



The "tax bill cometh." According to the press, this is going to be the single biggest factor to jump-starting economic growth since the invention of the wheel. Interestingly, even the Fed's economic projections are suggesting that economic growth will pick up over the next two years from the impact of tax cuts. (Chart is the average of the range of the Fed's estimates.)

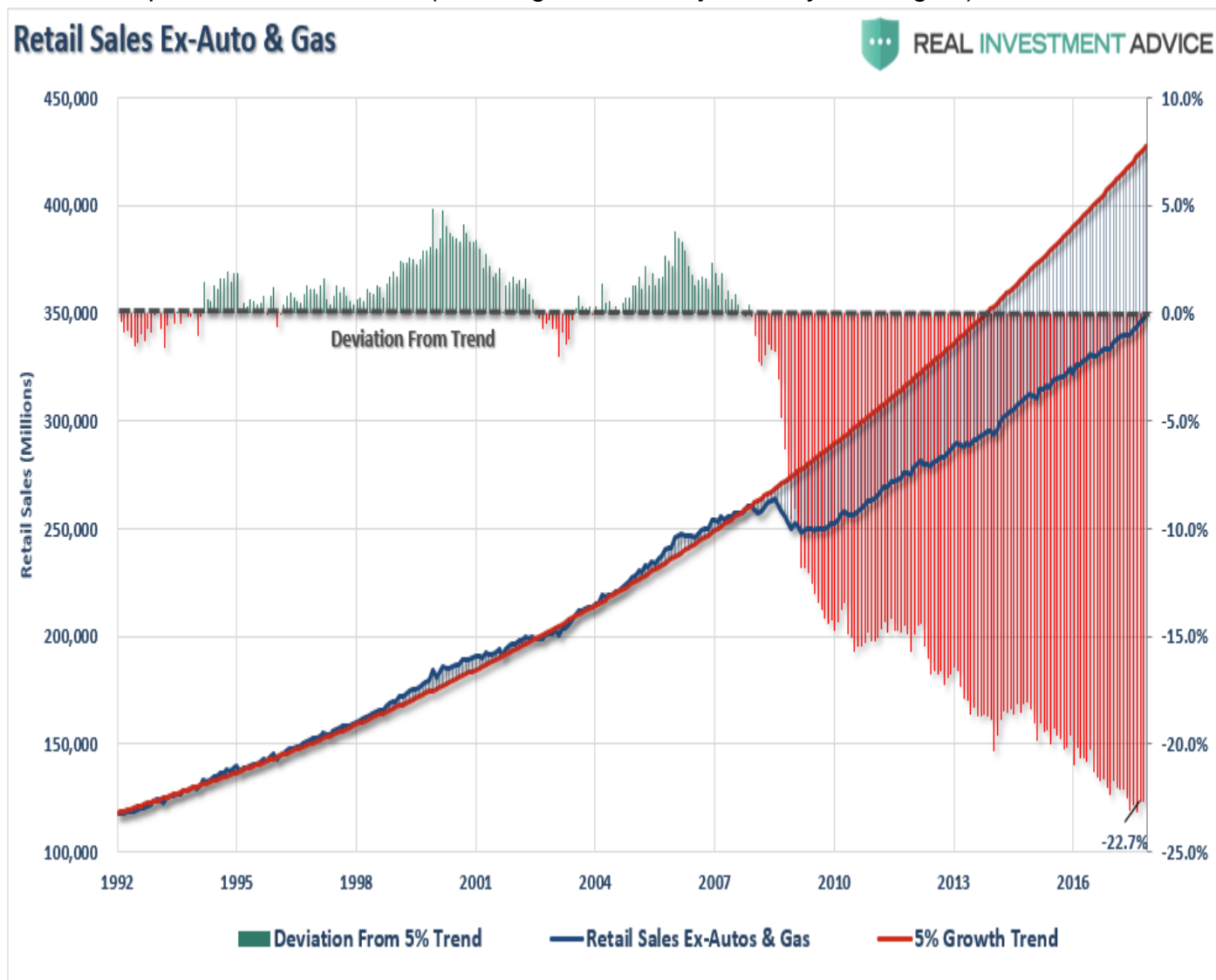
FOMC Economic Projections (Avg. Of Range)


 REAL INVESTMENT ADVICE

Meeting Date	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Long Run	Actual 2011-2017 GDP
Jan-11	3.7	3.95	4								2.7	1.59
Apr-11	3.3	3.65	4								2.7	1.59
Jun-11	2.75	3.1	3.75								2.7	1.59
Nov-11	1.7	2.9	3.35	3.6							2.6	1.59
Jan-12		2.55	3.1	3.55							2.6	2.2
Apr-12		2.55	3.1	3.6							2.6	2.2
Jun-12		2.05	2.85	3.4							2.6	2.2
Sep-12		1.8	2.9	3.4	3.35						2.6	2.2

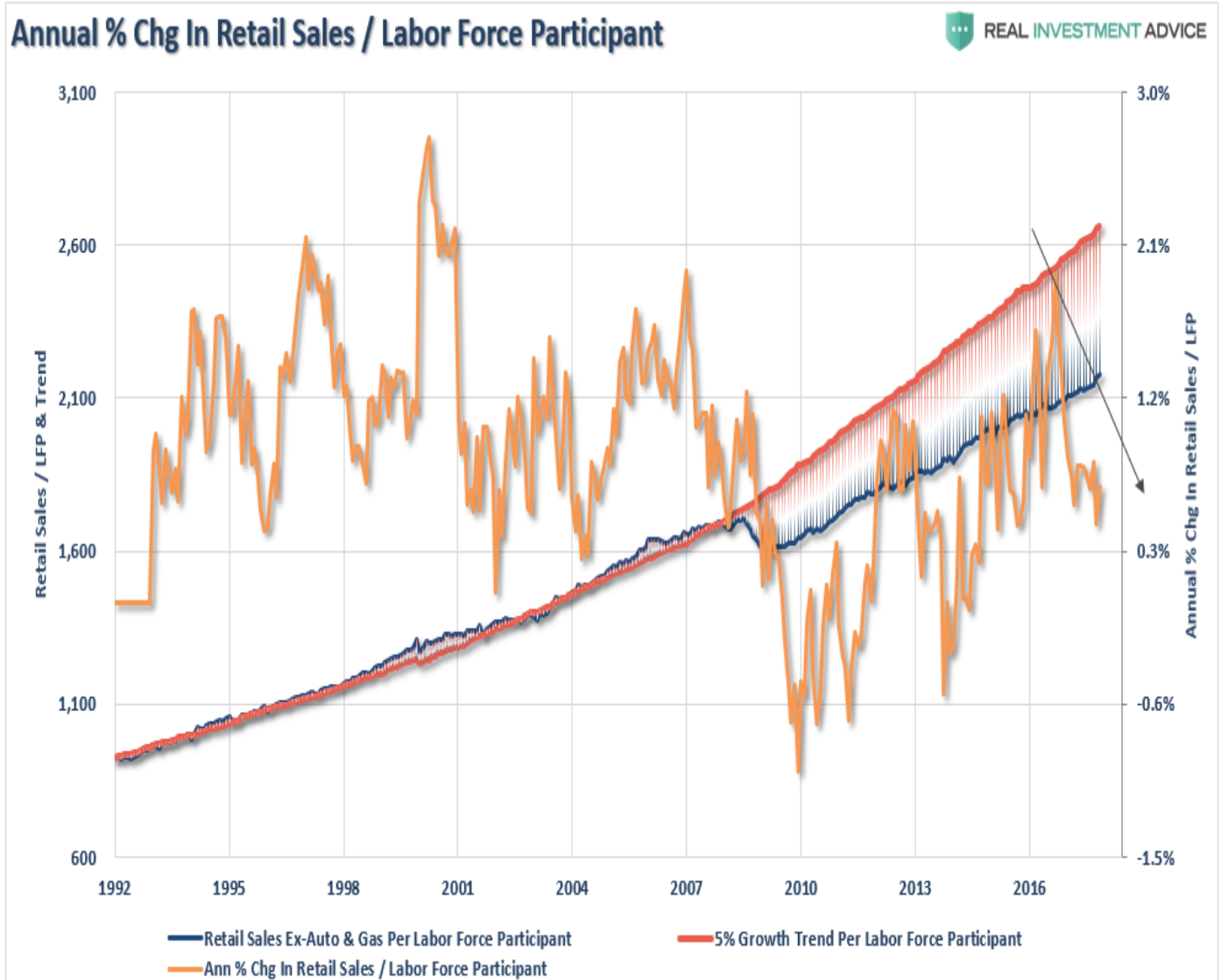
GDP Projections
 Lowest Levels
 Since 2011

Of course, you should note the Federal Reserve has **NEVER** accurately forecasted future economic growth. In fact, it has become an annual tradition of over-estimating growth and then slowly ratcheting down estimates as reality failed to achieve overly optimistic assumptions. However, despite the Administrations hopes of long-term economic growth rates of 3% or more, in order to pay for the deficits created by cutting revenue, **even the Fed has maintained their long-run outlook of less than 2% annualized growth. (Down from 2.7% in 2011)** Hardly the supportive stamp of endorsement for the "*greatest tax cut*" of all-time. But for economic growth to blossom, the consumer will have to pull their weight given consumption makes up roughly 70% of GDP. The problem, as witnessed by the latest retail sales report, is that consumptive spending is far weaker than headlines suggest. On Thursday, the retail sales report for November clicked up 0.8%. Good news, right? **Not so fast.** First, sales of gasoline, which directly impacts consumers ability to spend money on other stuff, rose sharply due to higher oil prices and comprised 1/3rd of the increase. **Secondly, building products also rose sharply from the ongoing impact of rebuilding from recent hurricanes and fires.** Again, this isn't healthy longer-term either as replacing lost possessions drags forward future consumptive capacity. But what the headlines miss is the growth in the population. The chart below shows retails sales divided by those actually counted as part of the labor force. (You've got to have a job to buy stuff, right?)•



As you can see, retail sales per labor force participant was on a 5% annualized growth trend beginning in 1992. **However, after the financial crisis, the gap below that long-term trend has yet to be filled as there is a 22.7% deficit from the long-term trend.** (If we included the entirety of the population, given the number of people outside of the labor force that are still consuming, the trajectory would be worse.) But wait, retail sales were really strong in November? **Again, not so fast.** The chart below shows the annual % change of retail sales per labor force participant. The

trend has been weakening since the beginning of 2017 and shows little sign of increasing currently.



While tax cuts may provide a temporary boost to after-tax incomes, that income will simply be absorbed by higher energy, gasoline, health care and borrowing costs. **This is why, 80% of Americans continue to live paycheck-to-paycheck and have little saved in the bank.** It is also why, as wages have continued to stagnate, that the cost of living now exceeds what incomes and debt increases can sustain. Yes, corporations will do well under the "tax reform" plan, and while the average American may well see an increase in take-home pay, it will unlikely change their financial situation much. **As a result, economic growth will likely remain weak as the deficit expands to \$1 Trillion over the next couple of years and Federal debt marches toward \$32 trillion.** As noted by [theCFRB](#)

"Fiscal conservatives on the right have lost a massive amount of credibility based on the GOP budget they passed this year. After many years of calling for a budget that cut spending, reformed entitlements, controlled the debt and balanced the budget, they failed to enact even one of those goals when they finally had a chance."

Out of a possible \$47 trillion in spending over 10 years, the budget called for cutting an utterly pathetic \$1 billion. Their fiscal credibility died with a whimper. I doubt that credibility can be regained, but it seems quite likely that some of the more conservative GOP members will call for letting the sequester hit."

So, when someone acts astonished that things didn't work out as planned...just remind them that

"ignorance is no excuse." Just something to think about as you catch up on your weekend reading list.

Trump, Economy & Fed

- Is 3% Growth The New Normal [by Caroline Baum via MarketWatch](#)
 - Drop In Public Investment Picks Up Steam [by Gary Burtless via Brookings Institute](#)
 - Could The Tax Plan Still Fall Apart [by Jim Newell via Slate](#)
 - **Avoid The Budgetary Wrecking Ball With Tax Bill** [by Committee For A Responsible Federal Budget](#)
 - Economy On Sugar High, Tax Cuts Won't Help [by Larry Summers via Washington Post](#)
 - Minsky's Financial Instability Hypothesis & The Fed [by Edward Harrison via Credit Writedowns](#)
 - Fed's Failure To Tighten Conditions A Mistake [by Michael Heise via FT](#)
 - Is Tax Reform Falling Apart [by Scott Sumner via Econolog](#)
 - **Don't Expect An Investment Boom** [by Paul Kasriel via Financial Sense](#)
 - Republicans Say They Have A Tax Deal [by Jim Tankersley via NYT](#)
 - **Job Creators The Victim Of The GOP Tax Plan** [by Rob Arnott & John Tamny via IBD](#)
 - Biggest Cuts Could Be To Living Standards [by Eduardo Porter via NY Times](#)
 - Best Ways To Improve GOP Tax Bill [by Stephen Moore via The Washington Times](#)
 - Tax Changes Coming In 2018, Prepare Now [by Paul Sullivan via NYT](#)
 - A Proposal To Reform Corporate Taxation [by Eric Toder via AEI](#)
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Markets

- Ms. Yellen: Here Is Your Risk [by Tyler Durden via ZeroHedge](#)
 - A Sing Of Frothy Markets [by Paul Davies via WSJ](#)
 - Bitcoin, Most Obvious Bubble Ever [by Derek Thompson via The Atlantic](#)
 - 4-Paths To Retirement Income [by SA Gil Weinreich via Seeking Alpha](#)
 - Instant Gratification [by Erik Swarts via Market Anthropology](#)
 - Trading Bitcoin Is A Bad Way To Invest [by Simon Constable via US News](#)
 - Investors Wish List Is Reality Catches Up With Prices [by Mohamed El-Erian via MarketWatch](#)
 - Bitcoin - A Miracle Of Any Price [by Tyler Cowen via Bloomberg](#)
 - Cryptos In One Graph [by Shawn Langlois via MarketWatch](#)
 - Markets Point To Lower Interest Rates [by Michael Kahn via Barron's](#)
 - Corporate Profits Are Soaring, Why It Can't Last [by Shawn Tully via Fortune](#)
 - The Double-Edged Sword [by Nick Maggiulli via Dollars and Data](#)
 - A Disaster Waiting To Happen [by Jeff Reeves via MarketWatch](#)
 - **Bitcoin & A Dead Parrot** [by Buttonwood via The Economist](#)
 - A Question For Every Investor [by Michael Lebowitz via RIA](#)
 - An Unhealthy Absence Of Doubt & Fear [by Doug Kass via RIA](#)
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Research•/ Interesting•Reads

- Yellen Shrugs Off Risk [by Wolf Richter via Wolf Street](#)
- Must-Have Tools For Retirement Planning [by Robert Powell via USA Today](#)

- **Jim Simons, The Numbers King** [by DT Max via The New Yorker](#)
 - **Active Fans Are Wrong, Bogle Is Right** [by Cliff Asness via AQR Capital Management](#)
 - **How To Sort Facts From Fictions** [by Justin Wolfers via NYT](#)
 - **Inequality & The Coming Storm** [by Eduardo Campanella via Project Syndicate](#)
 - **Free Markets Are Hard** [by John Cochrane via The Grumpy Economist](#)
 - **Who Broke The Economy** [by Annie Lowrey via The Atlantic](#)
 - **Bonds Versus Economists** [by Jeffrey Snider via Alhambra Partners](#)
 - **Everyone In The Pool** [by Dana Lyons via The Lyons Share](#)
 - **Time To Get Real With Your Portfolio** [by Jesse Felder via The Felder Report](#)
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?When the music stops in terms of liquidity, things will get complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing."
- Chuck Prince, Citigroup

Questions, comments, suggestions ? please [email me](#).