

THE ECONOMY TRUMP INHERITED.

Donald Trump has to deride the economy he inherited from Biden in order to flatter himself. But with the economy due to grow by 2.8% in 2024 and with the annual rate of unemployment at 4.1% Biden's official economic record is satisfactory, at least officially. In this article we will look more closely at Q4 2024.

Between DDT, that is Donald Dealmaker Trump and Deep Seek, the US economy is likely to blow up. Trump is now even threatening to place tariffs on Taiwan his erstwhile ally in the Pacific. There is method in Trump's madness. Making chips is 30% more expensive in Arizona even with Biden's subsidies compared to producing them in Taiwan. Therefore to force the likes of Apple to buy Arizona originated chips he must wall off Taiwan. This will make Apple, already stumbling, less competitive internationally as well as having to hike prices within the USA itself.

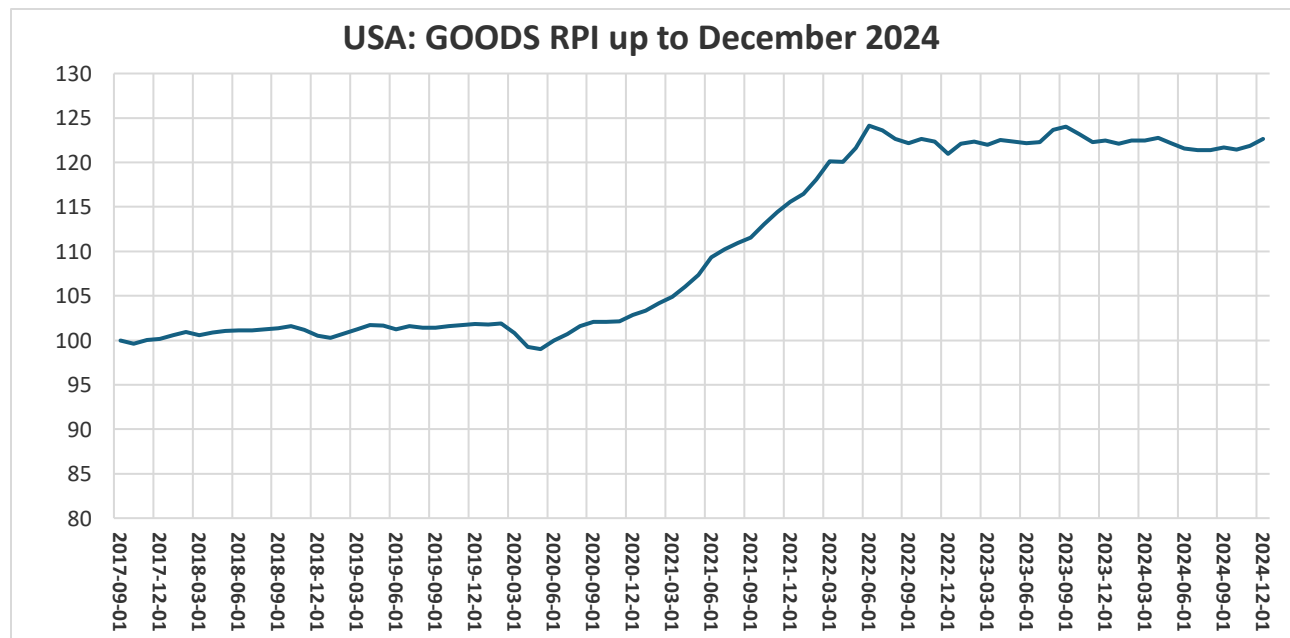
This is the insoluble problem that Trump faces. The US is between 30% and 100% less competitive than the best foreign producers. If he is going to reshore production, 1890s fashion, he will need to drive down wages in the US while driving up prices through tariffs. Otherwise there will be no profit margin and therefore no incentive to produce within the USA despite lower taxes and less regulations.

Already the penny or cent is dropping among the good MAGA folk. Trump's policies have a sting in their tail. What makes it worse is that Trump and his clueless gang are unaware of it. This was evident early this week when one of his Executive Orders blocked payments for healthcare and other state support affecting tens of millions of North Americans. He may be on the golf course, but he is the first US President not to enjoy a honeymoon period with the voters who are withdrawing their previous approval.

Beginning with retail sales in Q4.

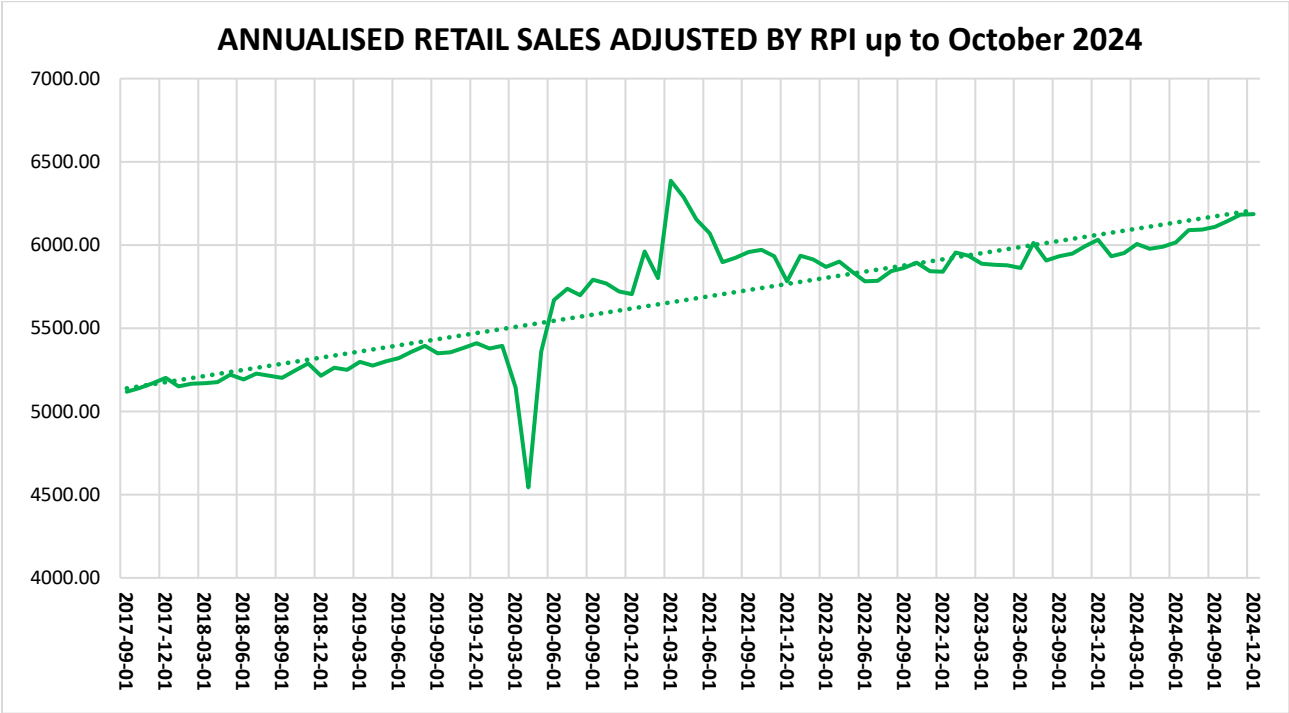
Retail sales are the bellwether of the economy. To distill what is happening with retail we need to remove the veil of inflation. In December goods inflation ticked up.

Graph 1.



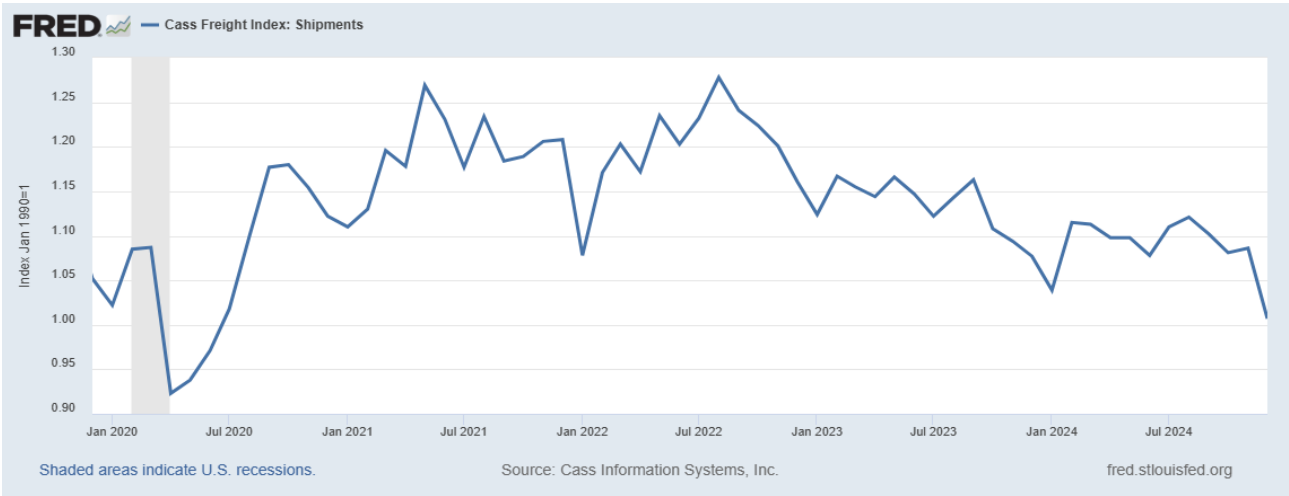
This caused the volume of retail sales which had been rising to level off. The rise in quarterly sales was not unexpected given that consumers who could, were buying in advance of any potential tariff led price rises. This means sales figures once the tariffs are in place will be most instructive.

Graph 2.



The flattish volume of sales was reflected in the volume of freight which was down in December as evidenced in the CASS Freight Index.

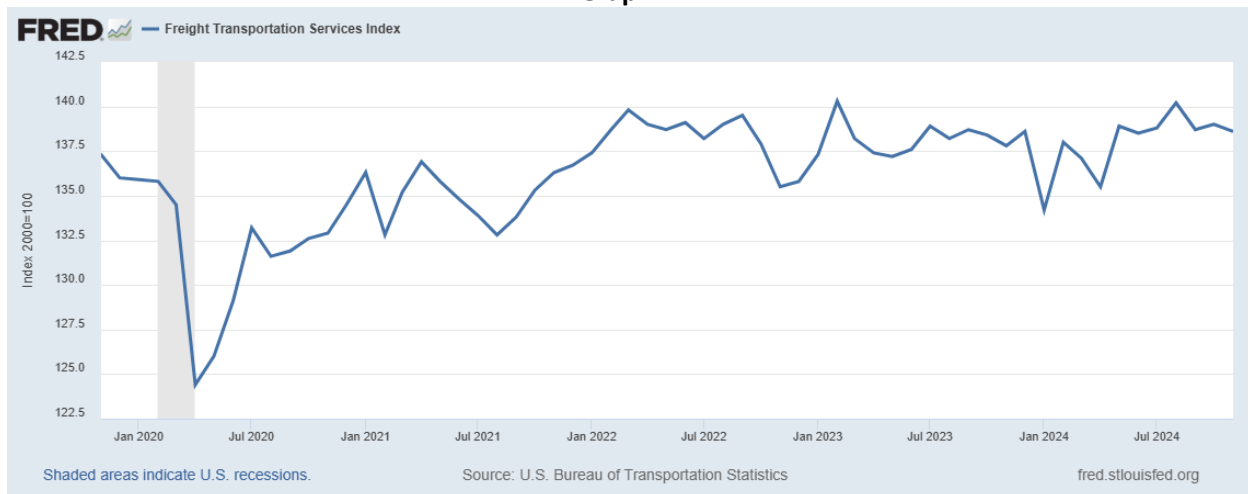
Graph 3.



It was also confirmed by [FreightWaves](#) investigations: “Crossborder freight totaled \$131 billion moved by all modes of transportation, unchanged from November 2023, according to the U.S. Bureau of Transportation Statistics (BTS).” “And: [SONAR](#)’s primary measure of volume, the national Outbound Tender

Volume Index (OTVI), which measures total shipper requests to carriers, [is down 2%, year over year.](#)" And this flatlining is confirmed by the [Federal Reserve of St Louis](#) in its new Freight Index. The last month covered is November, but more recent data suggests a further decline into December. [United Parcel Services \(UPS\)](#) saw its volumes fall by 0.2% yoy in the fourth Quarter. No strength there either.

Graph 4.



All of this is suggestive of an economy and within it sales, being less robust than the official data suggests. Preliminary estimates by big names such as Procter & Gamble and Kimberly Clark indicate a volume growth of 1% which is up on the third quarter of 2024. The real growth in retail seems to be in luxury goods which is reflective of the boom in the stock markets. Alongside this, the other indicator is cruise liners which are seeing brisk bookings.

Analysing the four big commercial banks.

An economy weaker than the official data is again verified by banking data. Below are two tables. They break down the banks' businesses into their routine bread and butter sectors which involves taking in deposits and lending them out to clients both private and corporate while profiting from the margin between borrowing costs and lending income. In Table 1 we can see how lackluster this routine business was. This insight is important because it reveals that the bulk of their income as well as half of their revenue came from speculation. The banks total revenue rose by 11% versus only 1% for lending. And as this balance of 10% was highly profitable, though fictitious, because their booked income rose by 59% versus about 3% on their bread and butter. [JP Morgan](#): "Net revenue was \$43.7 billion, up 10%. Net interest income was \$23.5 billion, down 3%. Noninterest revenue was \$20.3 billion, up 29%."

In addition reduced payments to the FDIC for failed banks and with reserves held at current levels all helped the bottom line. "[Citigroup operating expenses](#) of \$13.2 billion decreased 18%, on a reported basis, largely driven by the FDIC special assessment and the restructuring charge in the prior-year period. Excluding the impact of the FDIC special assessment and divestiture-related impacts in both periods, expenses were down 7%."

But overall this is an unhealthy outlook. This weak credit growth is one reason why the money supply is stagnant despite needing to circulate higher prices, or what is the same thing, compensating for the

depreciation of money itself. The weakness in credit growth can be seen relative to the money supply in Graph 5 where it is growing at a rate of under 8% compared to the 10% found in the pre-pandemic period.

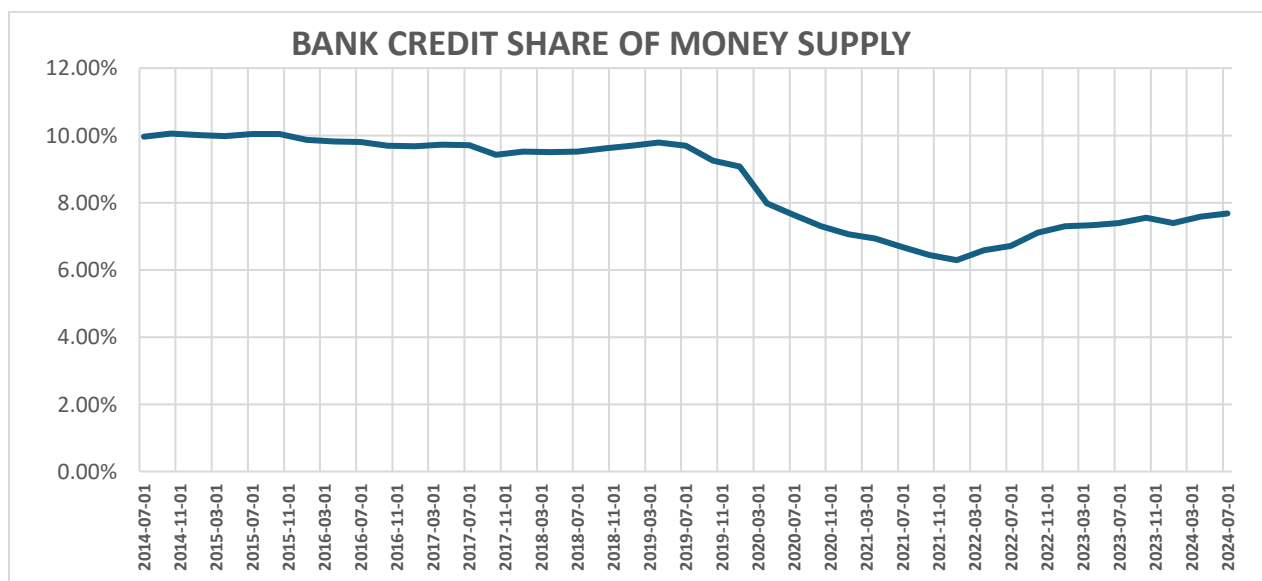
Table 1. Loans and Leases

Banks	Quarter 4 2023	Quarter 4 2024	Difference %
JP Morgan	1262	1300	3%
Citigroup	689	694	0.7%
Bank of America	1050	1080	2.9%
Wells Fargo	938	906	-3.4%
TOTAL	3939	3980	1%
<u>All Commercial Banks</u>	12250	12554	2.5%

Table 2.

Bank	Revenue Q4 2023	Revenue Q4 2024	Income Q4 2023	Income Q4 2024
JP Morgan	38574	42768	9307	14005
Citigroup	17440	19581	2593	3547
Bank of America	22000	25300	3100	6700
Wells Fargo	20478	20378	3446	5079
TOTAL	98492	108027	18446	29331
% CHANGE		11.0%		59.0%

Graph 5.

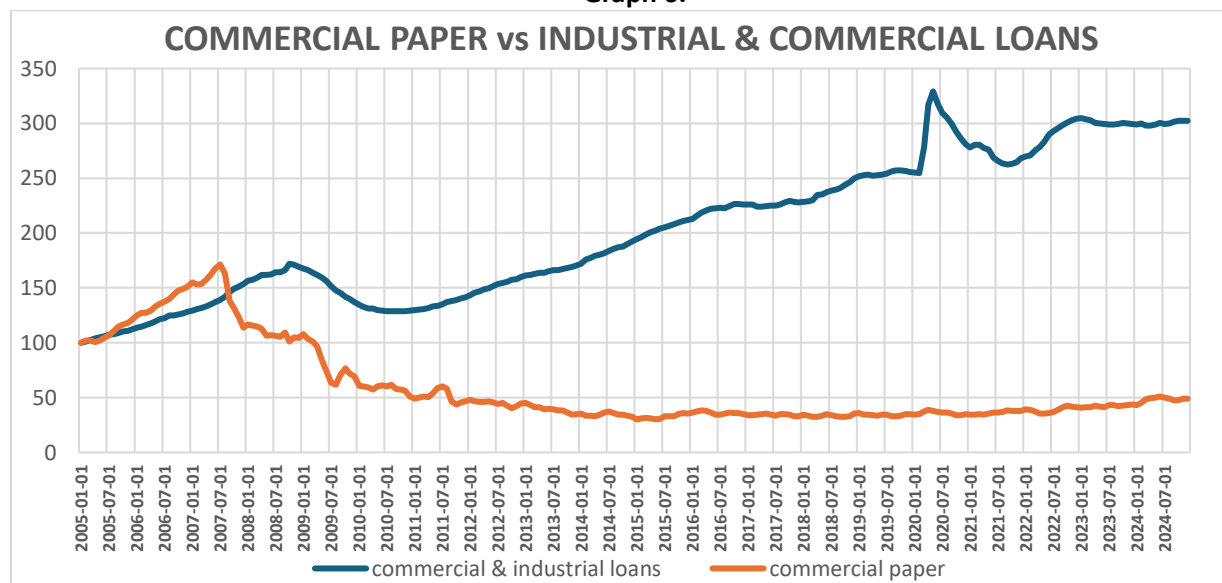


At the end of 2024 bank credit amounted to 7.67% of the money supply and the growth in the budget deficit added another 1.27% yielding a total of 8.94%. The result is that legacy value in the form of national income (the total of revenues) of around 90% is sufficient to stabilize prices. Any impulse to price rises is entirely due to supply side factors such as the weather, disrupted supply chains, embargoes, tariffs and

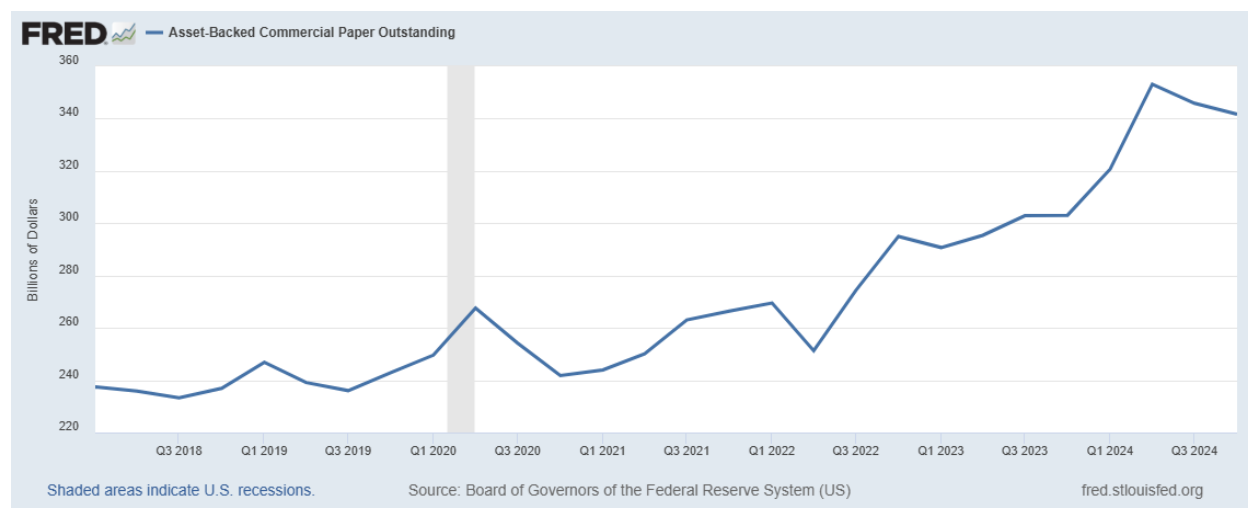
leveraging. (I will discuss this at greater length in Part 2.) But as we have seen with goods inflation, the money supply movement is in accord with stable prices (Graph 1.)

One of the reasons for the below trend growth in bank credit has been stagnant short term lending typified by [Industrial and Commercial loans](#) with a term generally below one year. As we can see, since the end of 2022 it is unchanged despite the rise in prices over this time. This shows that bank lending for trade remains weak. At the same time [Asset backed Commercial Paper](#) has risen by 15%. This can better be seen in Graph 7. Asset backed commercial paper arises when corporations or firms discount bills to raise cash. It is always a sign of distress as Marx pointed out in Volume 3. To understand its importance we need only recall that trade credit (bills) is the biggest source of credit in the economy. So when industrial and commercial loans are not rising or even falling due to stricter bank criteria, while the amount of bills being discounted is growing, that is ominous for circulation and is always reflected by falling rates of turnover which I have confirmed in previous articles on the US economy.

Graph 6.



Graph 7.



Selected Corporate Reports.

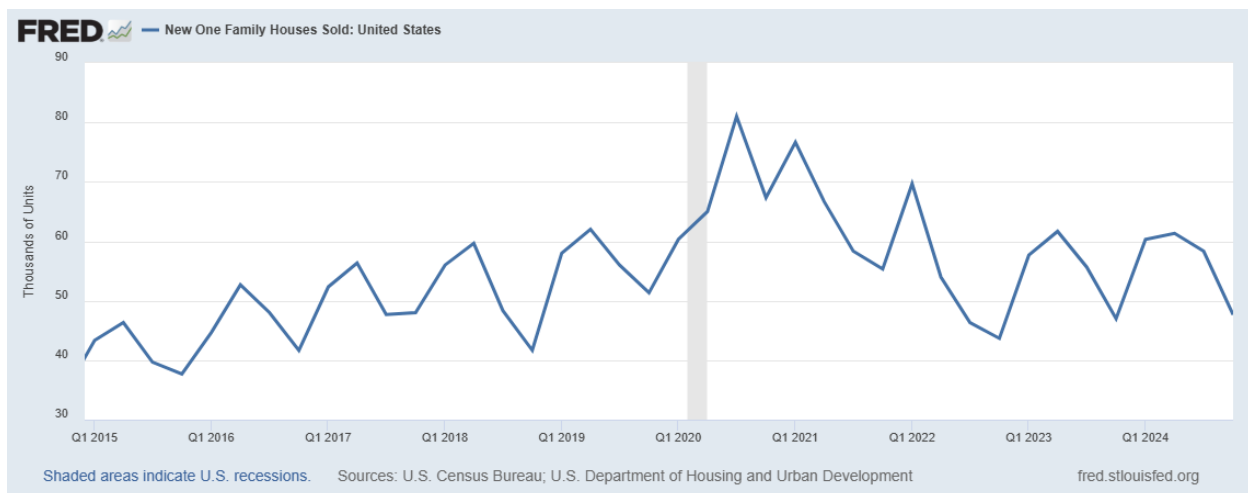
[Caterpillar](#), the bellwether for construction and resources, saw its quarterly profits fall 7% in its North American Segment including a 14% fall in construction sales. One wonders what it would have been like without the Biden Administration Acts designed to bolster industrial spending. And we could add, it seems the AI data centres have not helped much either. [3M's sales were flat](#). *"PACCAR achieved quarterly revenues of \$7.91 billion in the fourth quarter of 2024, compared to the \$9.08 billion reported in the same period in 2023."* [Whirlpool](#) North American sales fell by 1.4%. [John Deere's](#) North American sales fell by 11.2% in 2024. [Rockwell Automation](#) quarterly sales were down 14.6% yoy in the last quarter. [Boeing](#) was down a whopping 31% and this is before COMAC (China) slaughters it. Companies showing improvements are much fewer. [Exon Mobile](#) saw oil production rise by 1.7% and gas by 3.8% but due to lower prices its prices and profits fell significantly. [GE Verona](#) was an exception seeing sales rise 9% as was General Motors, but all the other US auto companies including Tesla saw slower sales. It shows how dependent the US has become on its Tech and Pharma sectors as the only growth supporting industries. (In my next report to be published after Alphabet reports its earnings next week, the profit picture will be clearer.)

[Procter & Gamble](#) the largest household goods manufacturer saw 2% volume growth. [Kimberly Clarke](#) did less well falling by 0.8%. [Colgate Palmolive](#) North American sales fell by 1.0% but volumes rose 1.9% due to weak pricing. [Church & Dwight](#) did slightly better achieving a 2.7% revenue growth. Once again the theme of US sales lagging international sales manifests itself. Finally, [Walmart](#) is the bellwether for the household/retail industry. Its new app has experienced explosive growth as cash strapped shoppers search for own-brand deals and special offers as they trade down. This app makes a mockery of the tens of billions spent on digital advertising in the USA. It's the money stupid, not the personal info what counts.

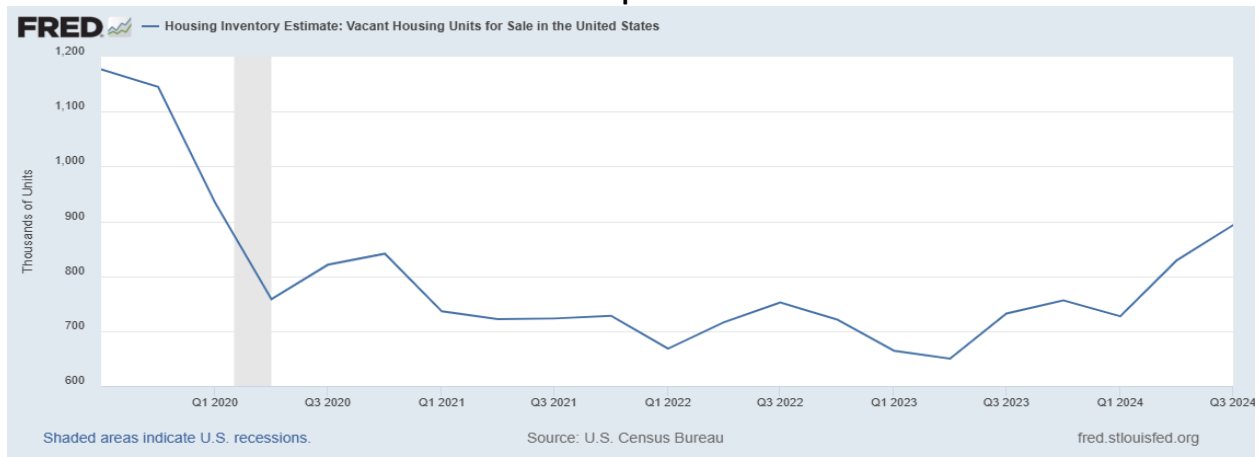
The housing market.

Below is the official housing data from the Census Bureau in graph form for easy visual assimilation. We note that new home sales are lower than pre-pandemic despite being smaller in terms of square footage and presumably of lower quality. As a result the amount of unsold homes has gone up and prices down. It is clear that the housing market deteriorated towards year end, which is not consistent with a resilient economy and labour market where wages are supposedly outpacing prices.

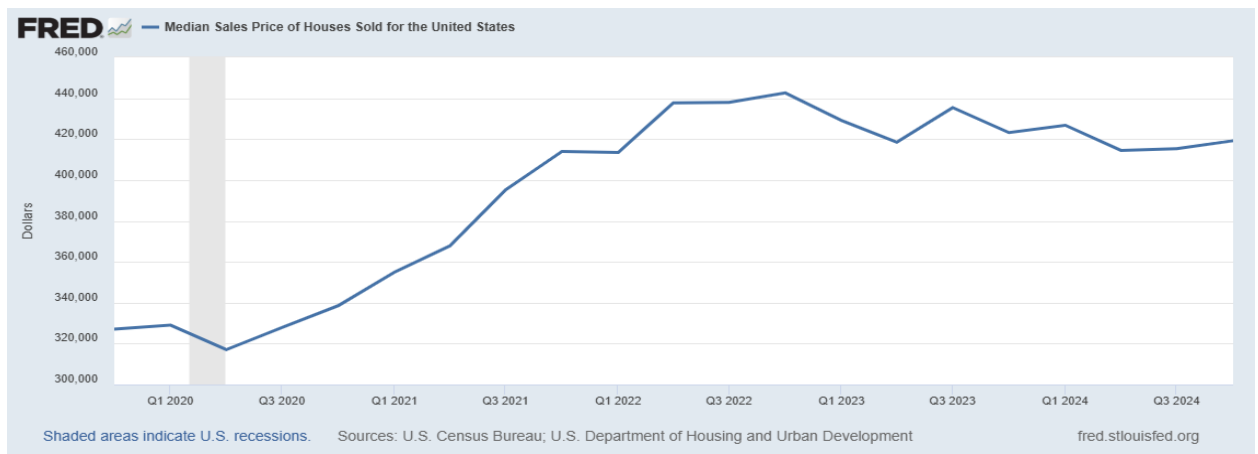
Graph 8.



Graph 9.



Graph 10.



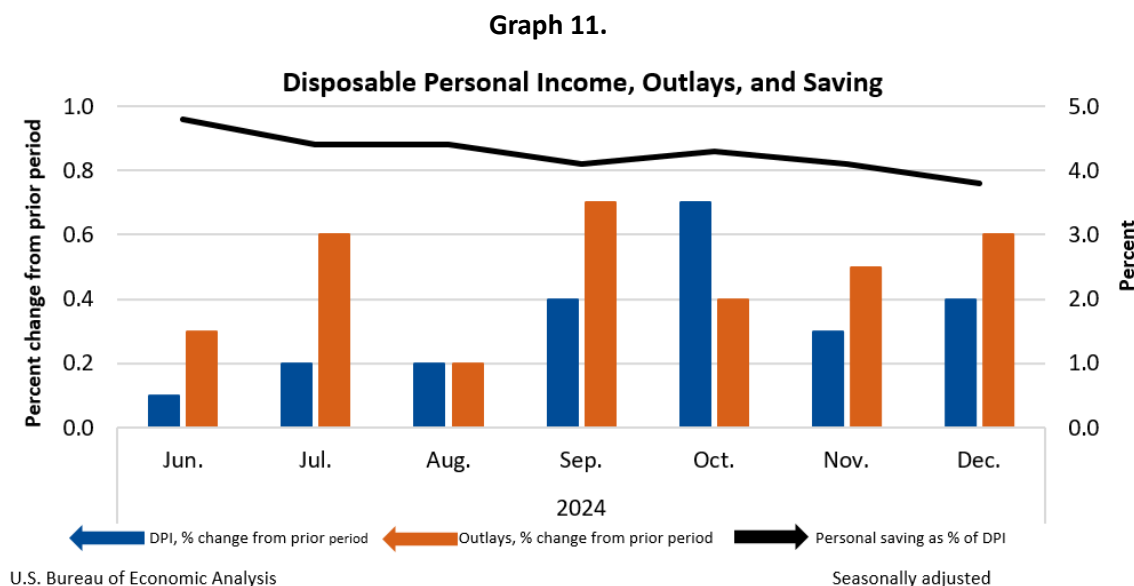
Here are some of the comments from *Zillow* and *Redfin* covering the end of the year. [Year-over-year, pending transactions declined 5.0%](#). “[Homes](#) are selling at their slowest pace since the start of the pandemic,” The reason, as Redfin points out, monthly payments in December remain at a record high requiring a median annual income of \$110,000 to afford. “*The median monthly housing payment is \$2,753,*” [D.R. Horton](#) is the biggest home builder in the US and it saw the volume of homes it sold in the final quarter of 2024 fall by 1.5% resulting in a fall in revenue of the same magnitude. And then there are [these fringe analysts](#) who see the housing market resembling 2007 [and here](#). I think the reality lies midway between the fringe and the mainstream, the housing market is weaker and more fraught than the official and bank data admits to. One factor is the differential way in which banks are treating delinquent homes today compared to 2008 by releasing them slowly onto the market in order not to depress prices. Given that Trump has just re-affirmed his intention to tariff China, Canada and Mexico and given the inflationary effect of these policies, the mortgage rate is bound to remain high weighing on the housing market. So much for Trump promising to make goods and mortgages cheaper.

Finally wages, profits and GDP.

I intend to examine profitability in more detail in part 2 once Alphabet releases its earning report. Notwithstanding this it is clear that profits are on an upward track in the quarter. This does not make

sense. Not only are wages officially rising faster than prices but wages are rising faster than revenue. [NIPA Table 1.14](#) released this week shows quarterly corporate worker remuneration rising by 5.9% whereas [NIPA Table 1.15](#) shows total revenues from consumption rising by only 5.7%. The annual rise in prices was 2.8% versus [ADP's report](#) on wage growth of 4.7% for the same period (which unlike their jobs report is an accurate insight into the US economy). Thus wages outstripping prices should weigh down on profits.

It is this overstatement of wage income which is the most likely explanation of the unusual phenomenon of national income growth outstripping expenditure growth. The graph below is copied from the BEA'S release this week. Thus official income growth and GDP seem not only to be inflated but all over the place.



In the sphere of investment [durable goods orders](#) over the quarter were down 2.5% with [capital goods](#) up 1%. [Non-residential Fixed Investment](#) rose by 4.2% with equipment up 5.1%. This presumably reflects the investment into data centers driven by A.I. investment without which the US would already be in recession. Despite this rise in investment [industrial production](#) for the quarter was down 0.2%.

In summary.

The economy that Biden bequeathed to Trump was not as strong as the Democrats or the Official Data portrayed but not as weak as Trump has badmouthed. It was an economy driven by the budget deficit and the stock market. Government debt rose by \$5 for every \$1 growth in GDP. And of course it was an economy of two halves, the have-nots (60% of the population) whose standards of living remained under pressure and the haves (the top 10%) who benefited from capital gains. In sum with bad debts and delinquencies rising, unacknowledged by the banks, heralding another imminent bank crisis, and with solvency in industry outside Tech falling, the economy which Trump inherited is better described as brittle rather than as resilient. It certainly is not strong enough to absorb Trump's new tariffs seeking to rebirth the US economy. Next week's markets are going to be interesting to watch and likely painful for investors.

Brian Green, 2nd February.

