There is some good "Consumering" going on!

Financial markets never cease to amaze as evident by the large amount of negative yielding sovereign bonds in the world. In addition, US government bond yields have staged a dramatic decline with the 30- year falling, since just late July, by 60 basis points (.60%) to go below 2% for the first time ever. Recessions seems to have taken hold in Europe and fears are it will spread to the US. This belief seems logical looking at worldwide purchasing managers indexes which are all in or close to contraction mode.

While global manufacturing may be in a slump the consumer, especially in the US is as strong as ever. In some ways this is surprising given the persistent message that over the past decade that real wages for middle- and lower-income Americans has been flat. If this is true, how can they be the strength holding up the world economy? We have pointed out this fact several times in our writings over the years. But maybe the plight of the average American has been much better than previously thought.

In a new book coming out soon and in an article in the Wall Street Journal Phil Gramm, a former chairman of the Senate Banking Committee, and John Early, twice a commissioner at the Bureau of Labor Statistics, argue that "…the economists, statisticians and agencies that create price indexes overwhelmingly agree that official measures of inflation are significantly overstated, leading to an understatement of America's well-being."

There conclusions are startling: "When corrected for documented price overstatements, real average hourly earnings from 1975 to 2017 are shown to have risen some 52%, not 6%--an additional $6.77 an hour. Real median household income increased 68%, not 21%--$17,060 more annually. Gross domestic product grew 253% rather than 216%--$6312 of additional output per capita. Productivity expanded 142% rather than 117%--$10 of additional value for every hour worked. And published poverty incidence fell by almost half. Combined with the 67% drop in poverty that comes from accounting for all government transfers, poverty incidence sank from 12.3% to about 2%."

This new perspective does seem to have considerable merit and is a reason to be more positive about the immediate future. With plentiful jobs, good wages and lower debt than 10 years ago American consumers should remain a positive force for the economy even if manufacturing is going through a mild recession.

Obviously there are numerous conflicting crosscurrents in the economy and markets, especially when one considers the issues of tariffs, interest rates and slower global manufacturing. Consumer spending is clearly the positive feature of our own economy right now and we hope that it will continue to add value as we work through cycles in manufacturing and global growth.

Tactically we will look for opportunities to deploy liquid assets into total return investments.

Feel free to call us if you have any questions.

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