US RETAIL SALES: WHEN THE INFLATING OF SALES PASSES OVER INTO FRAUD AND IT NO LONGER MATTERS.

It gives me no pleasure to draw attention once again to the miscasting of US Retail Sales. Personal consumption has become the beating heart of the US economy replacing investment. More, the main strut supporting the stock market is the health of retail sales and the resilience of the consumer.

The Census Bureau must have a wry smile on its face. Investors must be scratching their heads. The reporting season for retail has been abysmal both for ecommerce and regular shops; nothing like the official figures. *Target* the darling retailer missed forecasts by such a large margin that its shares promptly fell by 22%. Only *Costco* and *G.M.* below turned in above inflation revenues which is a mystery in the case of *G.M*. because its unit sales were down 21.1% implying an average price rise of 35.5% per vehicle.

In the table below I have compiled the revenue data from 13 leading retailers whose turnover approaches a quarter for all of retail. Thus the evidence presented here must be considered powerful. Whereas the Census Bureau reported an increase in nominal sales year on year of 10.9% these 13 corporations only yield a turnover of under 6.0% and even if we estimate gasoline sales adjusted for sales already accounted for (Costco and Walmart are big sellers of gas) and the size of the sample total sales only go up to 7.5%, still 4.4% below the official data.

Table 1. (Revenue in billions of dollars)

CORPORATION	Row	Revenue 2021 Q1	Revenue 2022 Q1	Annual change %
Amazon	(1)	64.366	69.244	7.6
Costco	(2)	45.9	53.7	16.9
Home Depot	(3)	37.5	38.91	3.8
Walmart	(4)	93.2	96.9	4.0
Kroger (estimate)	(5)	33	34	4.0
CVS	(6)	4.64	5.31	14.4
Ford	(7)	23.0	22.3	-3.0
General Motors	(8)	25.957	29.456	13.5
Coca Cola	(9)	2.94	3.59	22
Nike	(10)	3.56	3.88	9
TJX	(11)	8.782	8.908	1.4
Target	(12)	24.2	25.0	3.2
Lowes	(13)	24.422	23.659	-3.1
TOTALS	**(14)**	**391.467**	**414.857**	**5.97**
TOTAL RETAIL (MARTS)	(15)	1575.288	1747.317	10.9
SHARE OF MARTS	Row (14) / (15)	24.85%	23.74%	
Adding in gas sales	(16)	29.2	40.0	37%
TOTAL	**(17)**	**420.67**	**454.86**	**7.5%**
Deflated sales	**(18)**	**391.467**	**358.85**	**-8.3**
Deflated total sales	**(19)**	**1575.288**	**1511.43**	**-4.1%**
BEA PRICE INDEX	**(20)**			**9.6%**
REAL PRICE INDEX	**(21)**			**13.5%**
BEA DATA	**(22) PCE goods**	**after price changes**	**NIPA Table 1.1.4**	**-0.1%**
EFFECT ON GDP	**(23)**	**without effect of**	**deflators**	**-0.95%**
COMBINED EFFECT	**(24)**	**with deflators**		**-2.0%**

I could have added in Kohl's which has just reported a fall in revenue year on year. This is not necessary. The case has been made. The official data on retail sales is grossly inflated, bordering on the fraudulent.

There is a second issue - deflators. The PCE goods deflator used by the BEA amounts to 9.6% for the period under examination. As a result, the BEA estimates a fall of only 0.1 in goods consumption in its GDP Table 1.1.4 (line 22) after accounting for inflation. (Note that the bulk of retail sales comprise goods.)

However I use different deflators. I use the CPI for durable goods CUSR0000SAD and non-durable goods CUSR0000SAN, with a weighting of one third for durable goods and two thirds for non-durable goods in line with the ratio of their current sales. This is important because the ratios or weightings changed during the pandemic. The resulting deflator is 13.5% or nearly 4% higher than the official deflator. (All of this can be seen in the spreadsheet attached.)

Considering the difference in nominal sales as well as deflators, the effect on GDP is between 1 and 2%. Instead of falling by 1.4% in the first quarter GDP could have fallen by as much as 3.4%, equal to the fall for the whole of 2020.

Not that official data now matters.

On Wednesday the 18th May it did not matter anymore. The evidence was overwhelming. The forecasts made by the key retailers undeniable. Beginning with Amazon, proceeding to Walmart and on to Target the story was the same. Revenue was short, costs up. Retailers found themselves caught in the vice of falling demand and price rises and it was crushing their margins. The collapse in margins always begins with retailers and then bounces back onto producers because retailers are at the coal face, it is their cash registers which act as the seismometers recording the tectonic shifts in selling prices and cost prices.

It was interesting today, Thursday, watching Bloomberg interviewing Stephen Stanley Chief Economist of Amherst PierPoint. He forecast real GDP growth of 3% this year while deferring the recession to at least 2024. Once again he punched the story line that demand was holding up with the consumer sitting on unspent savings. Truly, these embedded economists have become the modern-day snake oil sales(wo)men. At least the interviewer commented that the earlier retail sales data was already forgotten.

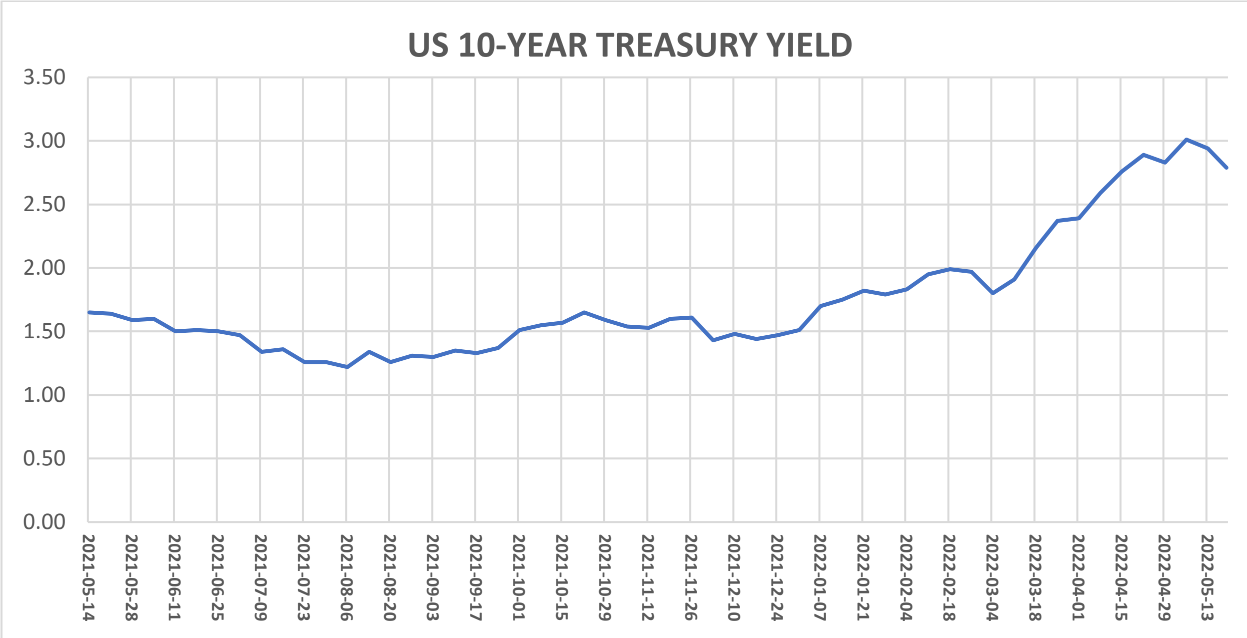
On Tuesday the siren cry from Wall Street was that the markets were oversold. "Come back into the markets there are bargains to be had", investors were told. On Wednesday reality re-asserted itself. It is no longer 'buy the dips' but 'sell the rises', that is the stuff of market panics, when investors eyes are fixed on the exit signs.

We are now in the territory where Main Street dictates, not Constitution Avenue where the FED is based. It will be the outlook for profits, for industry, for retail, for housing, for credit quality, and so on which will now dominate.

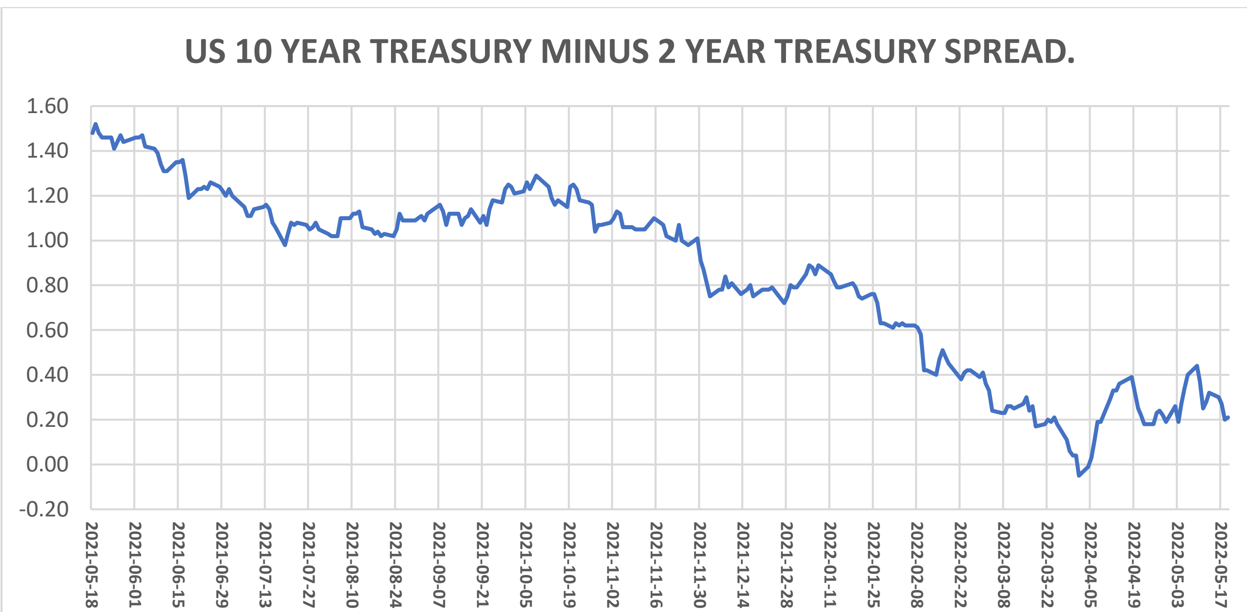
Bonds.

The movement of bonds is predicting a recession. Despite raging inflation and heightened expectations of further FED rate rises, the crucial 10-year yield is actually falling. This is unusual as bond yields tend to fall only when inflation expectations fall, unless that determinant is overridden by a higher fear, an impending recession. This imperative is usually in play when both bond and stock markets both crater together which is what is happening now. Again, another signal is the yield spread between 2-year and 10-year. Currently, while the spread may not be negative, the two rates are certainly playing tag.

Graph 1.



Graph 2.

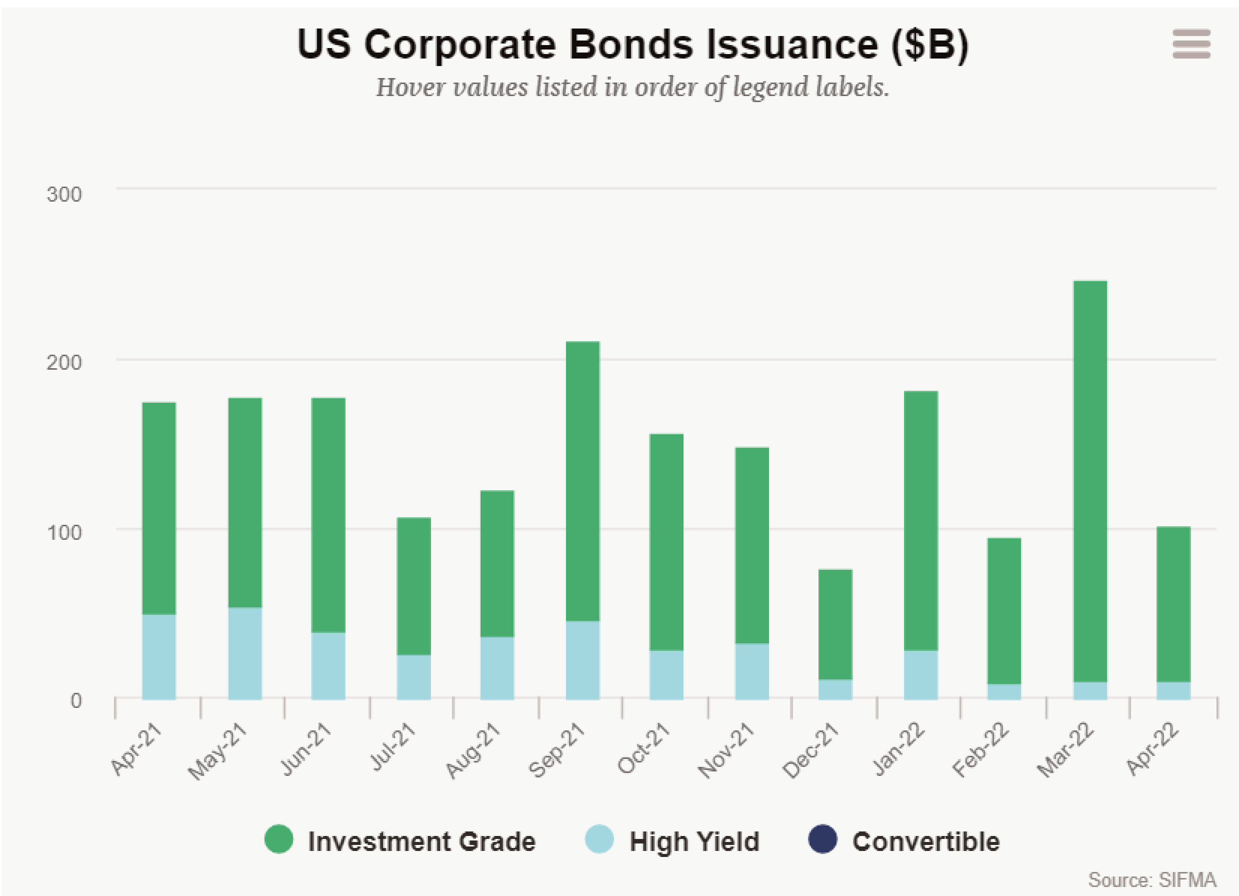


Finally the interest rates on junk bonds and high yield bonds are rising sharply. Although nominal interest rates at 6.21% on Wednesday (Graph 3) is approaching levels last found in 2016 when the economy was wobbling, adjusted for inflation, they remain well below the rates found then. For this sector to be in crisis average yields will not only need to have passed 6% but 10%. Currently, distressed bonds are still found in only corners of the market, but it is spreading. The unusually slow rate of spread is due to Zombie companies having sucked up large amounts of capital at low rates previously as well as the infusion of COVID Relief funds. They may have more oxygen, but their breathing difficulties are increasing rapidly.

Graph 4.

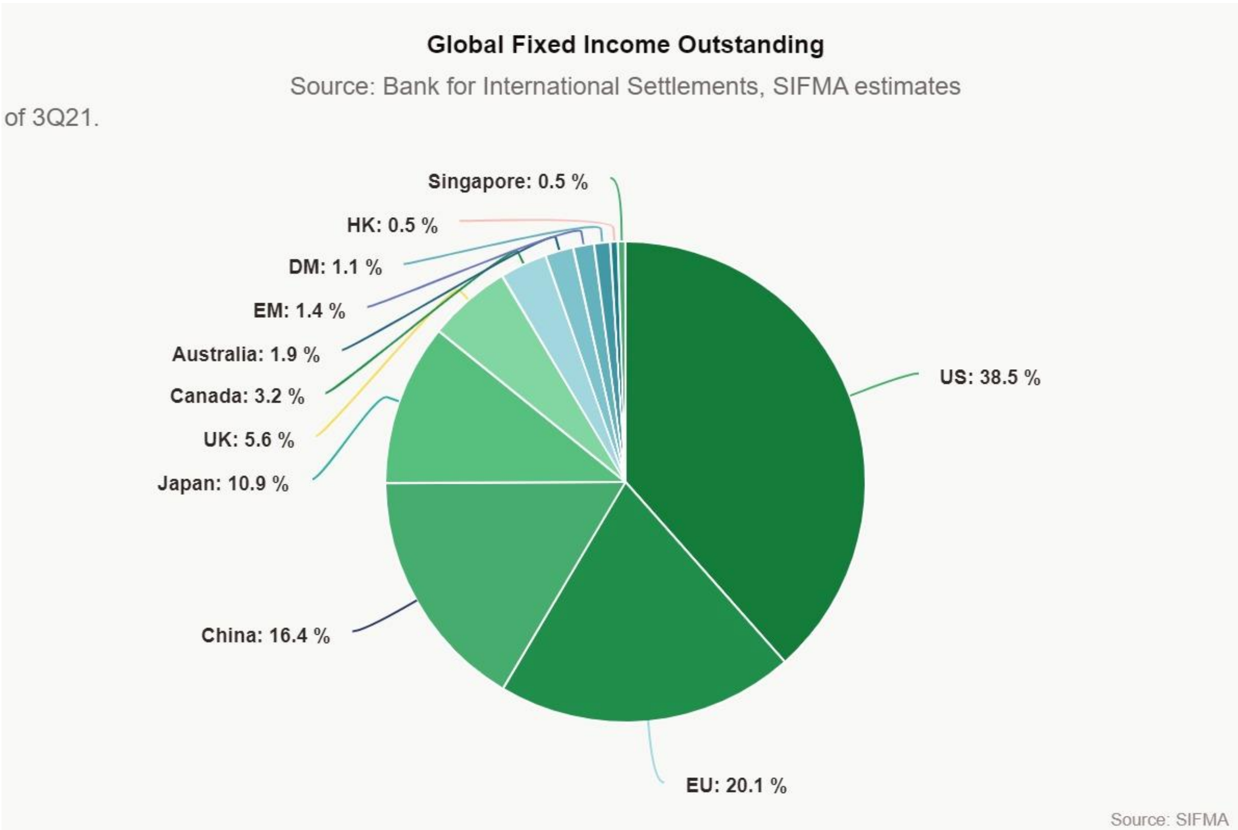
While money is leaving the high yield sector very little is coming in as Graph 5 shows below. Total bond issuance in April fell 20% yoy while the fall for junk bonds was 80%.

Graph 5.



Why does the US bond market matter? Graph 6 provides the answer. Almost two fifths of the global $135 trillion bond market belongs to the USA. It is bigger than the EU and China combined though its economy is much smaller.

Graph 6.



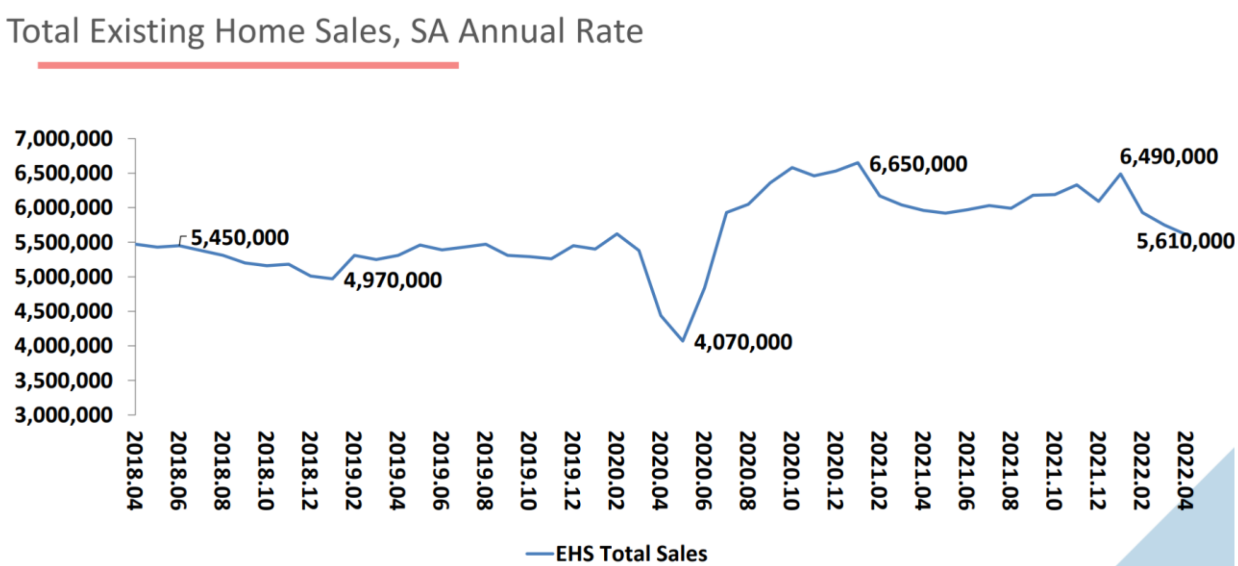
The US housing market.

One of the biggest black swans paddling down the Hudson River not far now from Wall Street is the state of the housing market. While the fall in 10-year yields should restrain the rise in 30-year mortgage rates, they will still remain elevated compared to the recent past and with the risk premium going up this elevation should persist. While the housing crash should not reach the significance of 2008 due to much less sub-prime mortgages having been issued, the relative scale of the housing market is much larger in terms of value now than 2008. In 2008 the nominal value private residential real estate was $23.8 trillion. Now according to Norado Real Estate Investments it exceeds $43 trillion. "*According to another study by Zillow, the total value of private residential real estate in the United States increased by a record $6.9 trillion in 2021, to $43.4 trillion. Since the lows of the post-recession market and the corresponding building slump, the value of housing in the United States has more than doubled. The most expensive third of homes account for more than 60% of the total market value. The market value hit the $40 trillion mark in June of last year and since has been gaining an average of more than half a trillion dollars per month. Fannie Mae predicts that a double-digit home price rise will continue until the middle of 2022.*"

In 2008 US GDP was $14.7 trillion and now it is $24.4 trillion an increase of 66%, but the value of the housing stock has risen even more, by 82%, which means as a share of GDP it has risen from 162% of GDP in 2008 to at least 178% of GDP and is likely to exceed 180% before the crash.

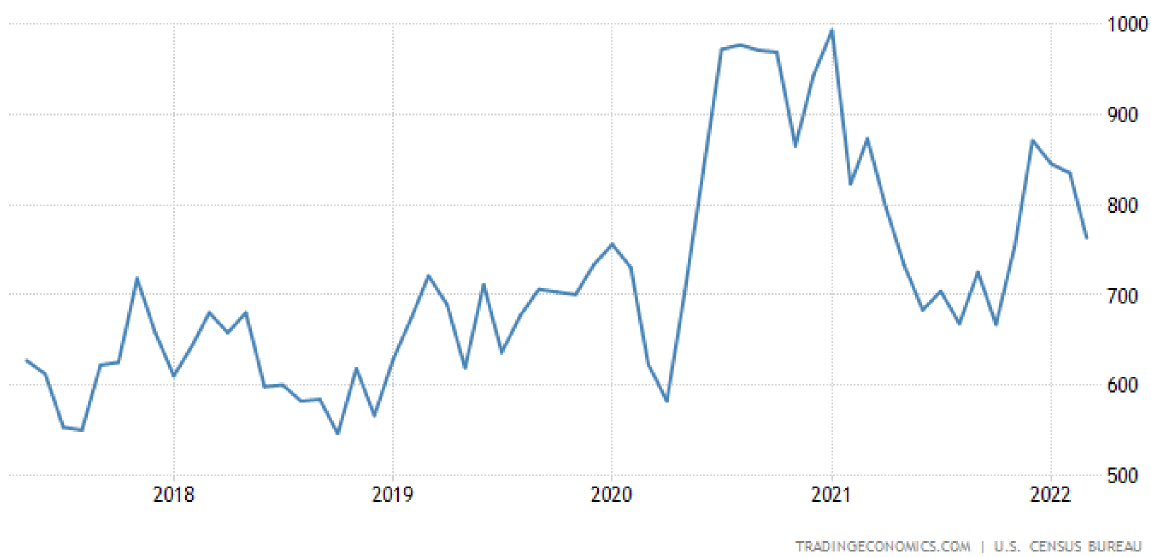
In the meantime the latest reports on existing and new house sales were released today and yesterday. The April report on existing house sales fell 2.4% month on month and by 5.9% year on year.

Graph 7.



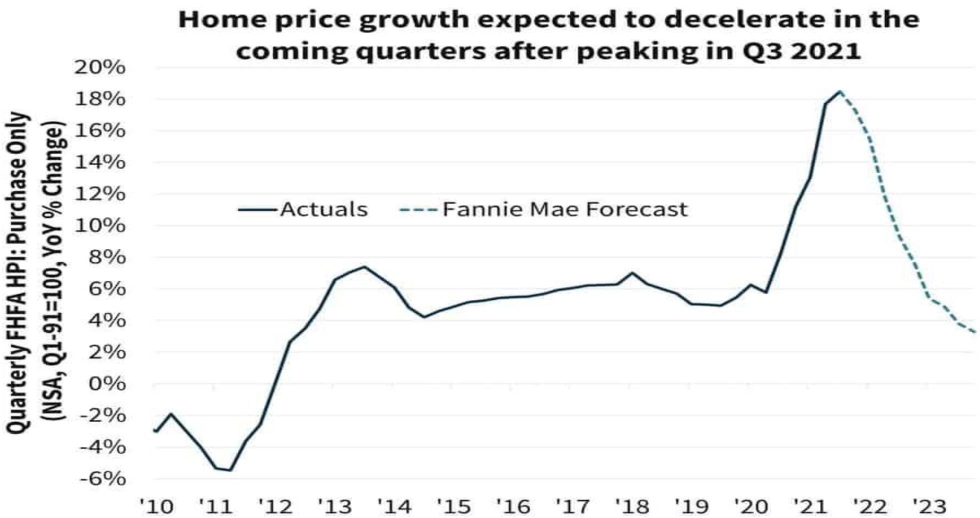
New home sales fell faster, by 8.6% month on month and over 20% year on year.

Graph 8.



Despite the falls in existing and new homes, there has only been a slight retreat in prices month on month. Some of this has to do with low inventory though this is truer for existing homes than new homes where unsold homes across the US is above average. However even Fannie Mae, one of the supports for the housing market is predicting a sharp deceleration in price rises in the second half of the year. It is likely to be sooner and deeper.

Graph 9.

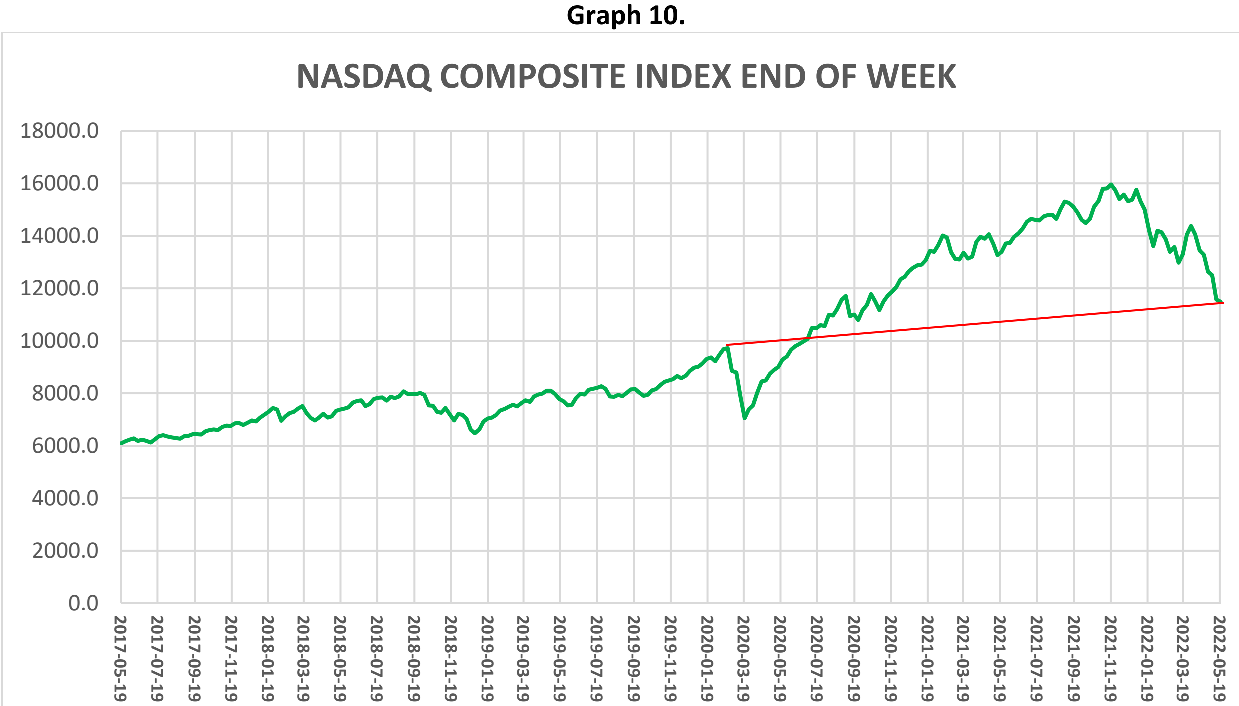


Conclusion.

It is clear that a new stage has been reached. Investors are now acutely aware of conditions in the real economy. Two sectors which were hammered yesterday on the markets, besides retail, was transport and housing. Like the Ukraine, investors have come to realise that the official data is not worth betting on.

The key Nasdaq Index has fallen by 28% on its way to 40%.

Graph 10.



In real terms the Nasdaq is still up 8% above its highest 2019 level, but this is unlikely to last. Most markets are heading into bear territory. The most ludicrous of all the markets are to be found in the EU. Were they not followers of movements on Wall Street they would remain elevated on the spurious grounds that the recovery in profits was better in the EU than in the USA. And yet of all the markets prone to a reality check, it is the EU economy with its greater vulnerability to input prices and the disruptions caused by the war in the Ukraine. One indication of the travails of the EU is the fall in the Euro towards parity with the Dollar.

The fall in both bond markets and share markets has destroyed tens of trillions of dollars of paper and it is adding to the lack of consumption felt across the world. An inflection point has been reached. The markets will have fallen for seven weeks in a row. An extraordinary period of losses. Confidence has cracked. While there has been no black day it is likely to arrive soon.

Add that onto a fracturing global economy, war, galloping poverty and a planet which may soon experience it first recorded 60 C temperature, and it shouts only one thing – ***you capitalists are unfit to rule.***

Brian Green, 19th May 2022.