Mississippi Money

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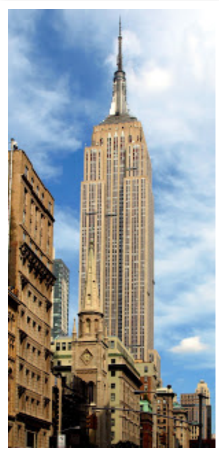
Monday, June 17, 2019

Acrophobia

I'm afraid of heights. Anytime I'm in an elevated space that leaves me exposed—no surrounding walls or barriers—my heart starts to race. I know it's not rational, but I can't think my way out of that feeling. Panic sets in. I passed on the Cliffs of Moher hike because of this fear, and though I've been to New York City several times, I've never taken the elevator to the top of the Empire State Building.
Today when I saw the Empire State Index report, my heart leapt to my throat. No, I wasn't imagining standing on the top of that iconic building staring down (far down) at the street below. Instead, I was gripped by another fear.



What is the Empire State Index ? Well, its full name is Empire State Manufacturing Survey, and it has nothing to do with the famous building. Instead, it's all about the State of New York, you know, the Empire State.

On the first day of each month, a survey is sent to 200 manufacturing executives in New York. They are asked questions about the state (small "s") of their business. The pool of participants represents a broad group of industries and is looked upon as a good measure of economic activity. Because the executives are asked about current and future activity, it measures expectations about the future.

It is produced and monitored by the New York Federal Reserve Bank. That makes it a government-collected piece of data. But one has to ask, "Why only New York?" While other cities are important to the overall economy, New York still holds sway. The New York Fed is the most powerful of the member banks simply because of the amount of business coming from that region.

So why did my fear reflex kick into gear when this data was released? Like my heart when I even think of the top of the Empire State Building, the index dropped like a stone this month. In fact, it fell 26.4 points and landed in negative territory at -8.6. Economists expected it to drop but to stay at a decent positive 10.

Manufacturing has been weak. Some of that is related to our trade policy, but much is related to a global slowdown. The auto industry is a big driver of manufacturing, and it is expected to be weak this year. Things are definitely slowing.

Consumer sentiment
remains strong, though. The unemployment rate is still low, but job growth is slowing. Consumer spending has rebounded lately. So why the fuss about THIS index? It's tapping into the minds of the business decision-makers, and they're seeing the

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brakes being put on the economy.

Could this be the beginning of a recession? Possibly. Certainly, we are due for a downturn after 10 years of expansion. But is this the heart-stopping kind like my acrophobia? No, don't think so. So far, this looks like the typical ebb and flow of the business cycle. Yes, there will be some pain along the way, but unless there are hidden bubbles, we should weather it just fine.

Posted by Nancy Anderson

Thursday, May 09, 2019

Retail Revolutions

Boarded up storefronts. Malls turning into empty shells. Small retailers struggling to stay in business. Have consumers stopped spending? Or are we just buying everything online?

The surprising answer to both is no.

Consumer spending is quite healthy. The Bureau of EconomicAnalysis tracks consumer spending, along with a host of other stats about the US consumer. While there was a surprise decline in spending in December, consumers bounced back in 2019. In March, consumer spending increased by 0.9%. After adjusting for inflation, that increase is still a healthy 0.7%.

Our spending is affected by all kinds of things. Of course, the biggest is the economy. When we have jobs and are not concerned about layoffs, we spend more. But we also change our spending habits because of other things. Colder than normal weather. Natural disasters like hurricanes. Anything that makes us fearful—crime, politics, acts of God—can cause us to pull in the purse strings. Because consumer spending represents about 2/3 of our gross domestic product, any change has a ripple effect.

And personal savings rates and consumer spending are the two sides of the same coin. Consumer spending rose in March, while savings rates declined from 7.3% to 6.5%. As financial advisors, we find ourselves walking the fence on this one. Overall spending pushes the economy (a good thing), but low savings rates make us nervous for our individual clients.

So we're still spending money, but what are we spending it ON? Well, the consumer spending stats include spending at convenience stores and grocery stores. That means the price of gasoline has an effect on these numbers. It also means we are eating well (not a bad thing). And anyone who does the grocery shopping in the family knows that while overall inflation remains low, the price of food continues to climb. Yes, the economists adjust for inflation but may not account for price increases in particular products.

Is online shopping killing Main Street? Not yet. 91% of retail sales occur in stores, not online. I guess that means we can't blame the decline on Amazon? Well, not so fast, because the ease of shopping online does change the landscape for local retailers. They have to offer more products at more competitive prices. It's harder to make a profit in this area, and many retail landlords haven't caught up to the new reality. They are trying to maintain or raise rents on retailers who have fewer dollars to cover overhead. It's a squeeze.

Payless is closing all 2100 of their stores this year. Fred's will close 30% of their stores. Bed Bath and Beyond has announced store closings. Charlotte Russe is facing liquidation, and Sears is disappearing into the history books. Former mall anchors are shrinking or disappearing. J.C. Penney. Belk. How can a local retailer survive in this environment? WHY would anyone consider a new retail venture when faced with such obstacles?

The good news is that we still like to shop in stores. We like to pick up things, see them in person, try them on. Low-priced retailers are bucking the trend. Think Dollar General. And upscale retailers are also doing quite well in this booming economy. It's the folks in the middle who are struggling.

So if you want to be in retail, choose wisely. Know your market. Be choosy when you stock those shelves. Negotiate with the landlord for low rents, but don't sacrifice foot traffic for a low monthly rent.

The landscape for retail is changing. Amazon is buying up those old malls and turning them into distribution centers. Main streets across the country will have get creative when it comes to filling up empty spaces. And hard decisions will have to be made about those strip malls that are no longer viable.

It's a retail revolution, and only the strong will survive.

Posted by Nancy Anderson

Wednesday, April 24, 2019

Dirty Laundry

I've been thinking about washing machines.

Once luxuries, these appliances are standard fixtures in most households. I remember my first washing machine and the pure joy that came with knowing I would no longer have to hunt for quarters or wait for an empty machine in the laundromat. These days, we think of these machines as part of a pair—washing machine AND dryer. Because who has time for clothesline drying? And who wants their wet unmentionables flapping in the breeze?

In 2016, 80% of the washing machines imported into the US came from China. Chinese washing machines cast a wet blanket over US washer production, leading the Obama administration to impose protective tariffs on the item. The tariffs were specific to Chinese-produced machines, so they just moved to Vietnam and Thailand. We continued the spin cycle with little effect on consumers.

But in 2018, the Trump administration put all foreign machines in hot water, instituting tariffs on imported washers, regardless of the country of origin. Now, I'm not a fan of protective tariffs, and we never seem to learn our lesson on them. It's like putting that red pair of underwear in your load of whites. Pink is going to get on everything, and we'll all suffer.

The latest tariffs on washing machines resulted in higher prices to consumers, 12% higher. That means a $500 washer now costs $560, on average. While foreign companies pay the tariff to our treasury, they make sure their cost is covered by raising the price on the item in question. The idea behind a protective tariff is to protect US jobs. In this case, some of those appliance manufacturing jobs did reappear, but at what cost? Are we all paying 12% more for clean clothes just to get a 1% benefit on manufacturing jobs?

Strange thing about those washing machine tariffs… dryers were exempt. The washers' twin was not burdened with the extra tax of a tariff, but that didn't stop companies from raising the price of dryers 12%, as well. Now that burns me up!

Every country is trying to load the system in their favor, but competing tariffs often lead to an off-balance market that just costs consumers. This time around, each new job created by the tariffs cost $817,000. That's a lot of dirty laundry!

Posted by Nancy Anderson

Tuesday, March 26, 2019

Picture This!

I follow Liz Ann Sonders on Twitter (@LizAnnSonders). Liz loves pictures! Namely, she loves graphs and knows a picture really is worth a 1000 words. Lately, Liz has been posting pictures of the yield curve.

What is this thing we call "the yield curve," and why do we pay it such homage? The yield curve is a graph of a bond's interest rate (yield) and its time to maturity. Normally, you would expect yields on short-term bonds to be lower than yields on long-term bonds, right? After all, there is more risk in holding a long-term bond, so investors should expect a little something extra for their trouble.

But sometimes that curve gets a little whacky, and that's when investors take note. When the yield curve changes from its normal upward slope to something more akin to a flat line, that often signals trouble ahead. Liz shares her thoughts on the yield curve in her blog. She looks at the history and the current economic indicators that are shaping this curve.

A flat curve means investors are expecting rates to be lower in the future. So what? Well, lower future rates usually accompany recessions or economic slowdowns. On Friday, the yield curve went beyond flat to an inversion. That's when shorter-term bonds are yielding MORE than longer-term bonds. Yield curve inversions are like flashing red lights at the railroad crossing. So investors pulled back and got off the tracks resulting in a 2% decline in markets.

Will the trend continue? We don't know. Economies around the globe are slowing, but the US is still holding up. But there are some worrying signs. Just today, we see that housing starts dropped 9% in February and housing price gains are slowing. Our long bull run is still rewarding investors, but it's starting to experience fits and starts.

So keep your eye on that yield curve. Flat lines may nudge investors, but inversions cause us to sit up and pay attention. While not every inversion signals an upcoming recession, every recession has been preceded by an inversion. If you want to have a little fun, check out the dynamic yield curve. This shows the changing curve alongside the stock market.

Posted by Nancy Anderson

Tuesday, March 05, 2019

Annual CFA Forecast Dinner

The annual CFA Forecast Dinner is always a stellar event. Great food. Wonderful dinner companions. And a panel of financial experts ready to expound on the topics of the day. The CFA Society of Mississippi serves as host for the event that is held at the Jackson Country Club, which is a chance for us to fete our clients while also spending time at the feet of experts who love talking finance and economics.

Selena Swartzfager, Executive Director of the MississippiCouncil on Economic Education, served as moderator. She took the opportunity to explain the mission of her organization—financial literacy for Mississippi students. The marriage of this group to our society seems a natural.

We had four outside panelists: 1) Andrew Patterson, senior economist at Vanguard, 2) Alex Dryden, global market strategist at J.P. Morgan, 3) Chad McKeithen, managing director or Fixed Income Strategies and Research, and 4) Dr. Ormala Krishnan, head of international and emerging markets for Mondrian Investment Partners.

What did we learn?

While US markets are still healthy, the challenge this year is in emerging markets. The slowdown in China, along with the trade tensions, will be a drag on international markets. This may bleed into our markets, as well.

All agreed that Federal Reserve Chair, Jerome Powell, had done a good job in his first year. Investors were spooked by some of the aggressive comments out of the Fed, but Powell backtracked and indicated moves would be gradual. The Fed will continue to unwind its balance sheet, but they are doing so in a strong market. Dryden likened it to removing the training wheels off a bicycle. You only do it when you think your kid CAN ride on his own, but you expect some wobbling when the supports are removed. So it will be with our markets. Expect volatility.

Dryden (the Brit) was the hands-on favorite for the evening. He was quite entertaining. He pooh-poohed the trade war. What trade war? He called it more of a skirmish. I'm not sure I agree with this assessment, especially since investors appear to be keeping an eye on negotiations. Of course, everything sounds better with a British accent!

What were their forecasts?

Most think the S&P 500 has gained all the ground it can already, with expectations of minor additional gains or a remaining flat market for the year. One panelist even expects the S&P 500 to be less at the end of the year. And most think increases in the yield of the 10 year Treasury will be modest, at 3% or less.

I hope you'll be able to join us next year, when we put these prognostications to the test!

Posted by Nancy Anderson

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