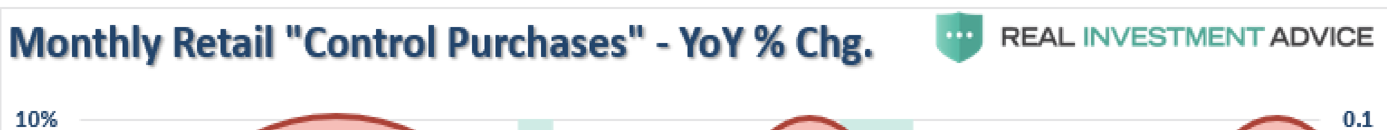
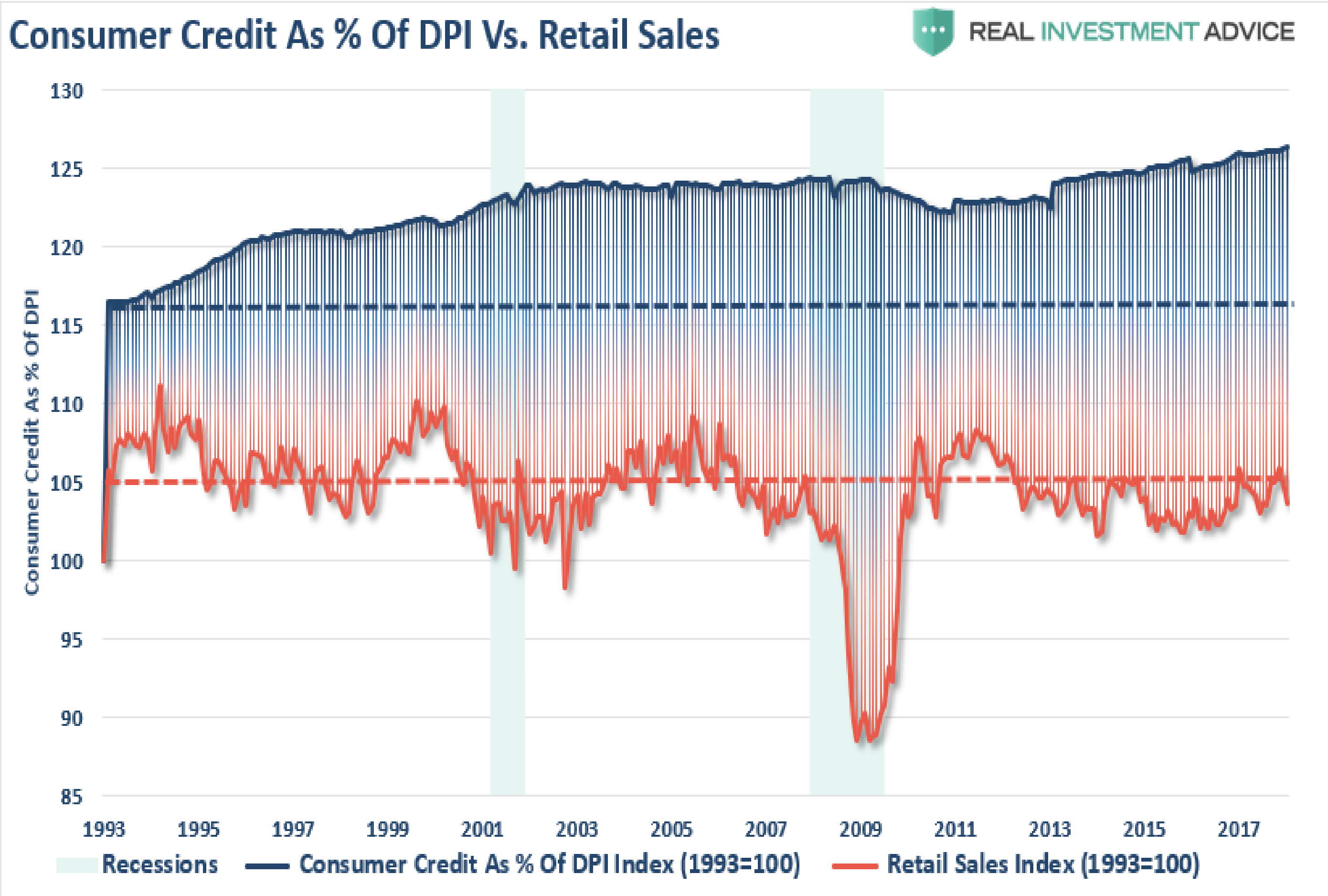

The Trump Administration has taken a LOT of credit for the recent bumps in economic growth. We have warned this was not only dangerous, credibility-wise, but also an anomaly due to three massive hurricanes and two major wildfires that had the *"broken window"* fallacy working overtime.

> *"The fallacy of the 'broken window'•narrative is that•**economic activity is only changed** •and not increased•**The dollars used to pay for the window can no longer be used for their original intended purpose."***

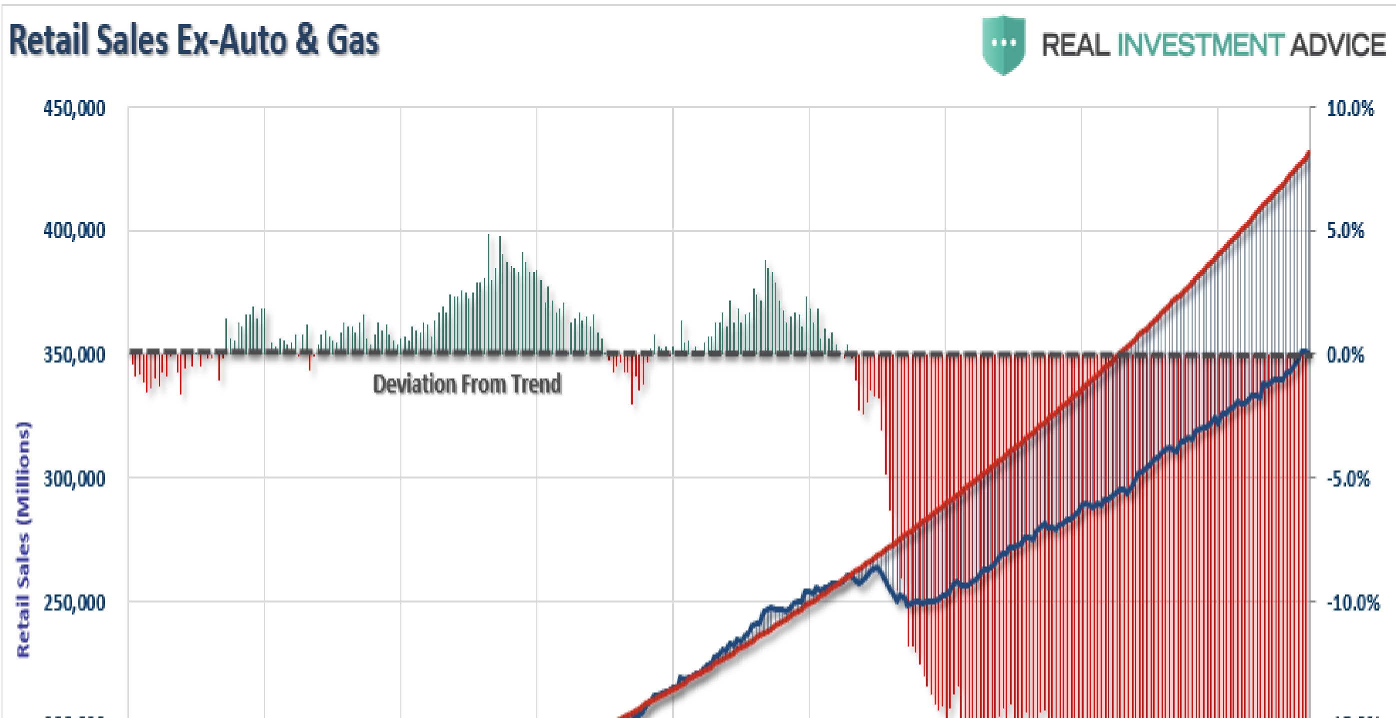
If economic destruction led to long-term economic prosperity, then the U.S. should just regularly drop a nuke on a major city and then rebuild it.•When you think about it in those terms, you realize just how silly the whole notion is. **However, in the short-term, natural disasters do *"pull forward"* consumption as individuals need to rebuild and replace what was previously lost.** This activity does lead to a short-term boost in the economic data, but fades just as quickly. A quick look at core retail sales over the last few months, following the hurricanes, shows the temporary bump now fading.



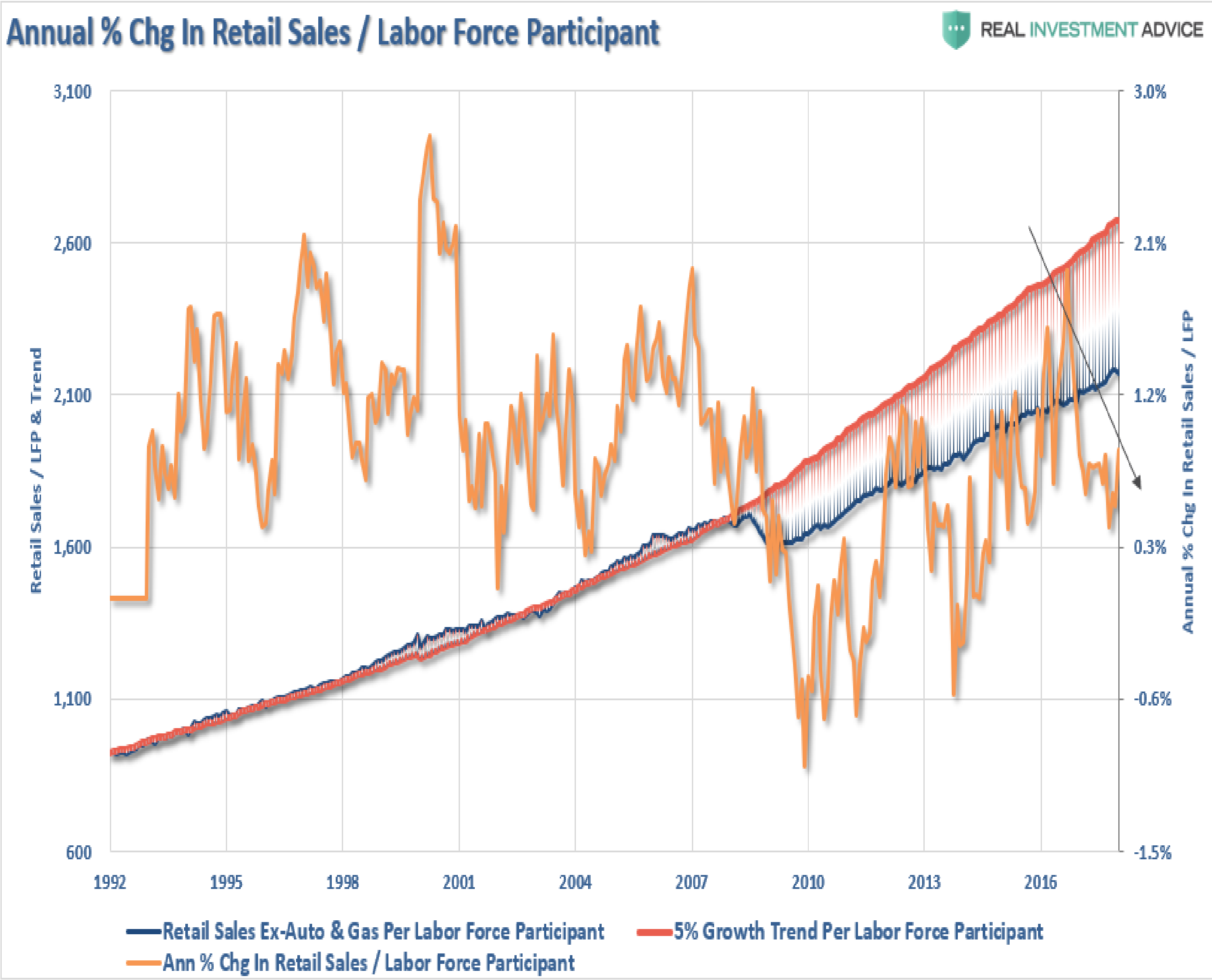
The other interesting aspect of this is the rise in consumer credit as a percent of disposable personal income. The chart below indexes both consumer credit to DPI and retail sales to 100 starting in 1993. **What is interesting to note is the rising level of credit card debt required to sustain retail sales.**




Given that retail sales make up roughly 40% of personal consumption expenditures which in turn comprises roughly 70% of GDP, the impact to sustained economic growth is important to consider. **Importantly, the latest CPI, inflation, report showed a strong rise that was directly attributable to rising rent, health care, and oil prices.** Even the previous increases in retail sales were primarily comprised of gasoline, which directly impacts consumers ability to spend money on other stuff, and building products from rebuilding efforts. Importantly, 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 23.2% 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.)* The next 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. Already compensation for the top 20% of income earners are seeing wages rise, while corporations have doubled their planned stock *"buybacks"* to boost earnings per share. But such does not increase the•take-home pay for the bottom 80% of the population that drives the majority of economic growth long-term. **Very likely, the next two quarters will be weaker than expected as the boost from hurricanes fade and higher interest rates take their toll on consumers.** So,•when mainstream media acts astonished that economic growth has once again slowed, you will already know why. Here is your weekend reading list.

## Economy & Fed

- **All Eyes Turn To Jerome Powell** by James Rickards via Daily Reckoning
- **Trumps New Dark Money Man Takes Over** by Nomi Prins via The Daily Reckoning
- **Yellen's Success At Fed Confirms Irrelevance** by John Tamny via Forbes
- **How Long Before Trump Turns On Powell** by Bess Levin via Hive
- **2017-18 Economic Recovery Mocks "New Normal"** by Peter Ferrara via Washington Times
- **Soon To Pivot From Cheering Economy To Fearing Debt** by Shawn Tully via Fortune
- **Rules-Based Monetary Proposals Won't Solve Problem** by Nathan Lewis via Forbes
- **Crumbling Infrastructure Is A Myth** by John Merline via IBD
- **Infrastructure Spending Won't Transform America** by George Will via IBD
- **Real Correction Will Spring From Deficit** by Kevin Williamson via National Review

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## Markets

- **5-Reasons Not To Panic** by Caroline Baum via MarketWatch
- **How Trillions In Risk Parity Trades Could Sink The Market** by Simon Constable via Forbes
- **Nomura: You Will Have Another Chance To Buy Low Soon** by Tyler Durden via ZeroHedge
- **Market Volatility & Inflation** by Edward Harrison via Credit Writedowns
- **Who's Really To Blame For The Crash** by Mark DeCambre via MarketWatch
- **Corrections Almost Always Test Lows Before Complete** by Bryce Coward via Knowledge Leaders
- **Interest Rates Pessimistic About Growth** by Matthew C. Klein via FT
- **The Rate Puzzle Is Coming Together** by Sven Henrich via Northman Trader
- **Stock Market Was Overdue For Fall** by Jeff Sommer via NYT
- **History Suggests Correction Isn't Over** by Ryan Vlastelica via MarketWatch
- **Identifying•A Market Bottom** by Michael Brush via MarketWatch
- **Don't Freak Out** by Jonathon Trugman via NY Post
- **3-Ways This Correction Can Play Out** by Jesse Colombo via RIA
- **Be Smarter Than Harvard** by John Coumarianos vis RIA

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https://realinvestmentadvice.com/a-warning-shot-for-passive-investing/

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## Research•/ Interesting•Reads

- **Record Short Treasury Bets Begs Reversion** by Wolf Richter via Wolf Street
- **It's Hard To Predict How You'll Respond To Risk** by Collaborative Fund
- **A New Mental Model For Investing** by Microcap Club
- **How A Bear Market Starts** by Macromon via Global Macro Monitor
- **We've Not Been Here Before** by Kevin Muir via The Macro Tourist
- **Volatility Speculators Storm Back In** by Dana Lyons via The Lyons Share
- **Gold Fireworks On The Horizon** by•Jesse Felder via The Felder Report

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***?When an investor focuses on short-term investments, he or she is observing the variability of the portfolio, not the returns - in short, being fooled by***

***randomness.?•?****Nassim Taleb***

Questions, comments, suggestions ? please email me.