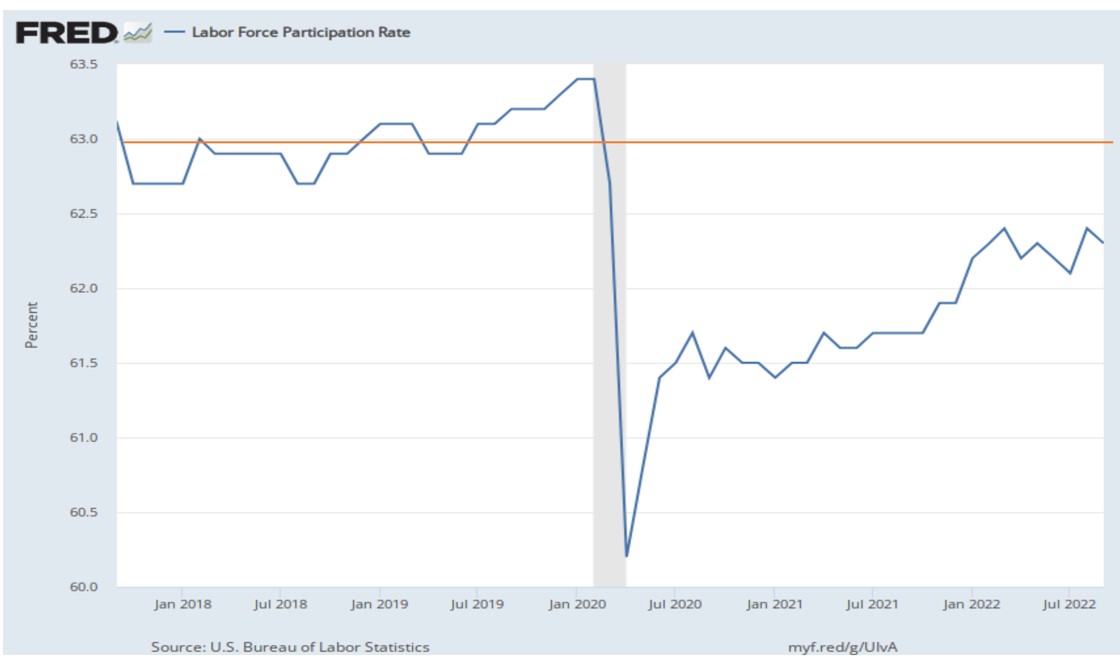
US SEPTEMBER PAYROLLS, INFLATION AND RETAIL SALES.

Over the last two weeks critical economic data covering September, a pivotal month, has been released. I have become sceptical about official US data which is why I always check it against associated data, something which Wall Street and the FED fail to do.

The Bureau of Labour Statistics (BLS) 'predictably' produced an estimate of payroll growth which was a smidgen above market expectations. This allowed Biden to grandstand on the lawn of the White House praising the strong economy and explaining how it had now changed down a gear to a more sustainable pace. Good for the Mid-term elections. Perhaps the BLS should be designated a Super PAC (Political Action Committee), and perhaps the FED officials should have their heads examined for believing the employment data coming out of the BLS.

It seems incongruous for an economy which is at best stalling that job growth and employment conditions should remain relatively strong. True, as the graph below shows, the workforce has shrunk since Covid, and there is anecdotal and survey evidence that since Covid, employers have struggled to fill posts with what they consider appropriate candidates. But one thing employers never do is hoard workers for any length of time, especially when orders are falling off a cliff like now. Capitalism does not change its spots.

Graph 1.



Readers know that I have questioned the quality of the official data since the outbreak of hostilities with China. I do not say this lightly. When it comes to payroll data I check this data against the data provided by the IRS on withheld taxes on the assumption that taxes tend to lie less than statistics. Withheld taxes are the taxes employers pay monthly on behalf of their employed workers to the IRS. As a rule of thumb the amount of withheld taxes should rise with an increase in employment and fall with a decrease in employment once they has been adjusted for wage inflation. The data on withheld taxes used in this article has been deflated by 5.2%, the figure provided by the BLS. This results in a volume or quantity figure compatible with hours and jobs which are also measured by volume or quantity.

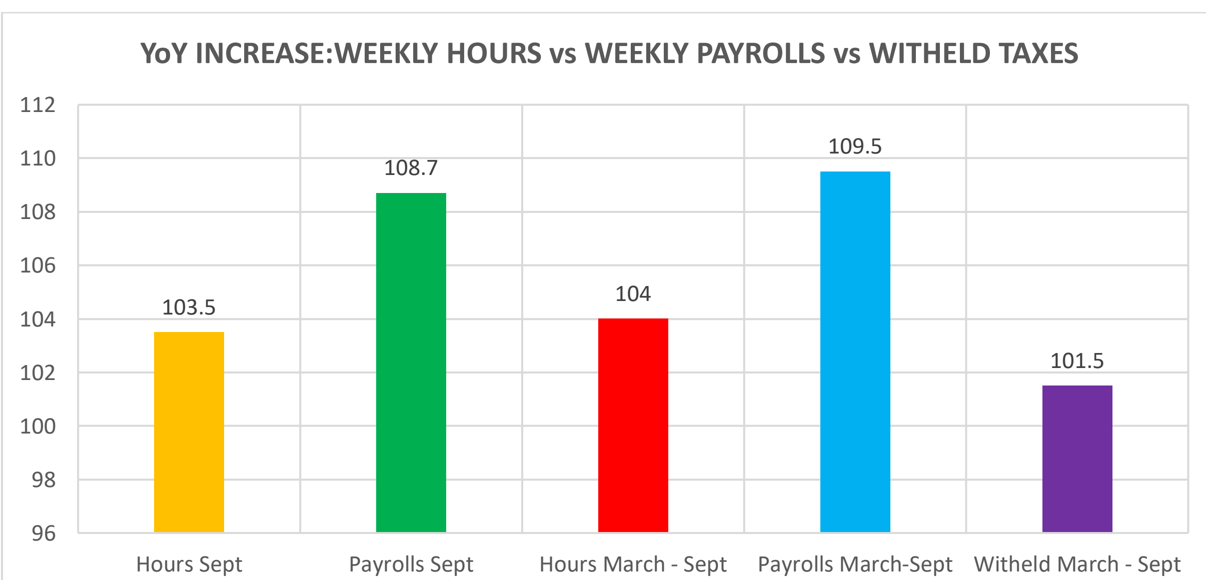
The relation between weekly payroll numbers, weekly aggregate hours worked and deflated withheld taxes can be found in Exhibit 2 or Graph 2. The first two columns refer to the annual growth in employment and hours worked between Sept 2021 and Sept 2022. They show that total weekly hours increased by 3.5% while the number of weekly jobs increased by 8.7%, a gap of 4.2%. This means each worker worked fewer hours. This is consistent with many workers having to work more than one job to make ends meet, with the second or third job likely to be part-time. Hence the discrepancy between the Establishment Data and the Household Data since March.

The final three columns cover the period March to Sept 2021 and March to Sept 2022, the latter covering the period when data between the Household and Establishment began to diverge in an unusual manner. While hours and jobs increased slightly more than the standalone September figure, the gap between hours and jobs increased more, by 5.5%. However, the real issue concerns 'withheld taxes'. These only grew in real terms by 1.5% or -2.5% compared to aggregate hours. So unless more poorly paid jobs were created yielding lower taxes thereby reducing the withheld portion, both the hours and the number of jobs are brought into question. (In the commentary section of the monthly CBO Budget Reviews, any increase in withheld taxes is never attributed to the rise in poorly paid jobs, quite the contrary.)

Moreover, even the 1.5% real rise is questionable because of the Covid dispensation given to employers to defer payment of a portion of their withheld taxes to April 2022. This resulted in unusually high payments that month which are included in the March – Sept 2022 data. *Much of that increase* ***in April*** *occurred because nonwithheld payments of income and payroll taxes rose by $445 billion (or 119 percent). A difference in tax-filing deadlines accounted for a large part of that increase. Last year, the Internal Revenue Service delayed the deadline for final payments for 2020 to May. This year, final payments for 2021 and estimated quarterly payments for 2022 were due on April 18.* (My addition is in bold.)

The fact is that withheld tax data is more consistent with a stalling economy than the 9.5% increase in the number of jobs created up to September. It must also be remembered that given the carryover of withheld taxes from the previous tax year, the +1.5% figure is the maximum number and likely to be overstated.

Graph 2.



Graph 3 shows that withheld taxes exceeds payroll taxes showing the importance of the former.

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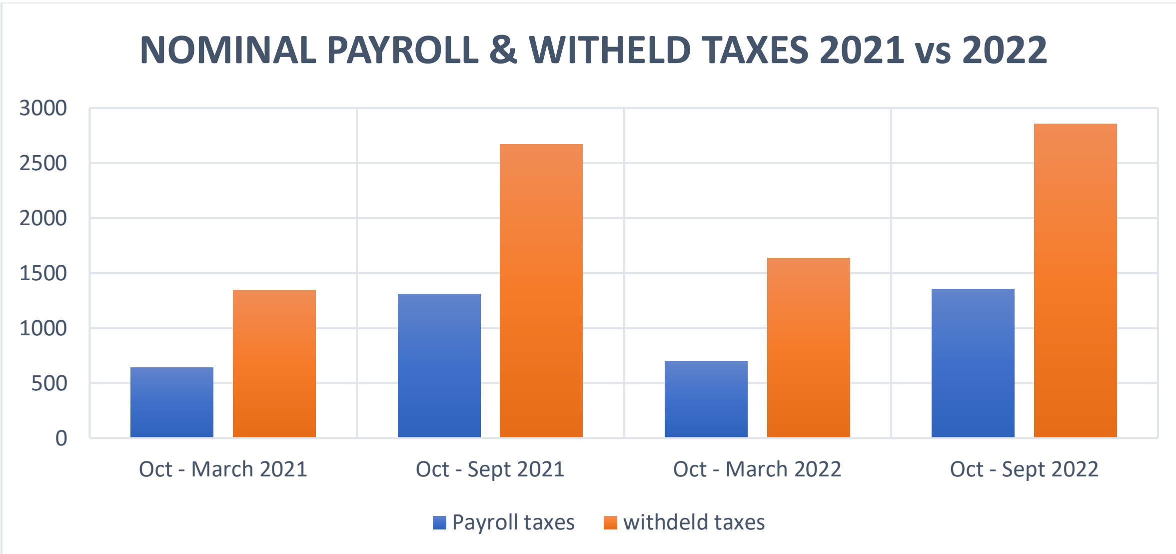
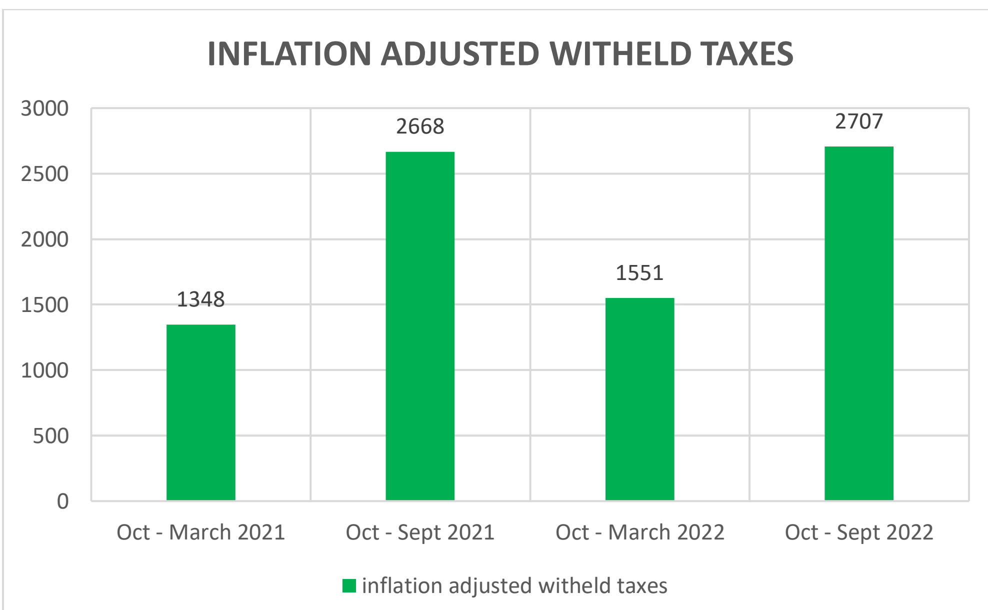


And graph 4 shows that while there was a 15% increase in payroll taxes, the rise in withheld taxes was marginal.

Graph 4.



(Sources:
BLS TABLE B-4 for Sept data for weekly hours and payroll numbers
FRED Table AWHI for hours March - Sept
FRED Table CES0500000017 for weekly payroll numbers March – Sept
Congressional Budget Office Reports: https://www.cbo.gov/about/products/major-recurring-reports#9)

Inflation.

The Consumer Price Index was released on Thursday once again surprising Wall Street. Inflation came in hotter than expected driven by food inflation and shelter inflation. As I emphasised in an earlier article food prices over the next few years will be the new driver of inflation due to global warming. But shelter inflation won't be, despite its September effect on CPI numbers. *"The owners' equivalent rent index also increased 0.8 percent over the month, the largest monthly increase in that index since June 1990."* Given the rise in owner occupier rents, its aggregate share of all items rose to 24.8% compared to 13.64% for all food and 8.24 for energy. Honestly, the USA should follow the EU and the UK by issuing two CPI measures one with owner occupier rents CPI(H) and one without, because the FED cannot distinguish between the two. Given how strong these illusory rent price rises were and their large weight, the CPI without them would have been significantly lower.

On the same day the BLS reported rent inflation, Redfin brought some reality back to the issue of rents. It's report showed a 2.5% fall in median rents between Aug & Sept rather than the rise reported by the BLS. In fact Redfin data and BLS data are moving in different directions with Redfin showing a downward trend and the BLS showing an upward trend. One wonders which of the two is behind the curve.

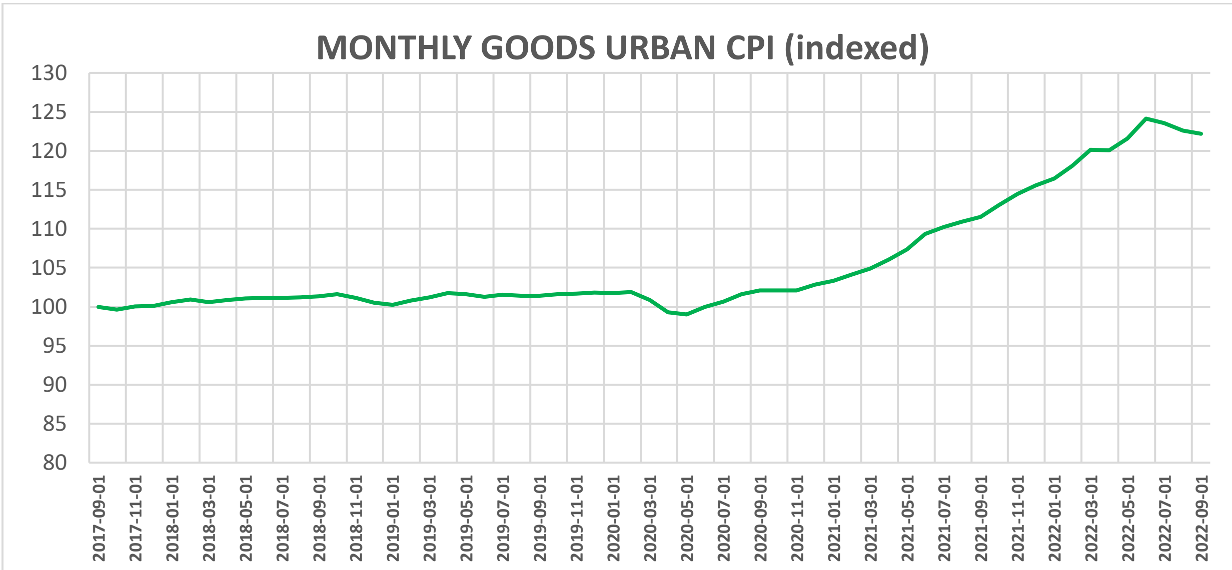
Graph 5.

For the first time it appears that Wall Street saw through the headline CPI figures. The stock market went up rather than slumped as it did when the previous headline CPI print disappointed. What also helped was corporations such as PepsiCo, Walgreens and Dominoes continuing to ride the inflationary wave which helped offset falls in the volume of their sales thereby reducing the impact on their profit margins.

But this kind of inflation is the kind which really hurts lower paid workers because of the steep increase in food prices and heating gas. In particular the price of fruit and vegetables soared by 0.7% and 2.4% MoM with potatoes rising 3.6%. Poultry and Pork also rose sharply. All of this is due to the summer drought, where all food stuffs other than the more hardy grains are vulnerable to climatic events. With regard to heating gas, it shows the US is not immune to the Ukraine effect though its energy providers be the only winners in this conflict. Over the last two months heating gas has shot up 6.4%.

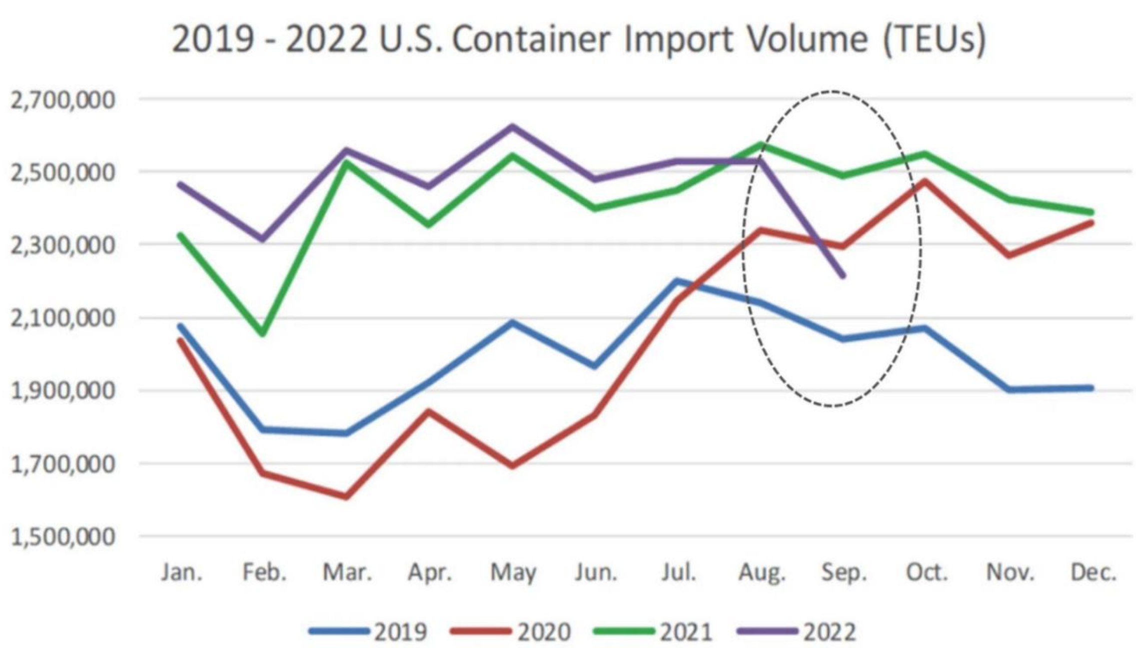
While there is still talk of profit gouging, this is unlikely to be still widespread as even Apple is struggling. This can be seen in the graph below. Over the last 4 months, despite processed food inflation, prices of goods has been falling. This is particularly true for electronic goods; Smartphones -21%, TVs -18% and computers -4%. Even with new cars, discounts are being given in the form of subsidised financing deals.

Graph 6.



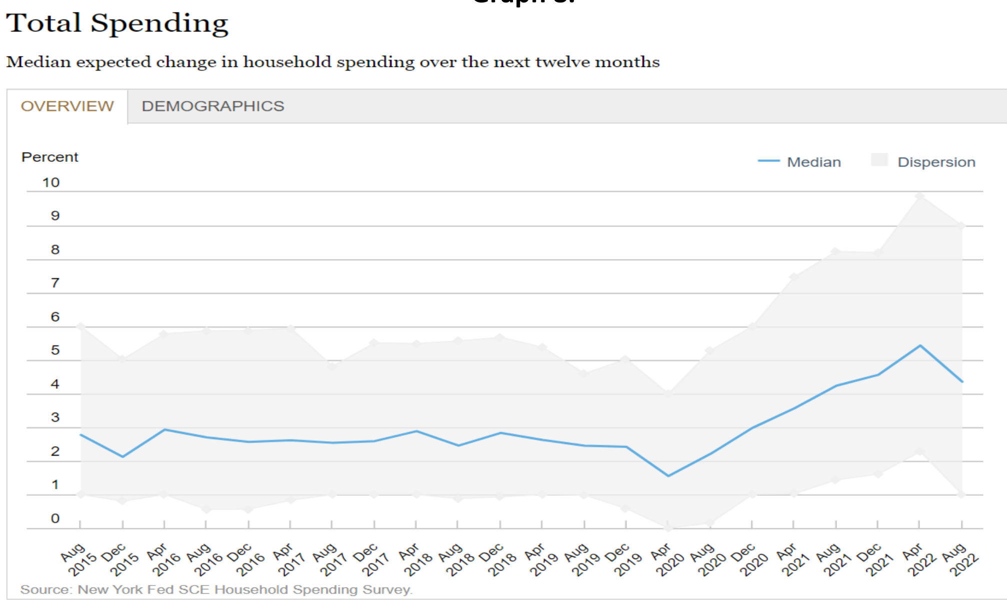
And it's not only prices. Inward goods shipments are collapsing as demand retreats." *According to Descartes, U.S. imports from China totaled 820,329 TEUs in September, down 22.7% year on year and 18.3% versus August. Declines from China accounted for 61.5% of last month's drop compared to the month before."*

Graph 7.



And future spending looks to be constrained as well as shown in Graph 8 below. Adjusted for inflation, the August figure of 4.4% represents a real fall in overall spending. "*The median expected growth in non-essential spending also declined, from 2.5 percent in April to 1.8 percent in August, its lowest reading since December 2020*." This is a fall in real or volume terms of over 6%, consistent with recessionary conditions. So much for the resilient consumer. (The link to the report is below the graph.)

Graph 8.

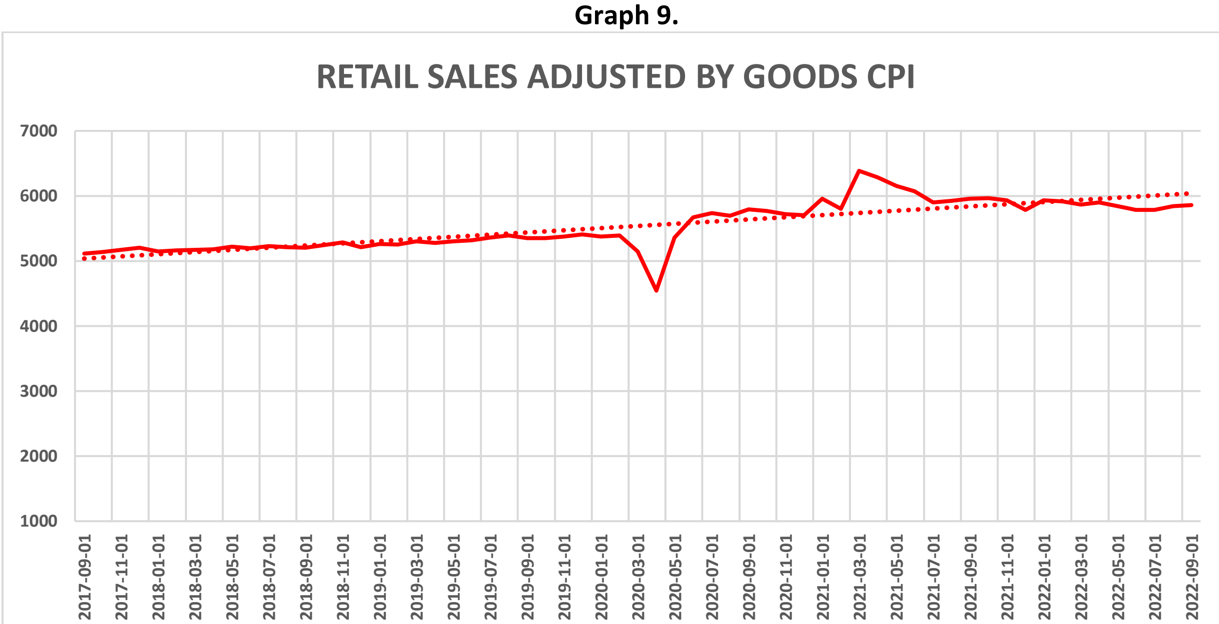


(Source: NY FED Center for Microeconomic Data)

Retail Sales

Advanced Retail Sales were released on Friday. They are essentially flat over the last two years.

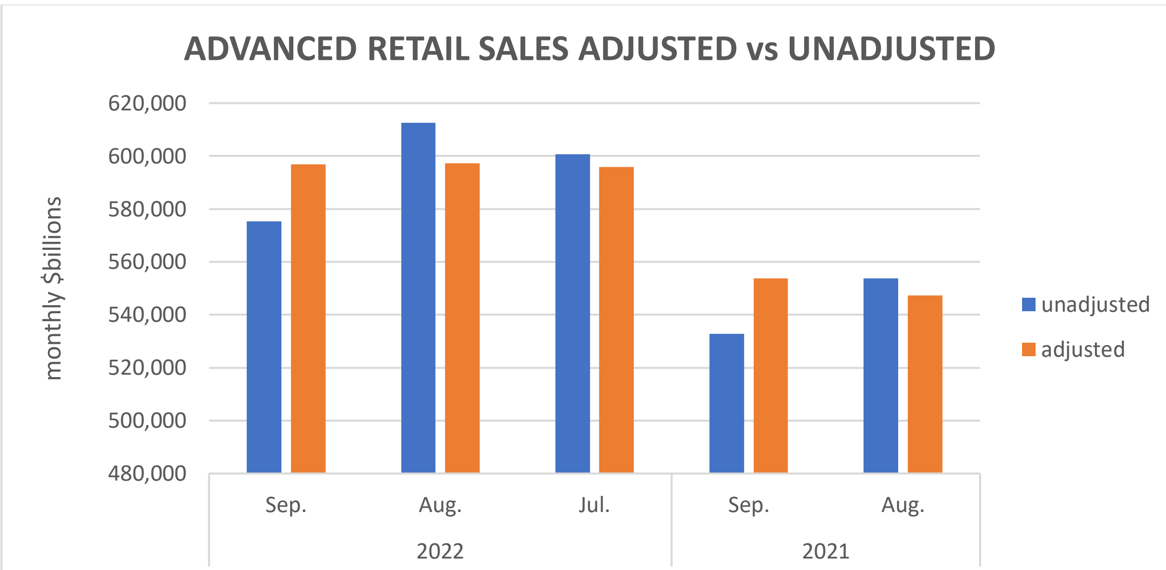
Graph 9.



(Sources: Non-Durable CPI FRED Table CUSR0000SAN, Durable CUSR0000SAD. See spreadsheet)

This plateauing of sales is unusual in a period of rapidly rising inflation. Either inflation is understated or retail sales are overstated. I will return to this unsatisfactory state of affairs in about three weeks' time when enough retailers have reported their third quarter US sales allowing their aggregate sales to be compared to the MARTS figures. In the meantime the reader may be interested in the difference between actual and adjusted sales and the role played by seasonal adjustments, particularly in September. In the end what moves the stock markets and investors are the sales figures issued by individual corporations and not by the Census Bureau. This will happen in the next few weeks.

Graph 10.



The USA v China.

The scorched earth policy adopted by the White House and the State Department to preserve the US's economic hegemony has been extended. The latest presidential edicts to deny Chinese firms any use of Western hardware and software is Ukrainian. But whereas in the Ukraine the effect was to send gas and food prices soaring, this will have much deeper and broader consequences, because without computer chips, nothing works.

There will be substantial collateral damage done to US, Japanese, Korean, Taiwanese and EU firms. And this is coming at a time when the tech industry is looking over the cliff due to the collapse in demand for chip heavy goods such as TVs, game consoles, smartphones and even cars. Already the cut in CAPEX announced by US chip manufacturers exceeds the $50 billion pledged by Biden to improve the industry. But Biden does not care, it's about the bigger picture stupid. The US would rather take down the world economy than lose its seat at the head of the value table. It's not so much back to the future but back to the thirties with atomic bombs.

But what this embargo really reveals is the true nature of the Ukrainian war. How was it possible that the US was able to get its posse to saddle up and go after the Russians? They were able to do so because taking down Russia was necessary to bear down on China. What they all had in common was their fear of a China dominating the world economy and restructuring it in its own image. Germany feared Chinese competitors more than it did having to overpay for US gas or US competition in other areas. This was not a war to restructure the energy industry to benefit US shale, but one to prevent a restructuring of the world economy to benefit China.

Conclusion.

What is important about the British debacle on unfunded tax cuts is that it shows the world economy cannot absorb any blows. Truss belatedly discovered what TINA really means in 2022 – *There is No Accelerator*. Quite the opposite, the global economy is slumping. What Truss failed to see when looking up at the sky dreaming about the British economy flying one day, was the sinkhole in front of her.

Truss is not alone. She is shadowed by Powell. No doubt he will take these uncertain inflation and sales figures as well as the Umich survey to be a green light for another 0.75% hike in November. But nothing is set in stone. History is being compressed, time and events are speeding up and becoming more unpredictable. What is certain is that by November the world economy will be weaker than it is today and therefore less tolerant and forgiving of any fiscal and monetary mistakes.

Brian Green, 14th October 2022.