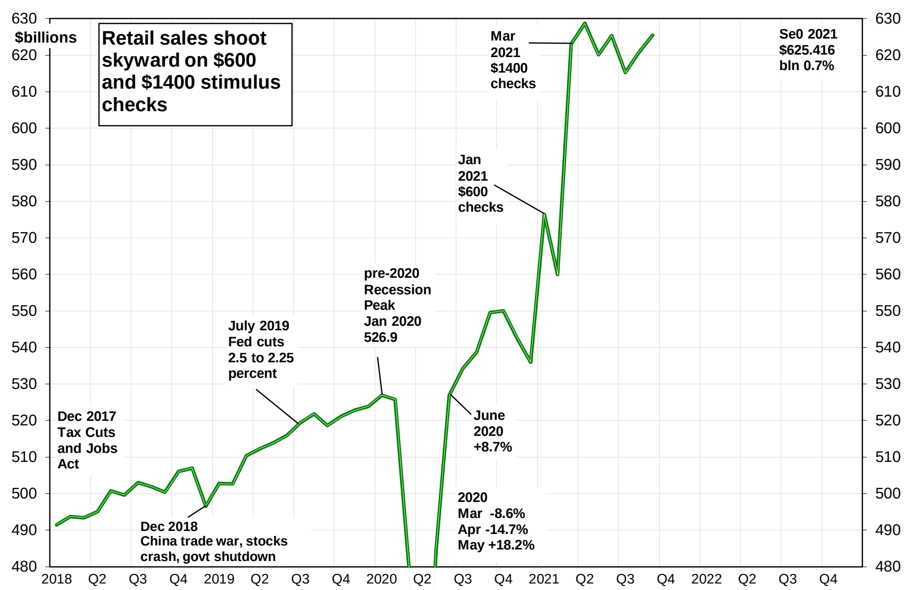
Breaking economy news. Slack in the labor market is all but gone, and producer prices are soaring. Demand in the economy is hot and getting hotter by the day with labor market shortages only serving to make it even costlier for companies to produce goods. Producer prices are lifting off even with the 16.9% drop in airline passenger services this month. The final demand PPI index was up 0.5% in September and 8.6% higher than last year which is the most inflation seen since November 2010 over a decade ago. Don't get sick because the cost of hospital inpatient care is up, as are the prices of automobiles, truck transportation of freight, and even portfolio management. How hard can that be, just buy stocks. Meanwhile, companies aren't letting anyone go so it must be a tight labor market. Weekly initial unemployment claims fell 36 thousand in the October 9 week to 293K. Heck, the original recession signal was when jobless claims moved to 282K in the March 14, 2020 week, and now we've come full circle. There are labor shortages, striking workers, millions of unfillable job openings posted, fewer workers losing their jobs, why on earth are Fed officials still supporting the labor market with their emergency monetary stimulus policies?



Net, net, new jobless claims plummeted to new lows for this recovery from the pandemic which means inflation is the biggest threat the economy faces right now and not unemployment. Producer price inflation of core demand goods continues like a wildfire raging out of control which means consumers are unlikely to see any inflation relief when they head out to the store. There is one of the biggest labor market shortages in history so it is not surprising that jobless claims are plummeting as companies are holding on tight to their workers and showering them with perks and benefits. Producers' labor costs are going up so it is no surprise that the price of the goods they produce is also moving up. If the alarm bells aren't ringing the ears off of Fed officials yet, they should be. One cannot look at the strong demand for labor in a market with limited supply and producer price inflation that continues to worsen without thinking the time is well past for the central bank to take the punch bowl away. The test for cutting back the monthly QE purchases has been met and the more stringent test for raising interest rates is no longer far away on the distant horizon. Stay tuned. Story developing.

Retail sales better than expected on inflated prices (Friday)

Breaking economy news. Retail sales were better than expected last month in part due to the inflated prices of goods sitting on store shelves. September retail sales were stronger than anticipated with a 0.7% gain versus the consensus forecast of -0.2%. Auto sales somehow went up 0.5% instead of falling which seems to be related to new car prices. New car prices rose 1.3% in September's CPI report on Wednesday, and this we guess somehow made up for the collapse in unit car & light truck sales to 12.2 million in September from 13.0 million in August at seasonally adjusted annual rates. Supply chain shortages are boosting prices and making nominal retail sales look better than it actually is.



Net, net, consumers were pleasantly surprised when they went to the malls last month and found that the cupboard wasn't bare afterall and there was plenty of merchandise on the store shelves at least for now. Nevertheless, the third quarter is shaping up to be a disaster, where the stage is set for the weakest economic growth since the downturn during the pandemic. The loss of those $600 and $1400 Federal government stimulus checks in January and March have been sorely missed.

Consumer spending will slow nearly to zero this quarter from double-digit gains registered in the first and second quarters of 2021. Longer term, pent up demand has been met for this recovery, and the consumer is not going to continue to support the economy with their purchases if there isn't anything to buy and if the sky-high store prices don't come back down to earth. Decades of factory offshoring that gave rise to incredible cost savings has spoiled the American consumer. Now that prices are on the upswing, the consumer may soon just say no to producers who are trying to jack up prices. Inflation caused a buyer strike and consumer-led recession in the 1980s, and inflation right now is the worst seen since the 1980s. We are keeping our fingers crossed that history won't repeat itself. Stay tuned. Story developing.

Retail spending, actual dollars, each month

	$million	% to	Percent Changes %		
	Sep 2021	Total	.Sep	Aug	Year/year
Total Retail Sales	625,416	100.0	0.7	0.9	13.9
Motor vehicles/parts	122,801	19.6	0.5	-3.3	7.8
Furniture/furnishings	12,298	2.0	0.2	1.8	13.4
Electronics/appliances	8,061	1.3	-0.9	-4.3	17.2
Building materials/garden	39,097	6.3	0.1	1.1	5.8
Food & beverage	76,779	12.3	0.7	2.2	7.0
Health/personal care	32,004	5.1	-1.4	0.2	6.8
Gasoline stations	50,881	8.1	1.8	1.0	38.2
Clothing/accessories	26,148	4.2	1.1	0.4	22.4
Sporting goods, books	9,278	1.5	3.7	-3.3	14.2
General merchandise	72,002	11.5	2.0	3.4	13.2
Department stores	12,560	2.0	0.9	2.2	18.9
Miscellaneous retailers	14,388	2.3	1.8	1.7	21.4
Nonstore retailers (internet)	89,290	14.3	0.6	5.7	10.5
Eating & drinking places	72,389	11.6	0.3	0.2	29.5

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