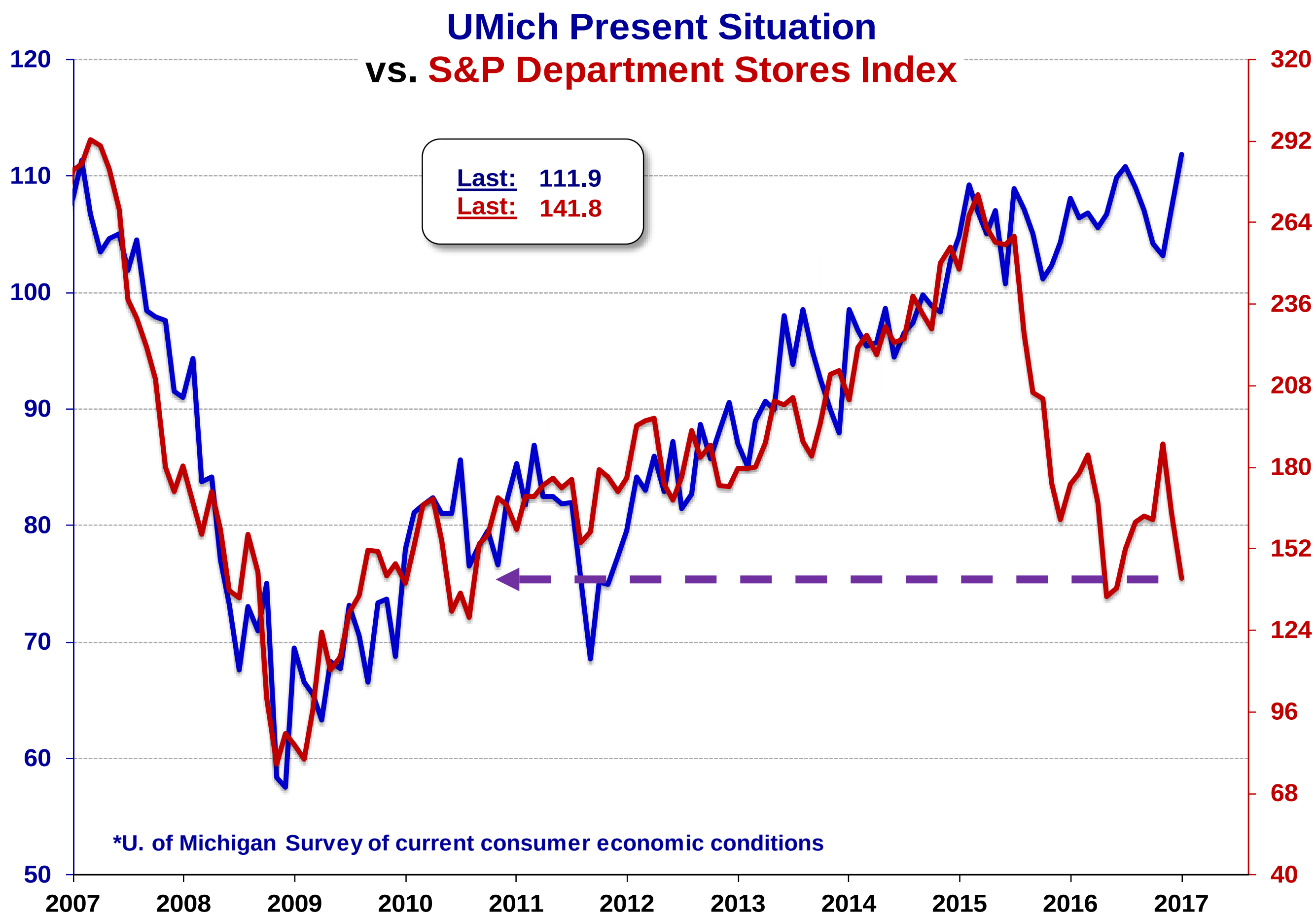
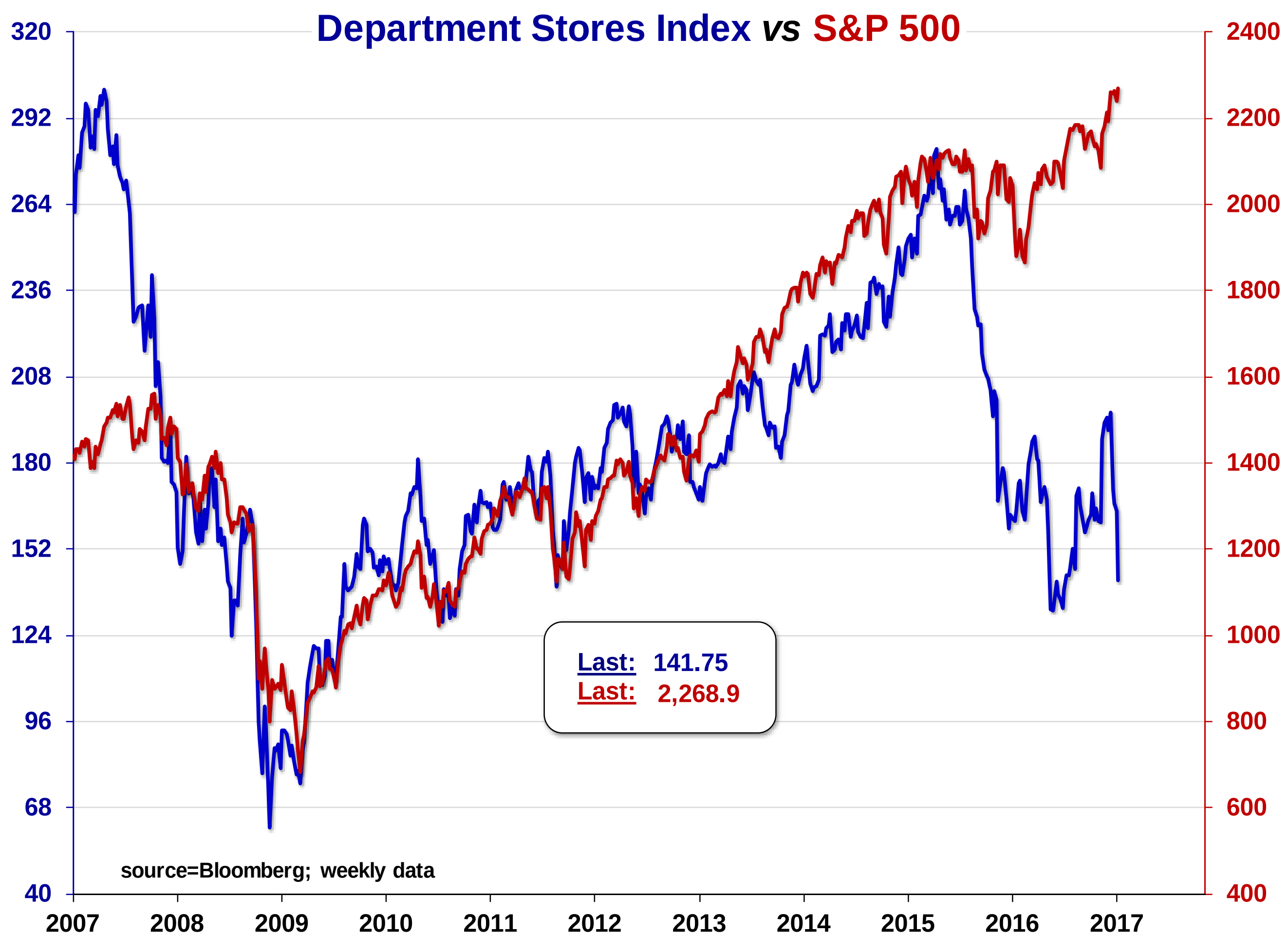
The big news of this past week: the disappointing earnings (+guidance) from Macy's, Kohl's The Limited, and JC Penny, with Macy's announcing 68 store closures and layoffs of 10,000 workers; The Limited closing all 250 of its stores and laying off 4,000 workers. This news, of course, sent S&P Dept. Stores Index tumbling, now back to Sept. 2010 levels. How long until Optimism follows lower? We'll get some clues with Friday's Retail Sales report which, by all indications, is likely to disappoint. But, the '***everybody is just shopping online now***' theory is alive and well as most analysts refuse to believe there's any stress on the consumer level. We'll go ahead and take the other side of that argument (no surprise!). Another important and telling item from last week was Neiman Marcus pulling its IPO plans as the luxury retailer has seen deteriorating sales (5 consecutive quarters of same-store sales declines). In sum: sales are so poor they fear a disastrous IPO. Talk about no confidence! If the high end consumer is pulling back on spending, this certainly does not bode well for the rest of the retail sector.

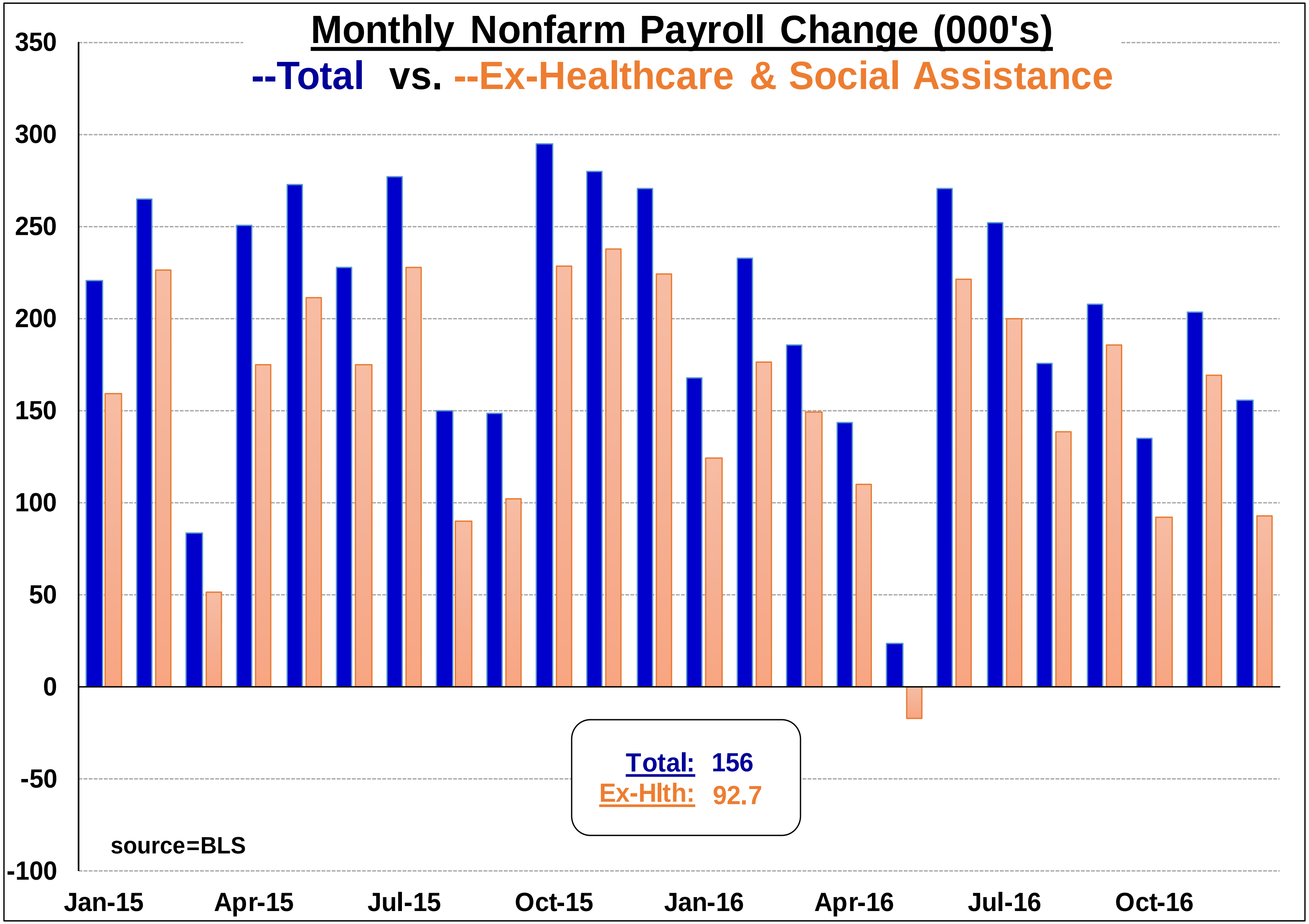


But, not to worry! When (or, likely when) Amazon reports strong holiday (and q4) internet sales, this will be the main talking point. However, as we've said often, we believe strong internet sales are more indicative of a 'bunker' mentality for the consumer. Stagnant (er, declining) real wages and higher mandatory outlays (rent, health insurance) are pushing consumers to the cheapest option for their retail needs…and they're finding this online.

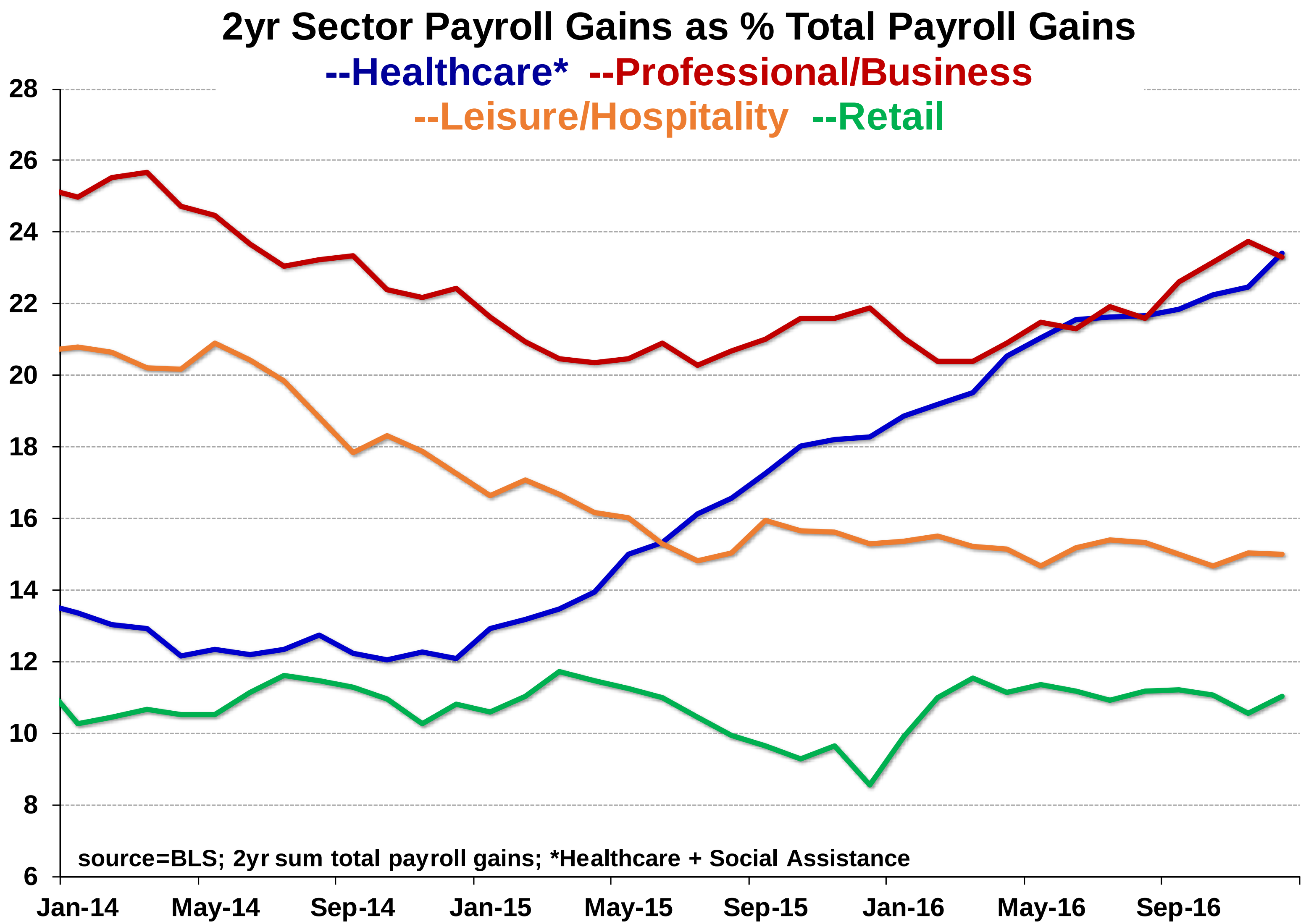
Looking at this chart, one would conclude (given prevailing wisdom that internet sales are taking over the world) that online shopping was first discovered by consumers ca. 2015. Of course, we know this not to be true. In fact, on a 12mo sum basis, internet retail accounts for just over 10% of total retail sales. So, not the 'takeover' one would think. Our take on the chart: after 2+ years of soaring health care costs (along with part-time jobs and declining real wages), consumers began pulling back retail spending…in a big way. We would submit that everyone, no matter their income bracket, enjoys 'splurging'; ie- going out to the mall, local retailer, favorite restaurant et al. and 'letting loose' with their disposable income to some degree. We all do it. We buy clothing, or electronics, etc. that we ***know*** we can get cheaper elsewhere, but we buy it anyhow. It's a form of gambling, yet with something to show for it; wasting a bit of money …**because we can**. The point here is simple: this deterioration in brick-and-mortar sales is NOT some sudden shift to the 'easier, more efficient' online sales platform for consumers. It is a sign of distress on their part, plain and simple. And, as the consumer represents ~70% of the economy, this deterioration in traditional store sales should not be dismissed as a shift in 'spending location' habits, as the mainstream prevailing wisdom is pushing. To the contrary, we would submit it is a clear warning flare that consumer distress is well underway.



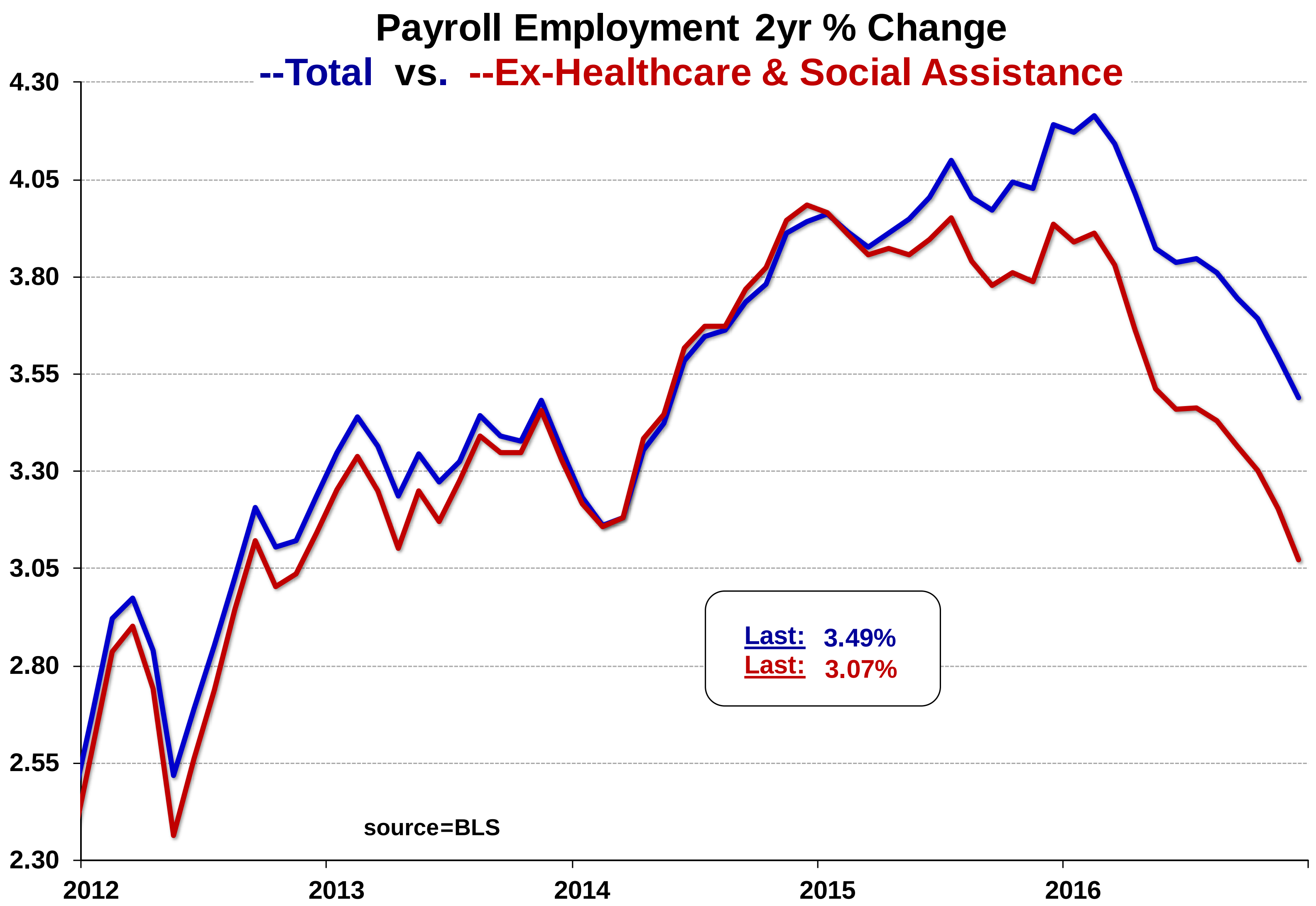
Payroll Employment data showed a gain of 156k jobs for December. Excluding Heath Care & Social Assistance, job gains were 93k. Health Care gains in Dec. accounted for 40% of total net employment gains…which, outside of these gains being above total gains (ie- Health Care gains accounted for greater than overall employment gains), was the largest % since the recession.



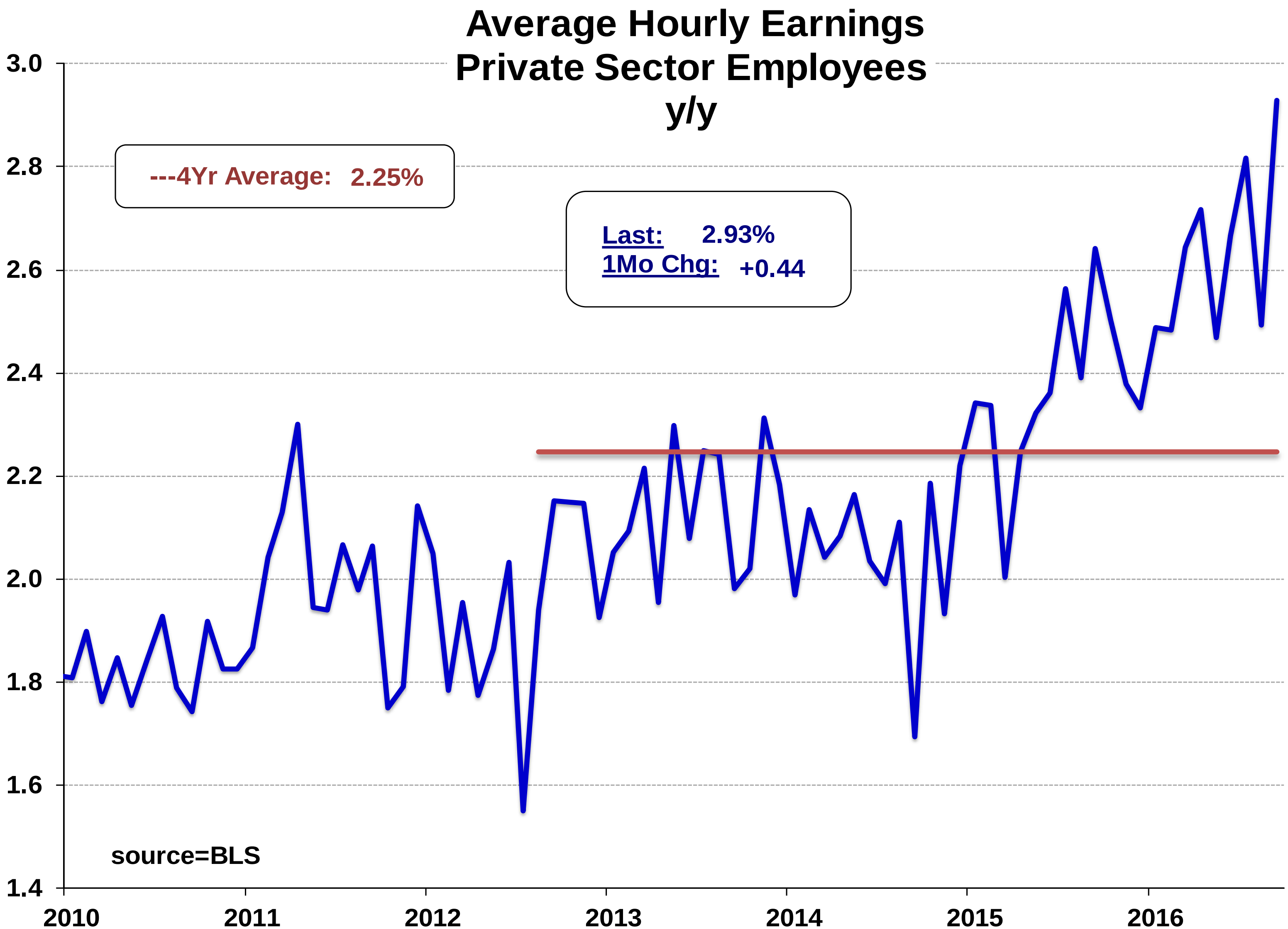
Among the 4 largest employment groups, Health Care employment gains over the past 2 years have now exceeded that of Professional & Business (and is near doing the same on a 3yr change basis).



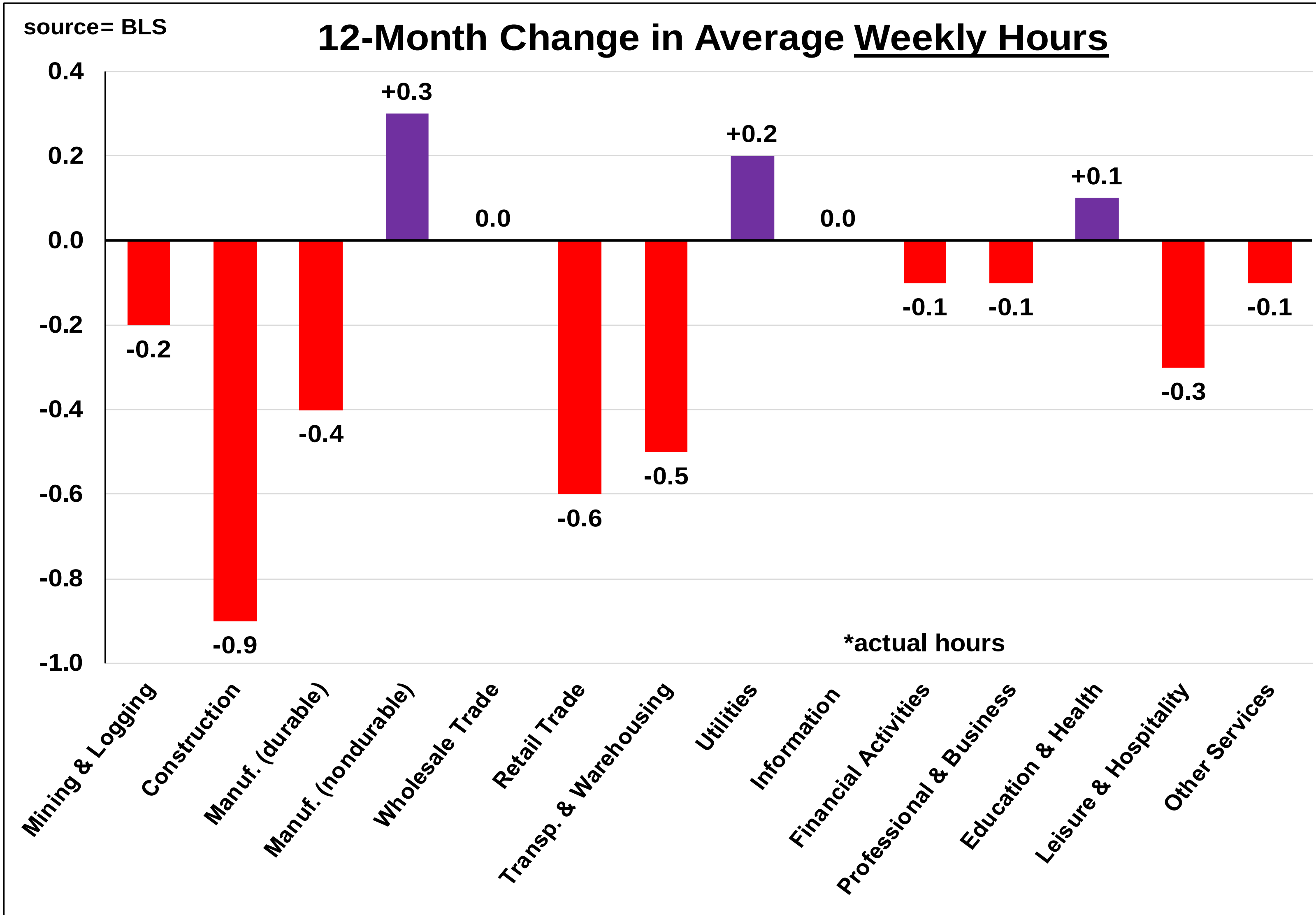
If you strip-out the 'constant' of Health Care employment (which never sees a real decline during recession periods), we find employment growth is deteriorating at a faster clip than overall employment…by nearly 2 years. Ex-Health Care & Social assistance, growth is at lowest since 2012; Overall growth lowest since 2014. This, according to our metrics, is a clear signal of peak employment



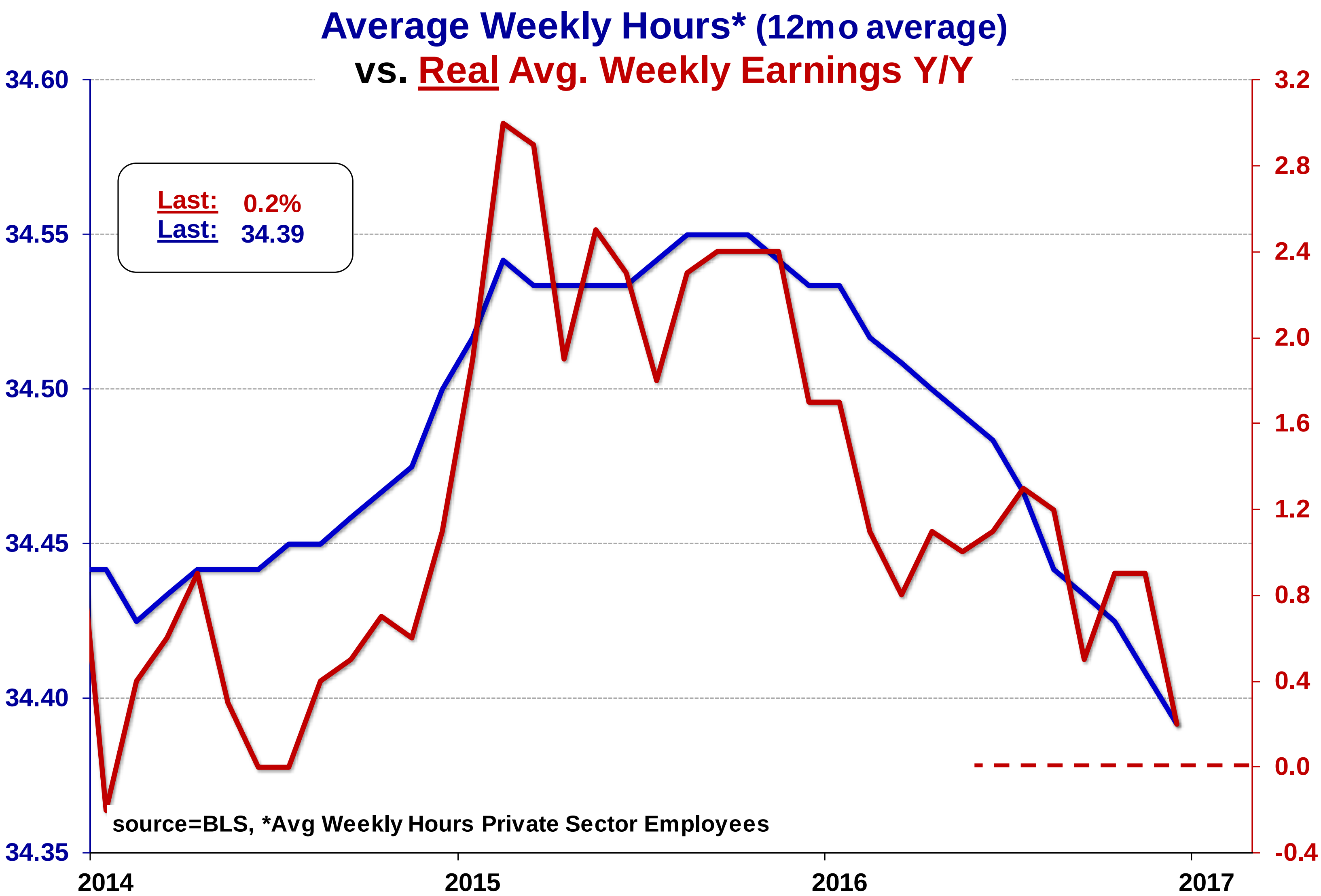
'This is what the Fed has been looking for as confirmation for more rate hikes' – the refrain heard over and over after Hourly Earnings jump to 2.93% y/y. Break out the bubbly, escape economic velocity ahead! Well, hang on a sec…



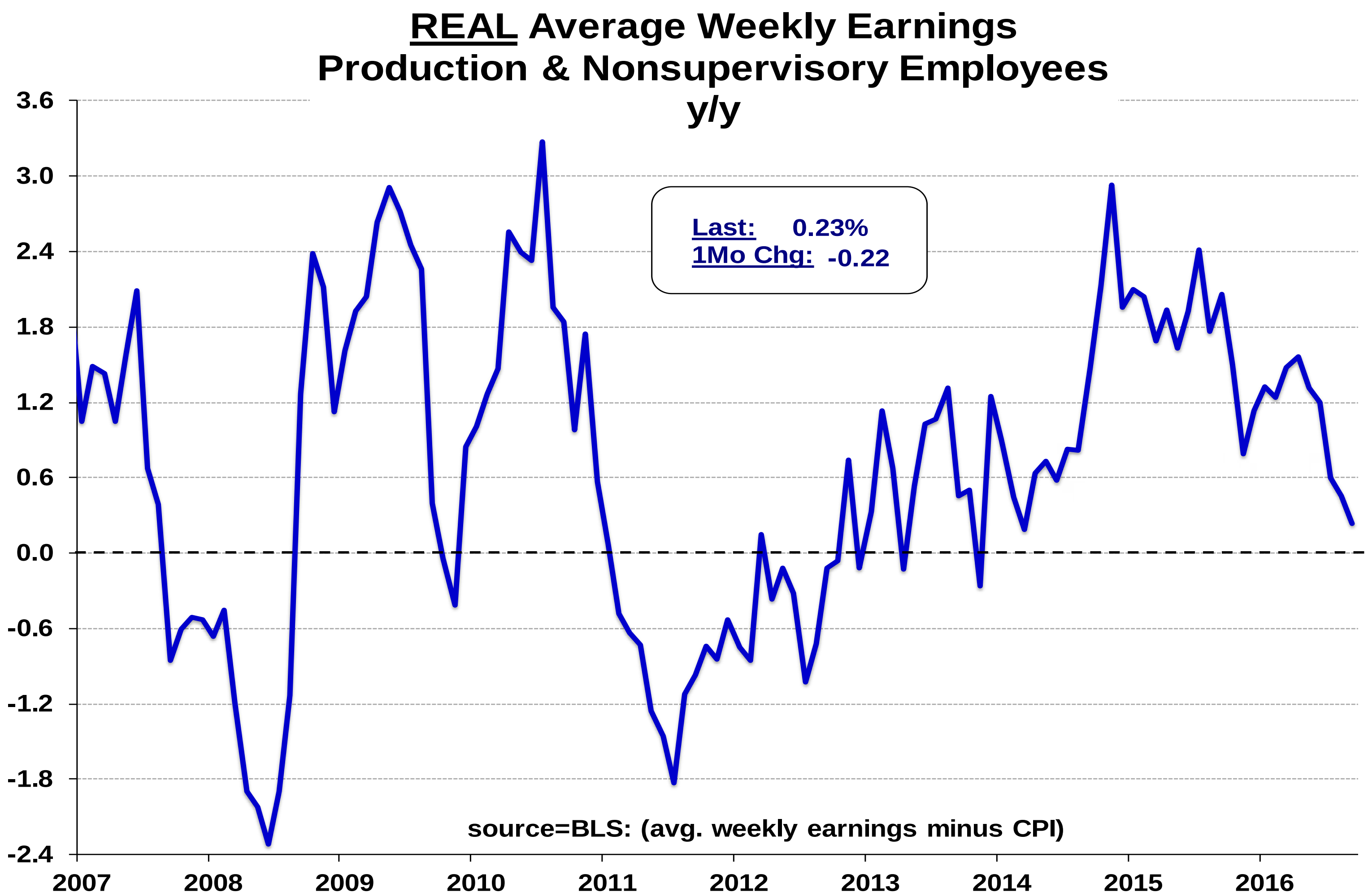
As ever, the devil is in the details. While hourly earnings are up, we find that weekly ***HOURS*** remain in a downtrend. What we need is for ***both*** to head higher, and this is clearly not happening.



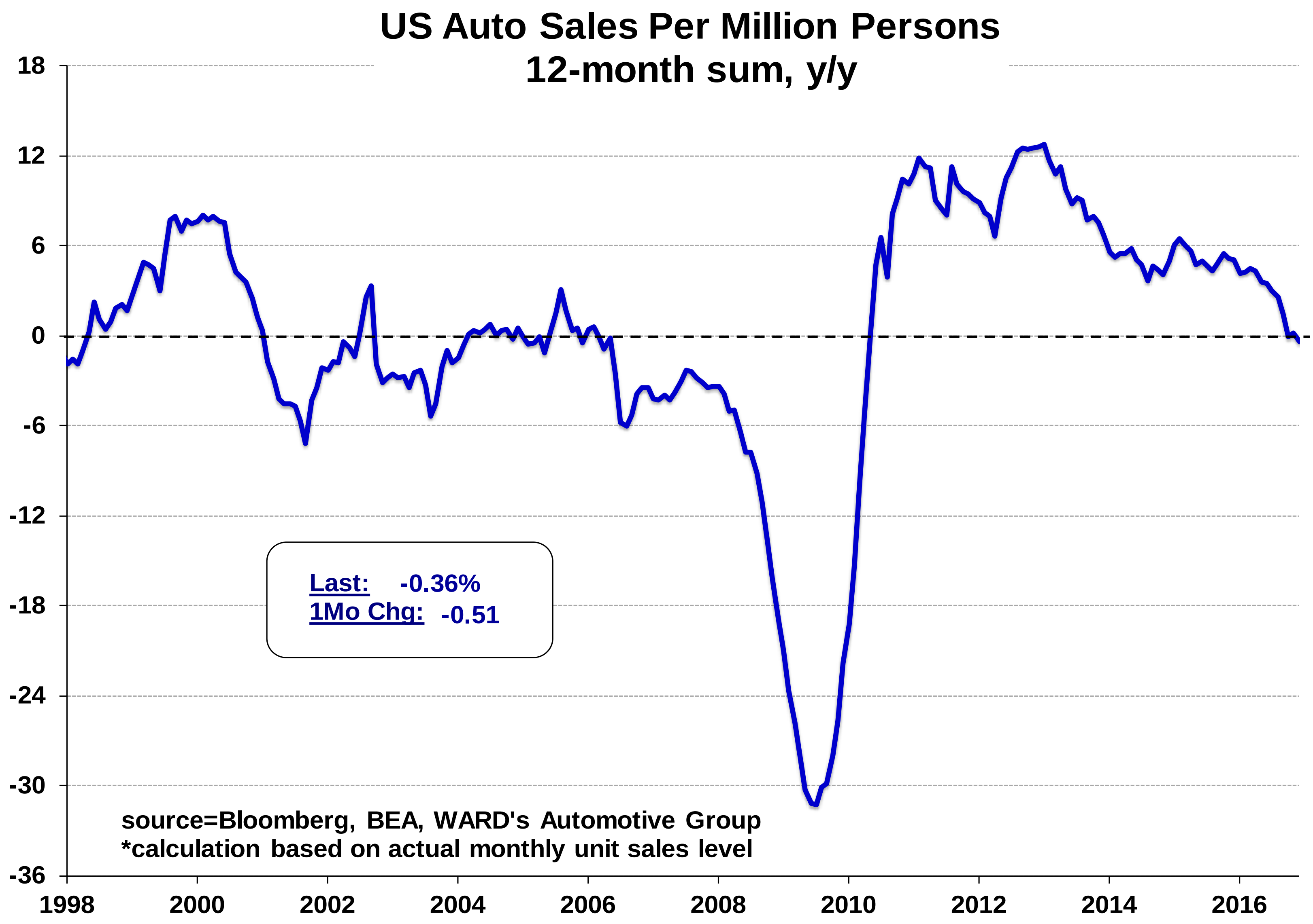
…so, as the math dictates, earnings are declining along with hours worked
(chart: real weekly earnings of all private sector employees, using Nov. Earnings and CPI data)



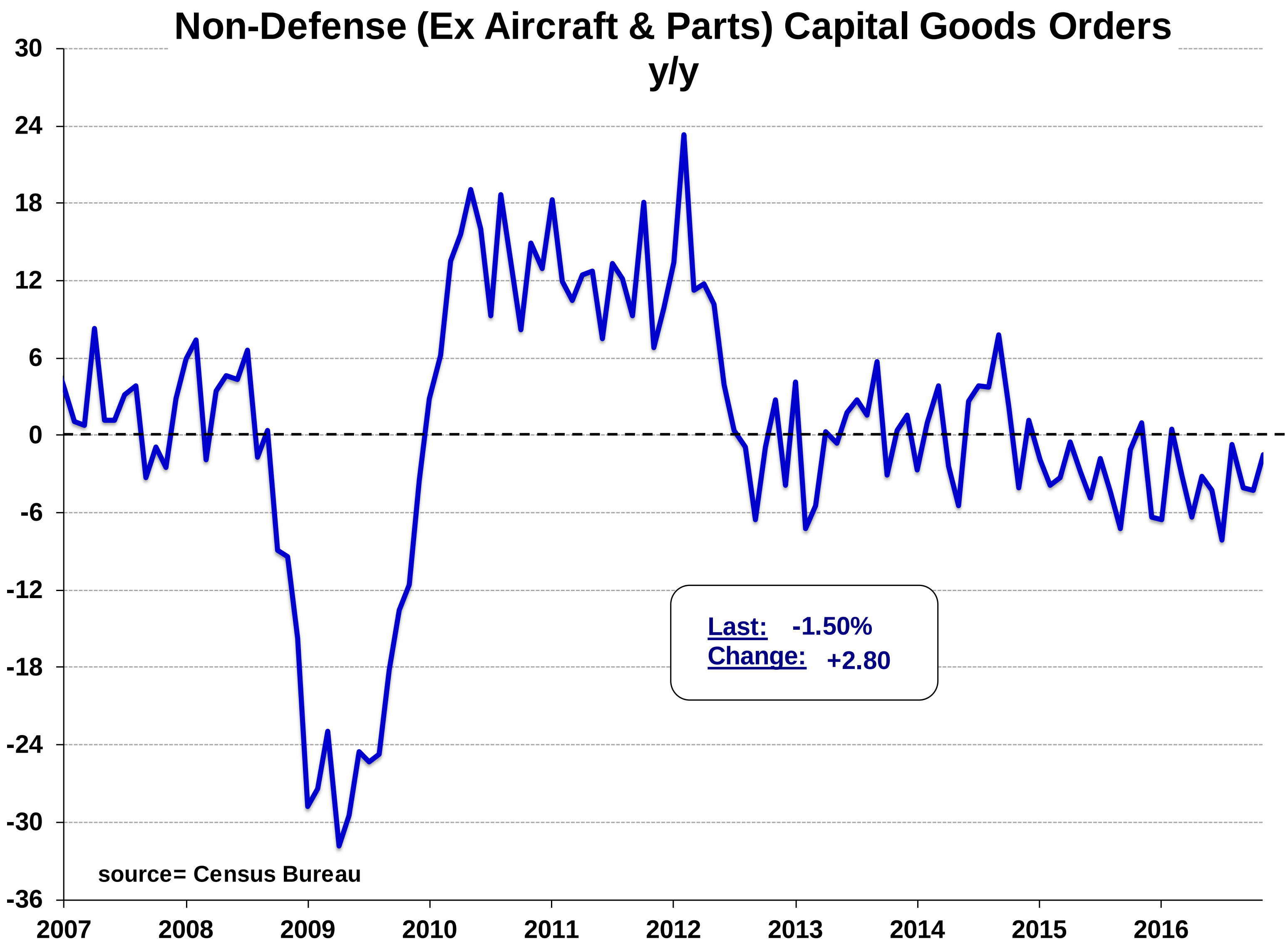
"***The consumer's balance sheet is the best it's been in twenty-five years***" – CNBC Closing Bell guest, 1/6/17. We'd disagree. Excluding the recession (and post-recession 'noise' whipsaw), we see Real Weekly Earnings y/y remain in firm downtrend, getting ever closer to negative territory. This is **not good news**. And, with health care costs (sorry, we have to hammer the importance of this home as often as we can!) soaring again in 2017…and no relief from this likely for a year or more…this deterioration in real earnings becomes more and more alarming for the workforce (and, by extension, retail sales, spending on 'stuff'). (chart: weekly earnings Production & Nonsupervisory employees Dec. data, and CPI Nov. data)



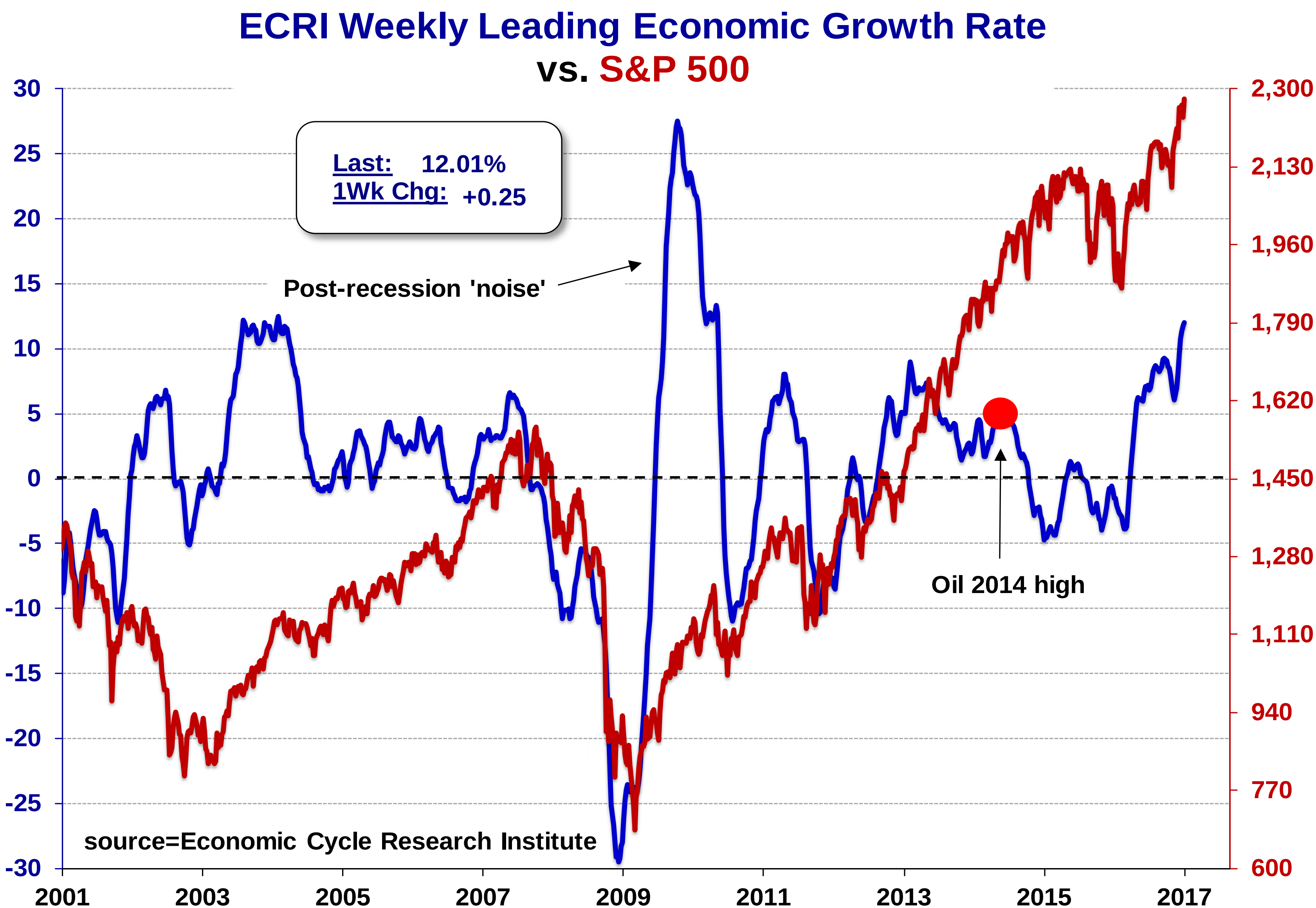
While overall Seasonally Adjusted Annualized Rate Auto Sales hit a near record high (18.3mln), the real (actual #, per capita) data tells a different story…they've turned negative on a Y/Y basis, lowest since just prior to the recession



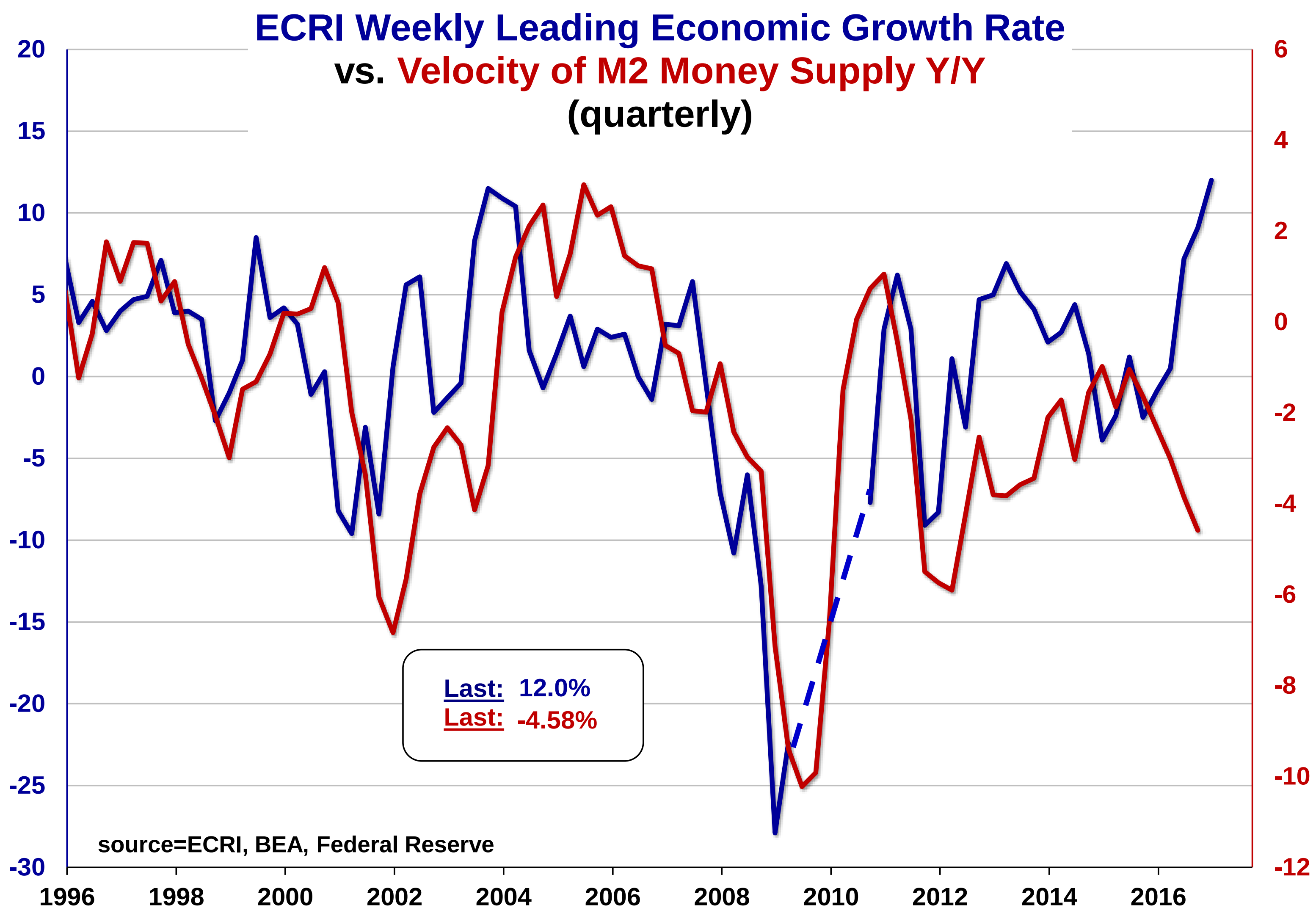
Non-Defense (ex-aircraft & parts) Capital Goods Orders remain in negative y/y territory



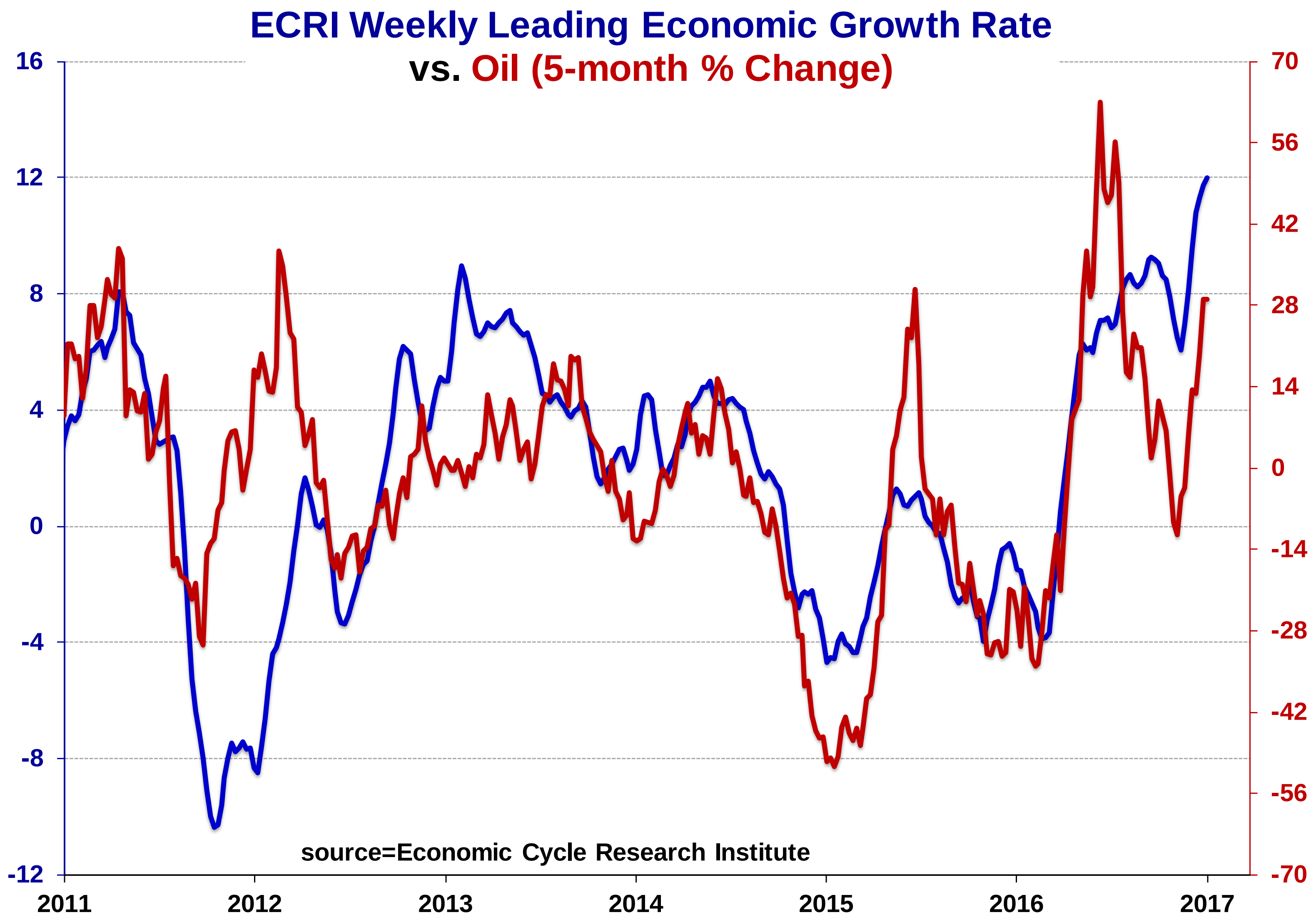
ECRI Growth Rate has surged to highest (outside of post-recession 'noise' spike) to highest since 2003. So, what gives?



The fairly tight correlation between ECRI Growth Rate and Velocity of Money (measure of economic activity) has broken down. So, why the divergence? Well, it seems clear the ECRI uses Oil price as a considerable factor in its calculation of growth. (note: ECRI post-recession bounce ('noise') data removed for scaling purposes; see dotted line. All data quarterly).



Oil and the ***perception*** of growth. We submitted a query to ECRI, asking how big a factor oil prices play in its Growth calculation, to which they said they don't divulge the composition of their growth index. Ok, fair enough. As this chart shows, oil likely plays a not insignificant part in its growth calculation.



As everyone seems to have settled on the idea that OPEC cuts are 'guaranteed', we again must point out that they are not guaranteed. Already this week, we've seen Nigeria reporting increased output…along with Iraq. Not much agreement compliance there. And, as ever, all eyes on China as to their imports and SPR capacity. *Note: just a few days after the OPEC output cut agreement, Saudi Arabia cut prices to China (clearly in an effort to regain market share over Russia). This can, and probably will, go on and on. And should China imports either flat-line, or decline, we could be in for a surprise downside move in oil prices. This would be a game changer for a wide swath of credit and growth metrics. As for the US, demand remains quite weak.