John Dessauer Investments, Inc.

John Dessauer's market review and update as of Wednesday December 11, 2019

The Economist is a fairly progressive magazine. I have subscribed for years because their coverage of economics includes many countries. I was mildly shocked when the November 30th - December 6th issue arrived. The graphic on the front cover shows four gold bars with this headline: "Inequality Illusions, Why wealth and income gaps are not what they appear." The article inside follows much the same course as the *Wall Street Journal* article I wrote about a couple of weeks ago. The editors of *The Economist* expose the practice of left-wing politicians who cherry pick data to suit their political point of view. But when all relevant data such as taxes on the rich and transfer payments to the poor are included the wealth and income gaps shrink significantly.

The editors of *The Economist* conclude: "The fact that dubious claims are made about inequality does not reduce the urgency of tackling economic injustice. But it does call for ensuring that the assumptions on which policies are based are accurate."

Then came the November U.S. jobs report. Economists expected that 180,000 new jobs were created in November. That has been the monthly average so far this year. And that is down from the 223,000 monthly new jobs created in 2018. But the U.S. labor market surprised the crowd, probably really disappointed the "recession is coming" pessimists. In November the U.S. economy added 266,000 new non-farm jobs, a blow-out number. In addition, the number of new jobs for September and October were revised upwards by 41,000 each month.

This is super good news both for the federal government and the inequality gap. The biggest source of tax revenue for the federal government is payroll taxes. The strong labor market with unemployment at a 50-year low means more cash for Uncle Sam. What is the best way to close the inequality gap? It is a growing economy that produces a strong labor market and lifts Americans up from the bottom.

American employers are desperate for workers, they are recruiting from prisons, high schools and among the able-bodied in Puerto Rico who haven't already moved to Florida. And all this is happening despite legal immigration of more than a million people a year. The U.S. economy is expanding and will need even more workers soon.

The U.S. unemployment rate over all is at a 50-year low, 3.5%. In Ames, Iowa the unemployment rate is 1.3%. Cleveland's unemployment rate has fallen from 4.5% a year ago to 3.2%.

Wages overall are up 3.1% from a year ago. The index of aggregate weekly payrolls, which is a good proxy for household income, has risen 4.8% in the last year.

President Trump's trade war has taken a toll on business investment. That still lags behind historical norms. And there are questions about the rate of growth in productivity, but the super-strong labor market with rising real wages is fueling consumption that is keeping the economy humming along despite the obvious drags.

Low inflation and low energy costs are adding to consumers' buying power. Between Thanksgiving and "Cyber Monday" American consumers spent 16% more on average than last year. And this isn't because hated billionaires bought expensive sports cars and yachts. It is because Americans like those in Ames and Cleveland are faring better financially and spending more.

Consumers account for almost 70% of GDP. The strong labor market and robust consumer spending indicates that we are not likely to suffer a recession any time soon.

The scary thing is the growing political interest in Socialism while Capitalism is delivering prosperity at record rates. Hopefully peace and prosperity will turn the table and boost the desirability of Capitalism.

Stocks went down on disappointing news on trade and confusing news on manufacturing. Then they rebounded after the November jobs report.

The news on manufacturing is confusing because two indices are moving in opposite directions. The ISM Manufacturing index went down in November to 48.1, the fourth month in a row below 50. While that is not a particularly bad report, it does indicate a slowdown. The PMI Manufacturing index came in better than expected at 52.6 in November, up from 51.3 in October. The two indices provide a mixed picture on U.S. manufacturing, but the weaker ISM numbers are getting all the attention.

Likewise, the trade news has been mixed and confusing. President Trump will impose new tariffs on aluminum and steel from Brazil and Argentina because both countries have devalued their currencies in an effort to gain a trade-price edge. This is a small issue compared with China, Mexico and Canada. However, it did rattle investors when first announced.

The bigger issue is the USMCA trade agreement which has broad bipartisan support in the House. But Speaker Pelosi has been holding it back. If submitted for a vote it surely would pass and sail through the Senate. Hopefully Pelosi will bring it up for a vote this year.

There also has been confusion on trade with China. President Trump a couple of weeks ago said he didn't think here would be a deal until after the 2020 elections. Then he said that the negotiations were going well. And recently China said the same thing. The confusion will be resolved soon, because President Trump has a December 15 deadline for imposing a 15% tariff on an additional $156 billion of Chinese goods. Traders expect that this tariff plan will be scrapped. The last thing the U.S. economy and stock market need is an escalation in the U.S. China trade war.

Fortunately, the strong labor market and robust consumer spending are offsetting the drag from the trade war tensions. But if the December 15 new tariffs are imposed, stocks will likely pull back. On the other hand, if they are scrapped, stocks will likely hold their ground. If a phase one deal is actually reached, we would likely have a year-end stock market rally.

I will have the next market review and update for you one week from today on Wednesday December 18, 2019.

All the best,

John Dessauer