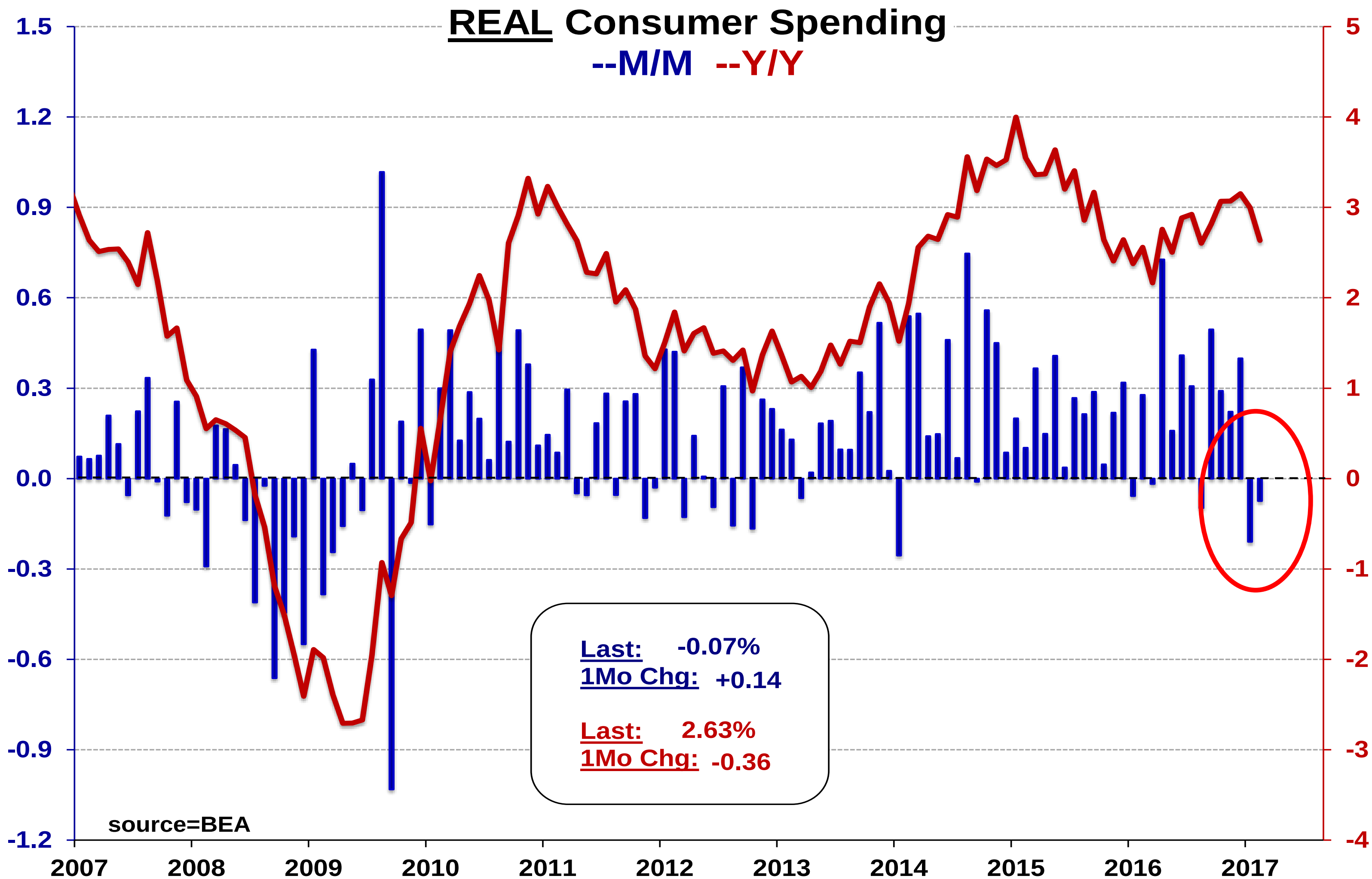
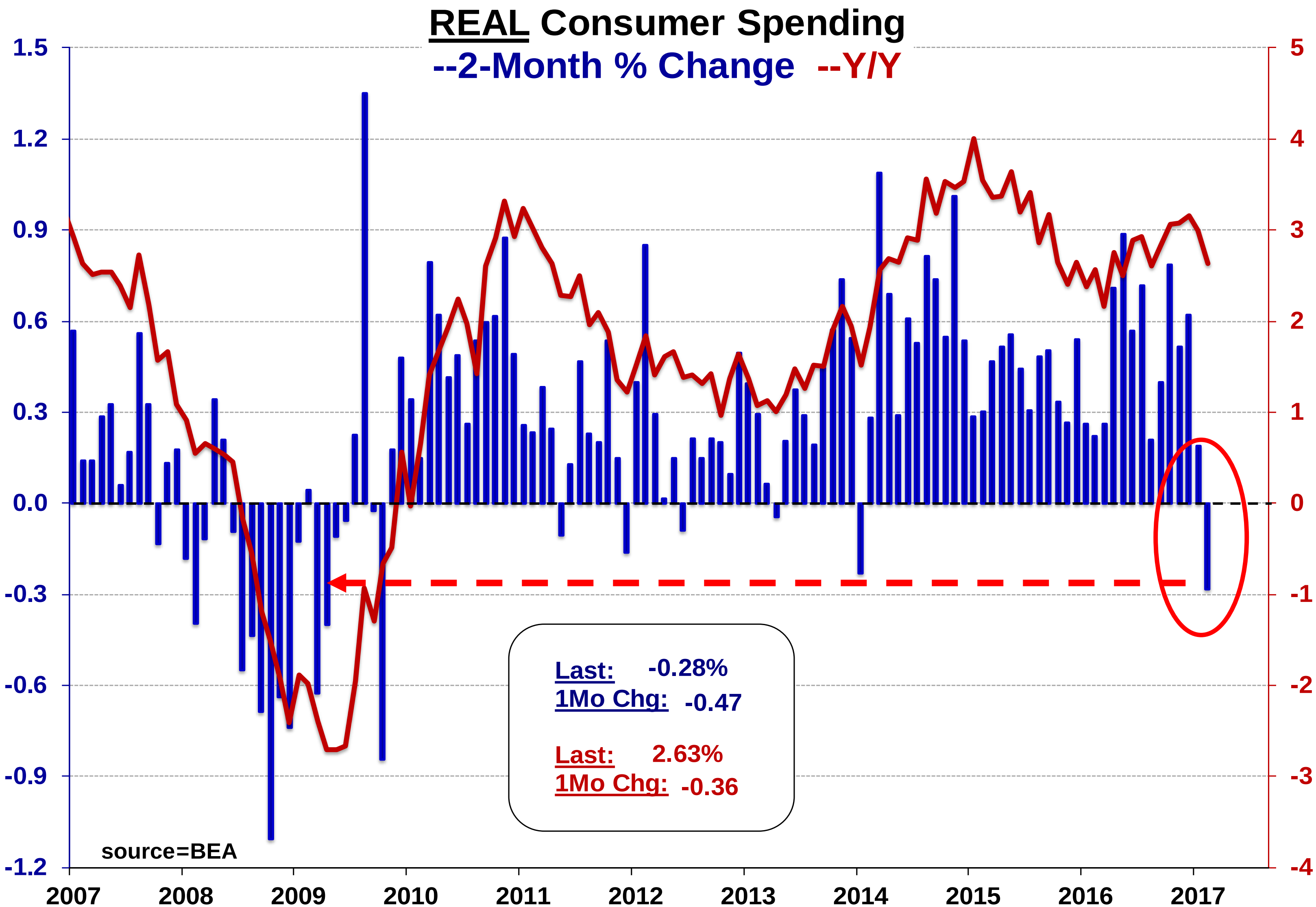
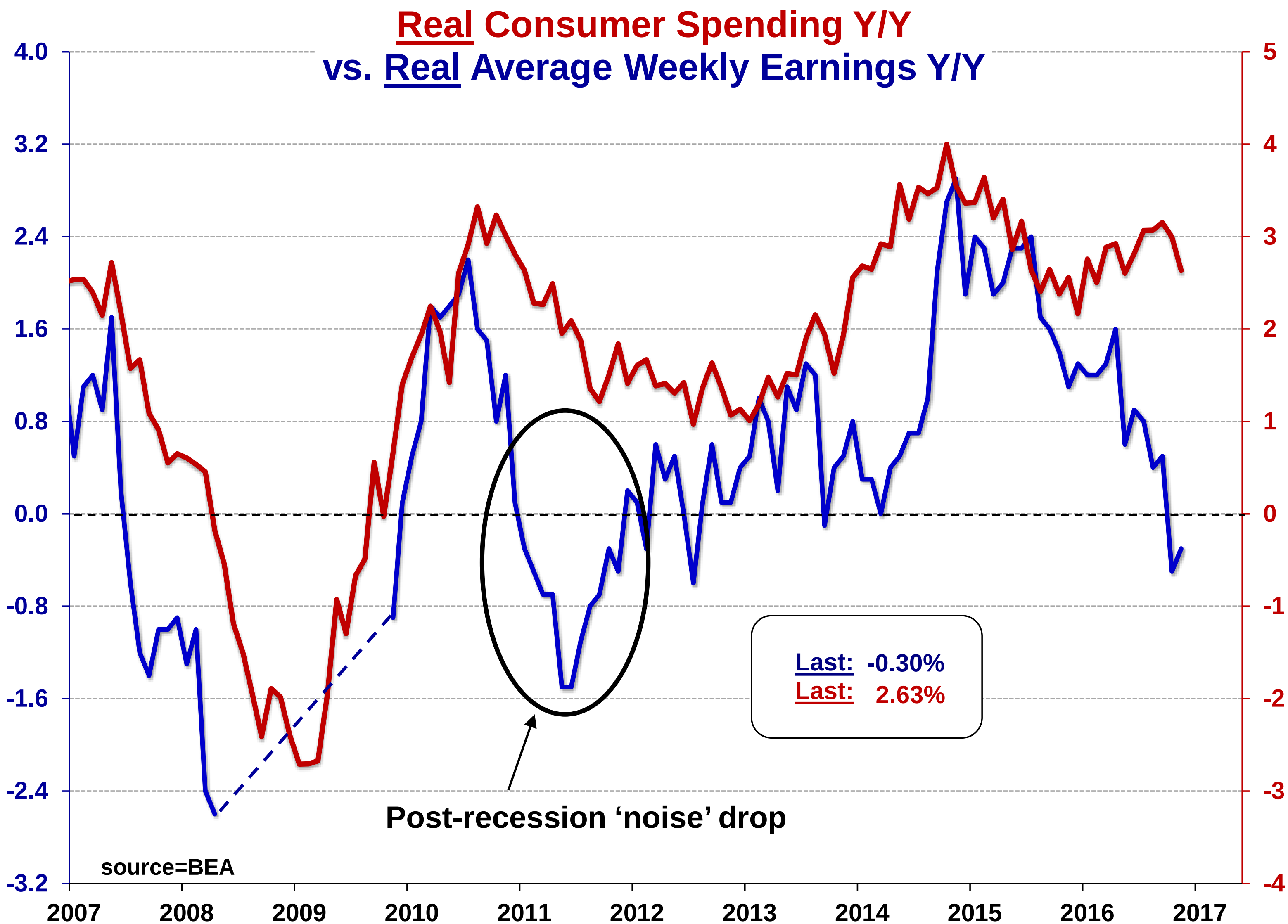
Latest Consumer Spending report showed an increase of +0.1% m/m vs. expectations of +0.2%. The real disappointment, though, was with the **Real** Spending data which showed a m/m decline of -0.07%...two months in a row of negative readings, which has not happened since 2011.



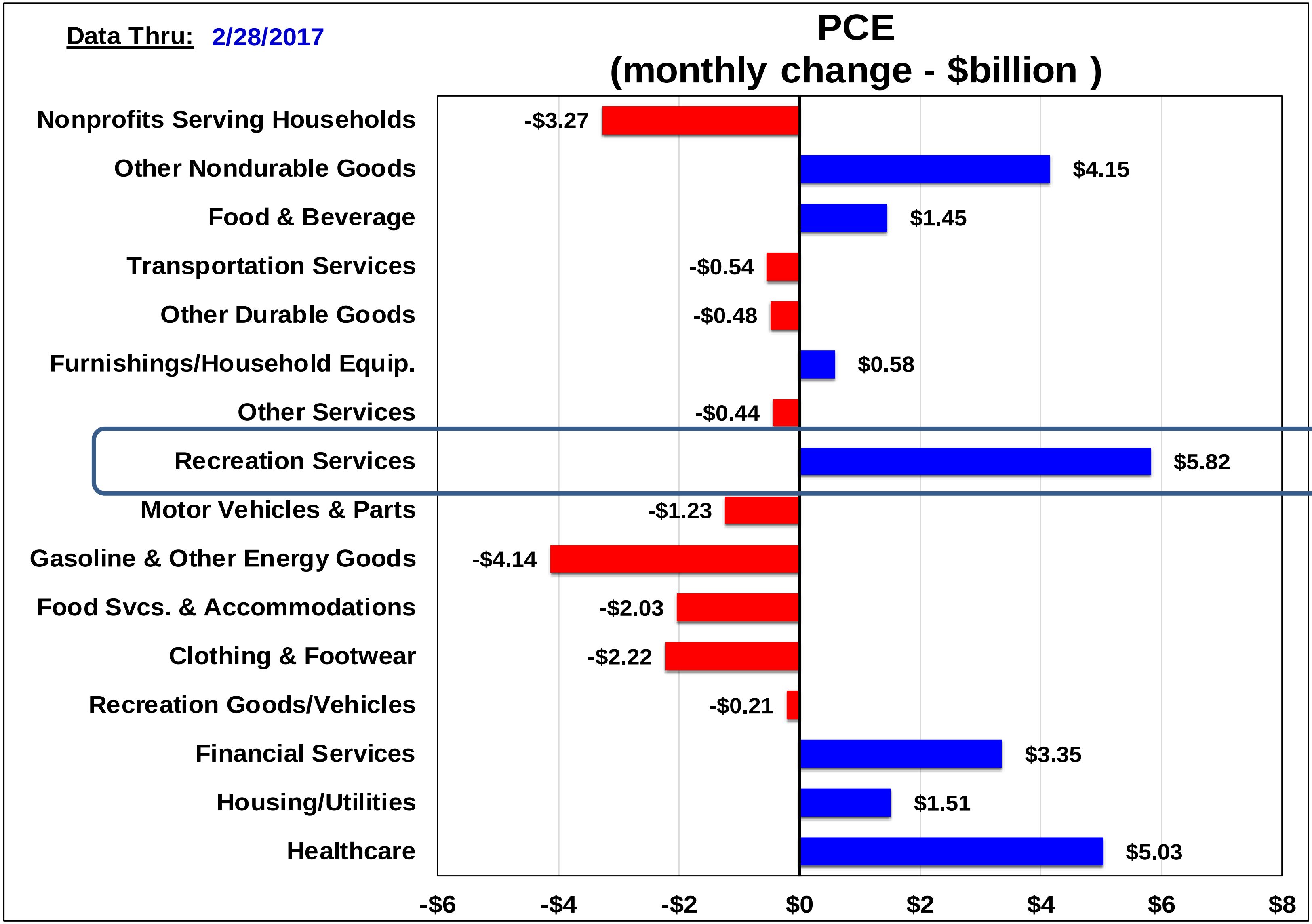
On a 2-month change basis, we find the sharpest drop in Real Spending since the recession at -0.28%. While this may not yet signal trouble ahead, it should be watched closely. Given that Real Earnings are negative y/y and in clear downtrend (along with serious problems in retail sector), we would expect this data to deteriorate further.



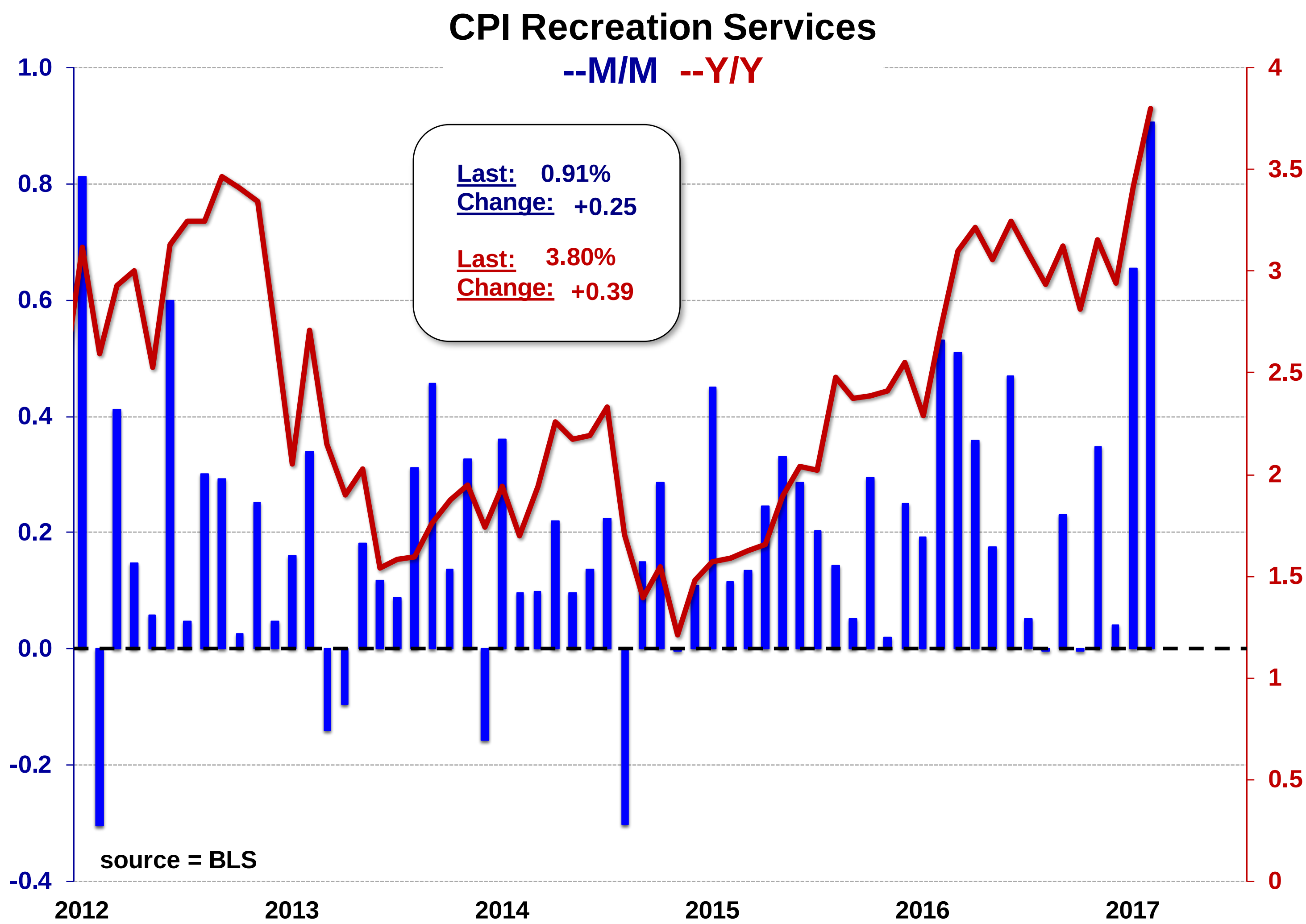
Real Spending set to 'catch down' to employee earnings data? We will get more clues with the upcoming Payroll Employment report with ***all eyes on average weekly earnings update***.



Total PCE rose +0.1% m/m, the largest positive contribution coming from…surprisingly… Recreation Services, which saw largest monthly $ rise since July of last year. But, it turns out this rise is not that surprising. Let's take a look on next page…

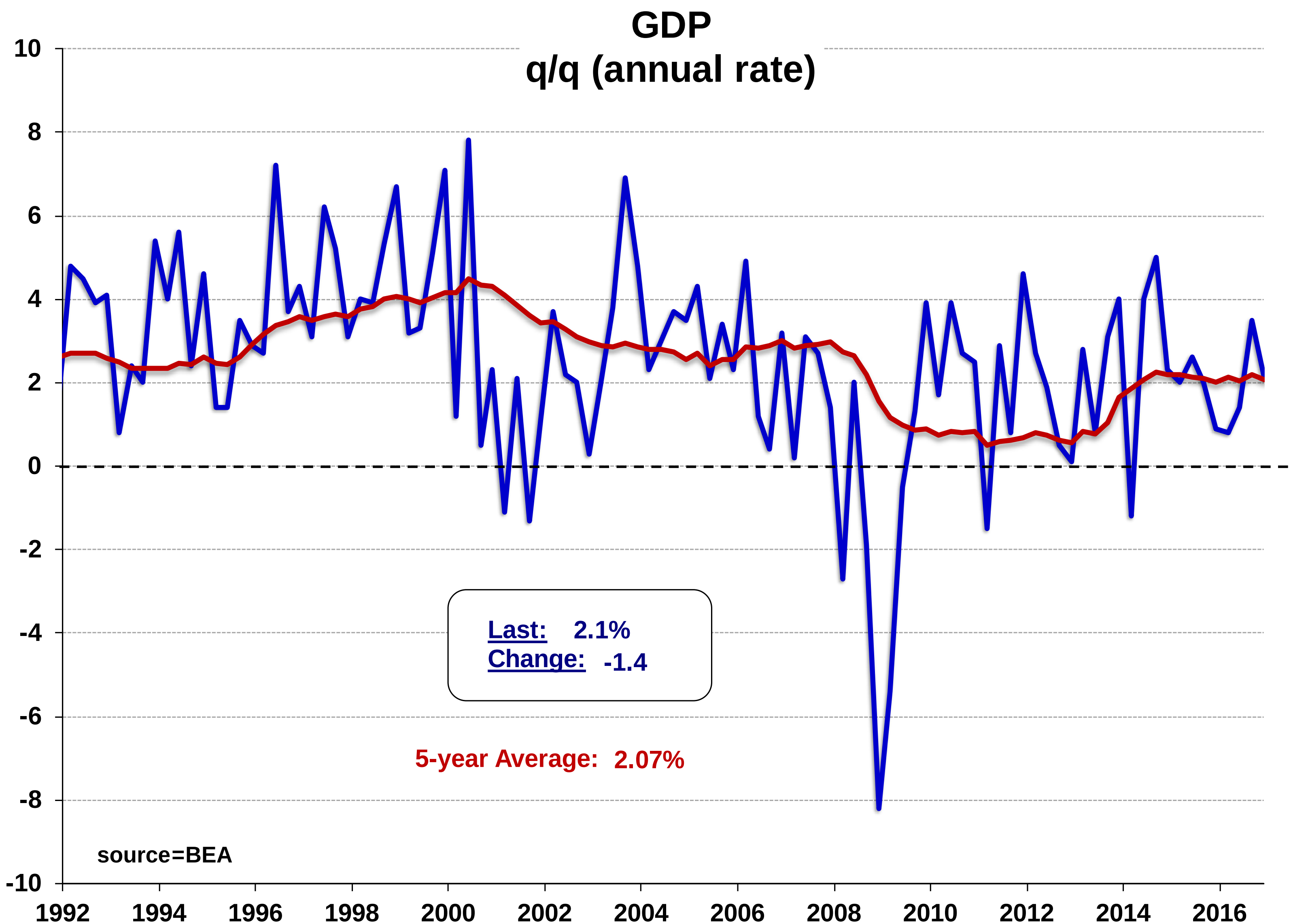


One might assume the surge in Recreation Spending is a sign of the consumer out spending extra disposable income on 'leisure' activities, yet this would be the wrong assumption. Digging into the data, we find the surge in Recreation Service spending largely coming from ***Cable & Satellite TV Services***. Cable & Satellite TV Services CPI now rising at 5.3% y/y vs. 2.47% a year ago, feeding the overall CPI Recreation Services reading (below) which has seen its largest m/m and y/y jump on record. Yet another consumer 'tax' on the rise, thus the large PCE ($level) reading for this series. However, consumers have the ability to ***cancel*** these services …but will likely hold onto them for as long as they can.

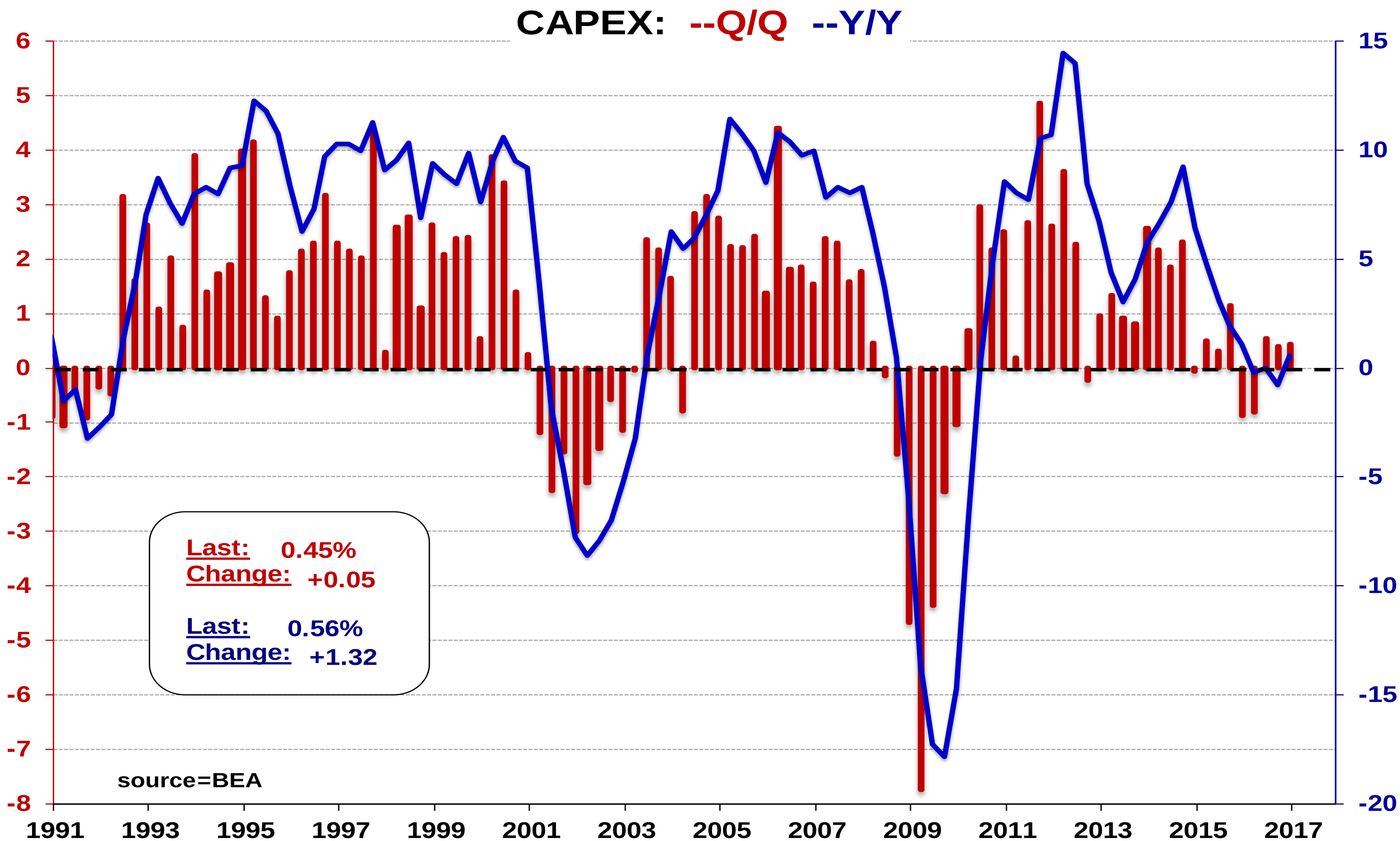


Excluding Cable & Satellite TV Services, total PCE rose +0.05% m/m; Excluding total Recreation Services, PCE rose 0.01% m/m.

Final reading of Q4 GDP: 2.1%...down from 3.5% in Q3; 5-year average of 2.07% is less than half where it was at 2000 high (4.4%) and looks to have stalled at these levels, for now.



A glimmer of good news in the GDP report: Capital Expenditures posted 3rd quarter in a row of positive readings and managed to also turn positive y/y, but still remains at recession levels. Will potential corporate tax cuts renew CapEx? Perhaps, however the demand side of the equation needs to be there for this to be a possibility. Given the consumer stress level is high (see: declining real wages, retail sector turbulence, soaring primary outlays of Health Care & Housing), CapEx may take back seat to potential continuation of M&A and Buybacks. Yet, with valuations stretched at these levels, even those may not materialize to any meaningful degree.



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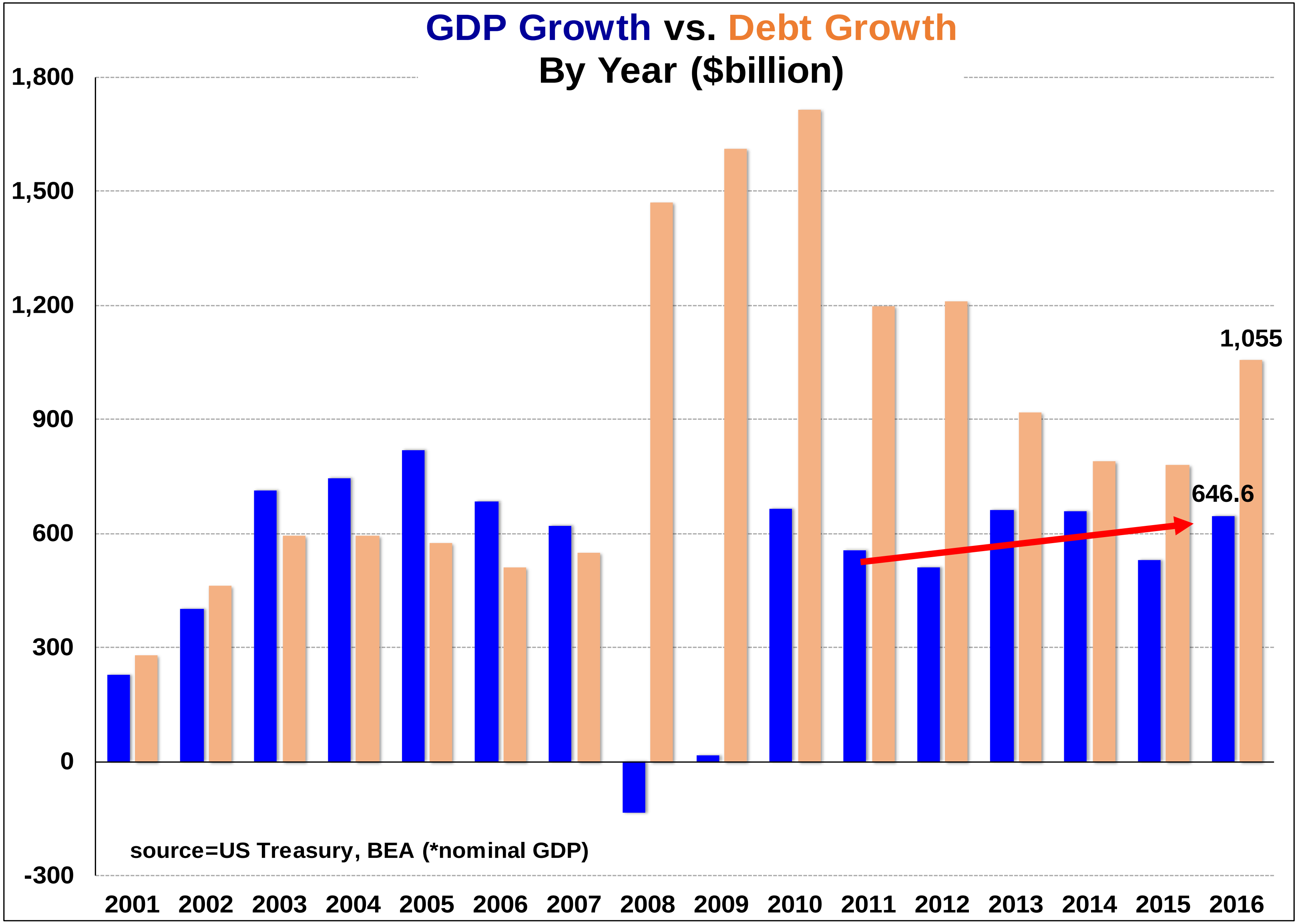
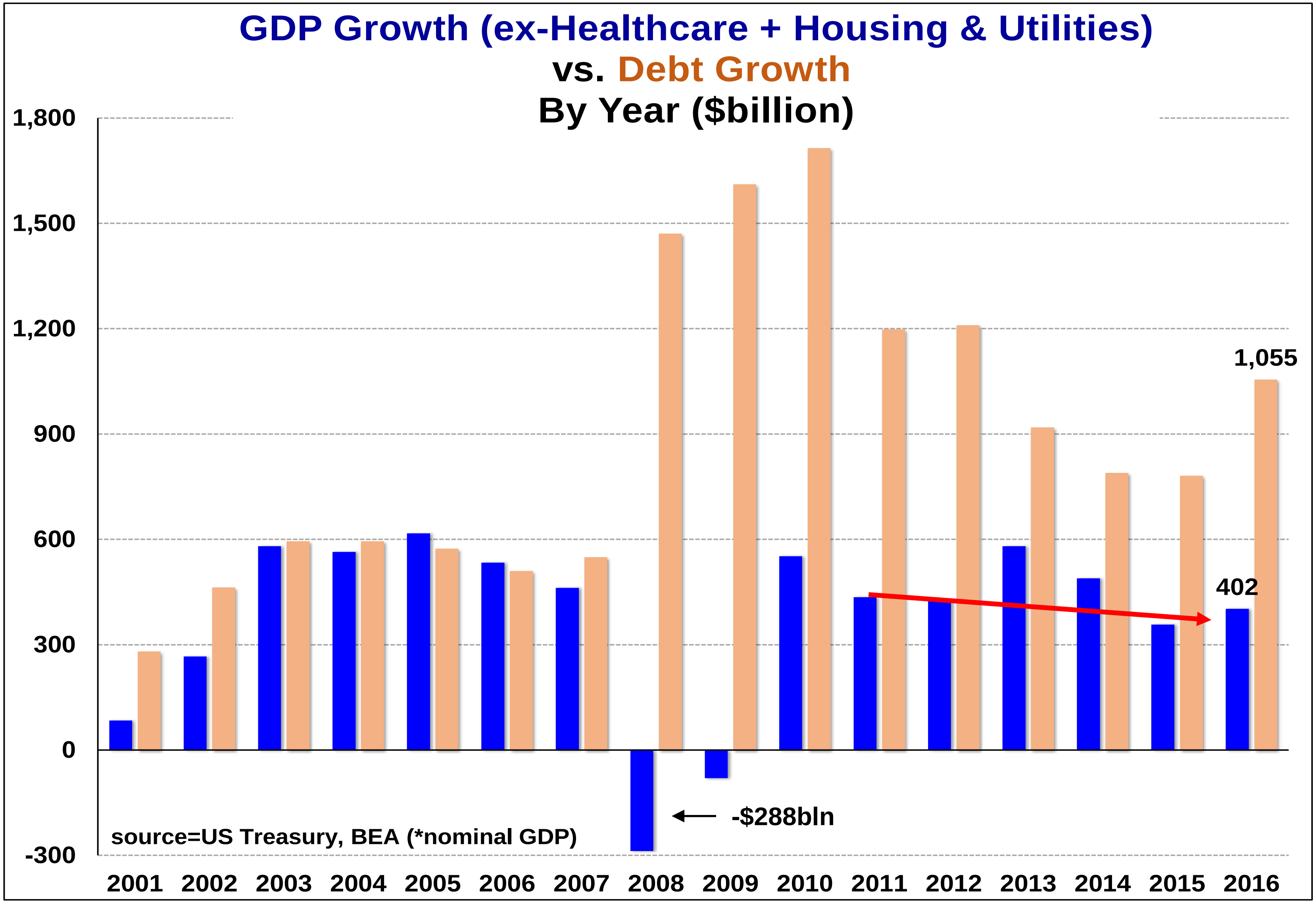
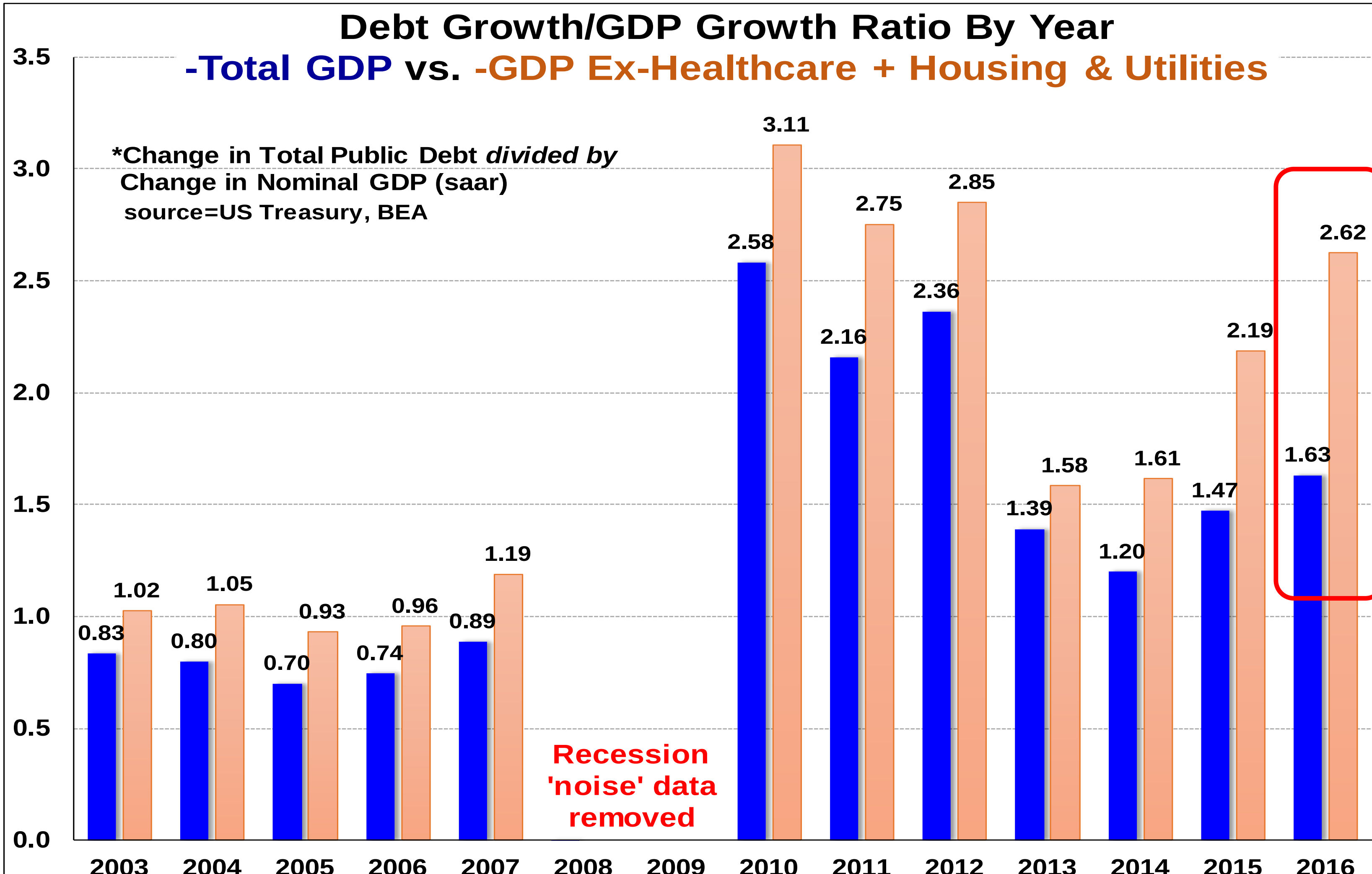
Along with final Q4 GDP, we refreshed our GDP/Debt growth calculations. For purposes of comparison, we see Nominal GDP Growth was +$555.1 Billion in 2011, +$646.6 Billion in 2016…a +16.5% increase.



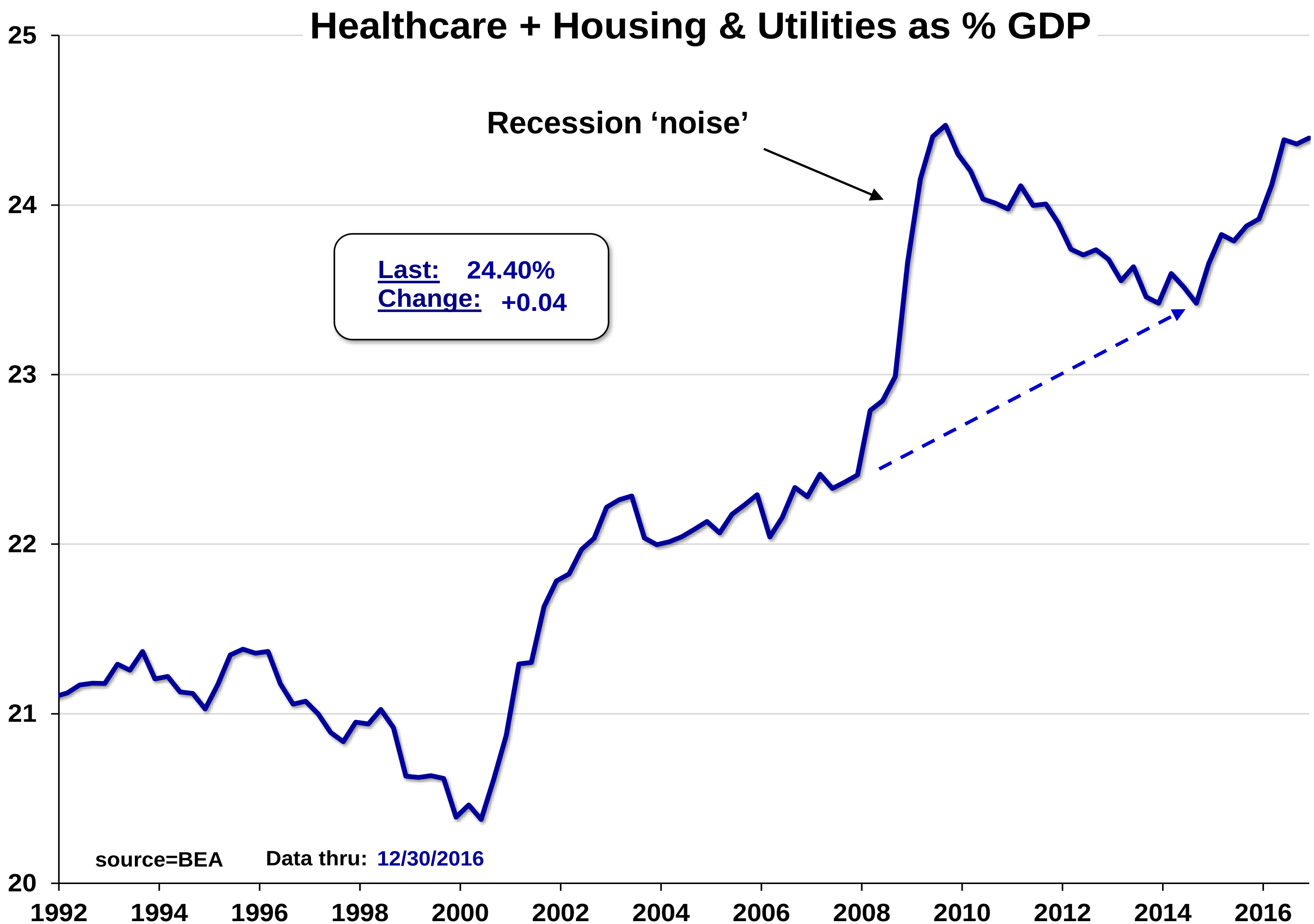
However, excluding Healthcare + Housing & Utilities, it comes as no surprise the data look quite a bit different. This calculation shows GDP growth of +$435.1 Billion in 2011 vs. $402 Billion in 2016 (**a decline of -7.6%**). So, let's move on to compare Debt/GDP ratios for each of these last 2 charts…



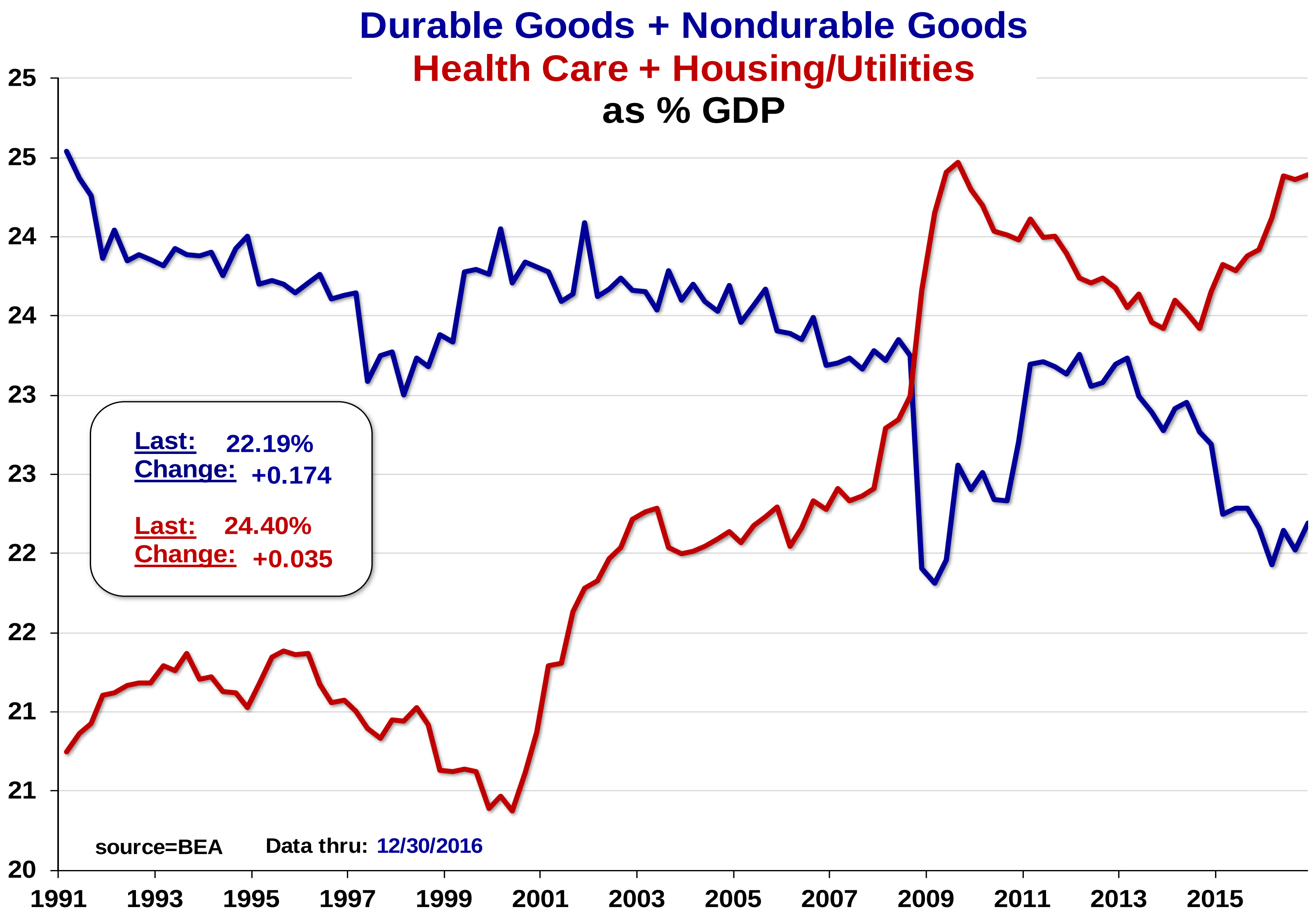
As if the Debt/GDP ratio rising since 2014 weren't troublesome enough, we find the ratio (using GDP excluding Healthcare + Housing & Utilities) spiking higher. **The gap between two series for 2016 is now effectively 1 full point (2.62-1.63), the highest on record.** With no relief in sight for consumers from these effective 'taxes' (especially Health Care, for which no solution seems forthcoming), and the fact that these two outlays represent the largest headwinds for the consumer, we would expect this gap to continue to widen.



Excluding recession 'noise' period, Healthcare + Housing & Utilities just hit **highest level on record as % GDP.** As these represent effective 'taxes' on the consumer, it's easy to understand why Retail Sales (spending on 'stuff') are shrinking as a portion of economic activity.



A closer look:
Consumer spending on 'stuff' taking back seat to primary outlays of Health Care + Housing & Utilities



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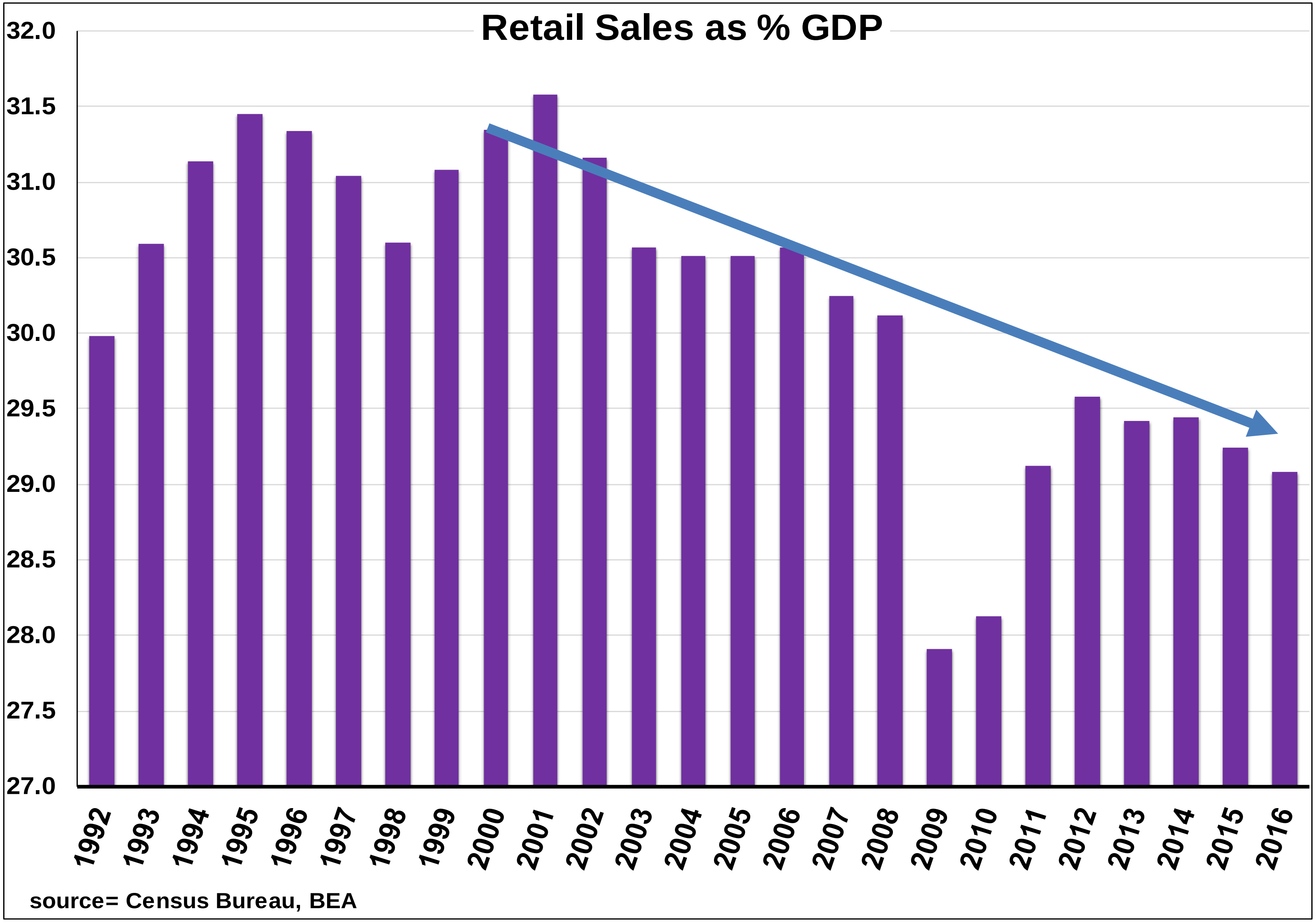
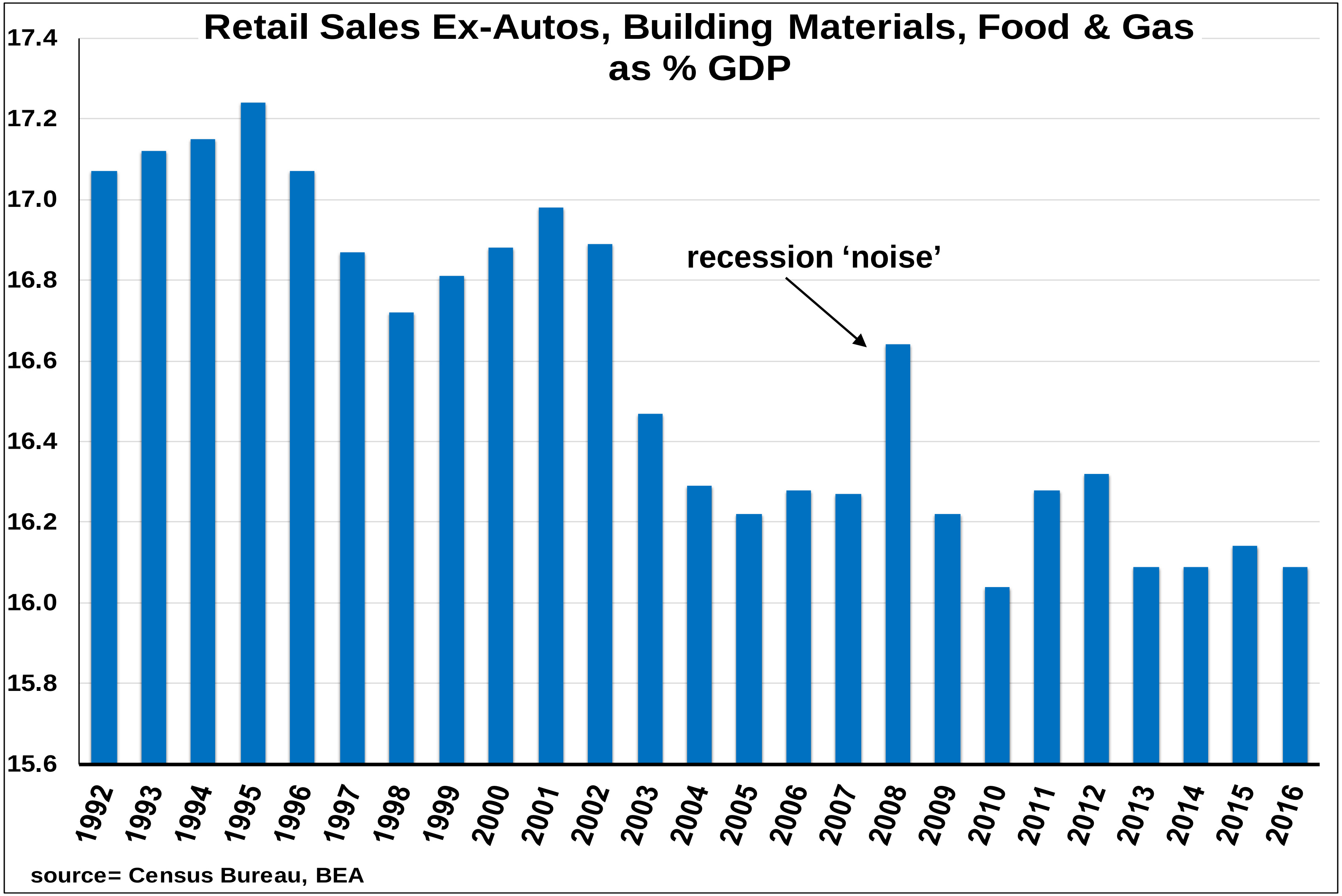
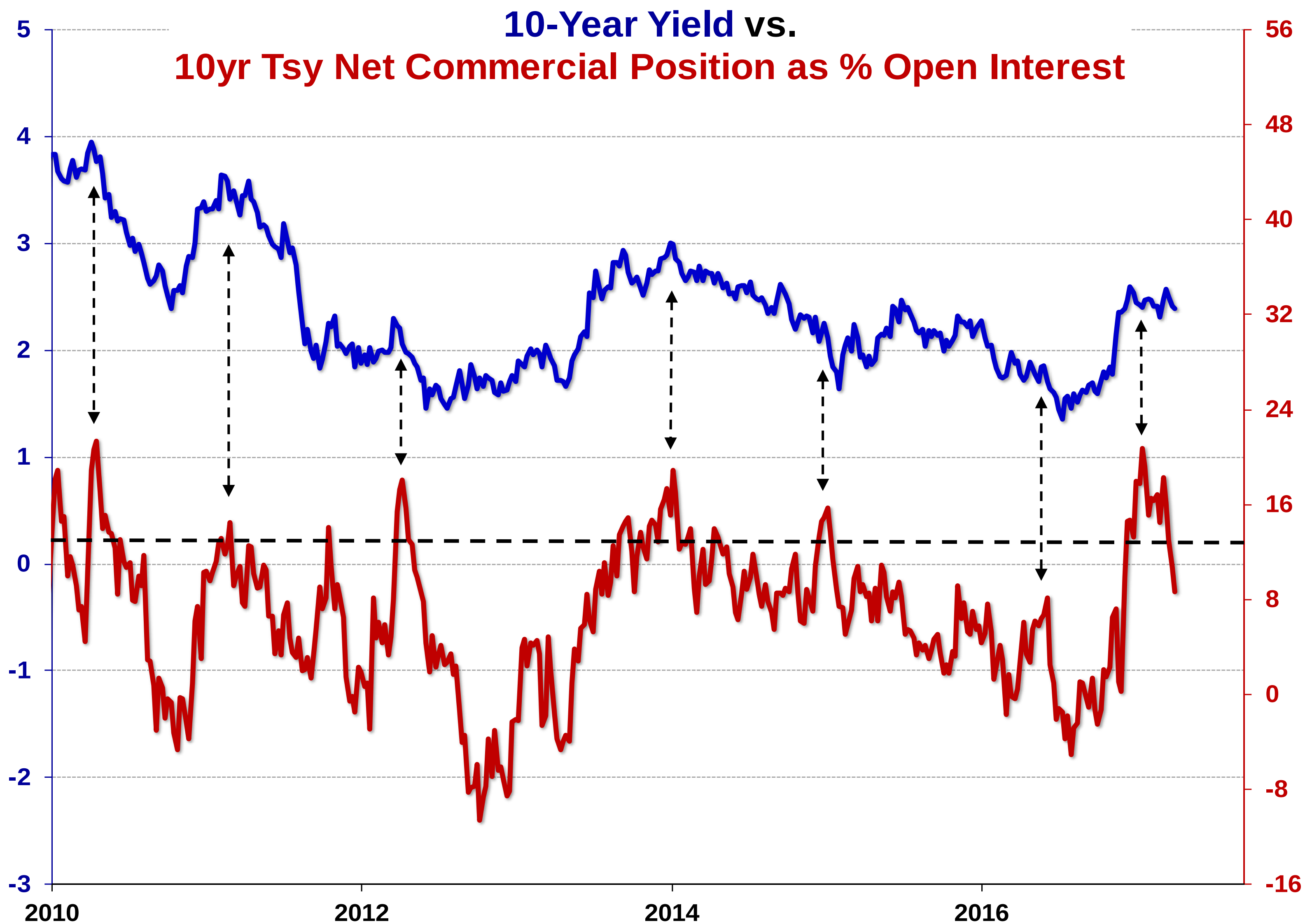
The consumer's smaller 'footprint' shown here: Retail Sales as % GDP downtrend continues…



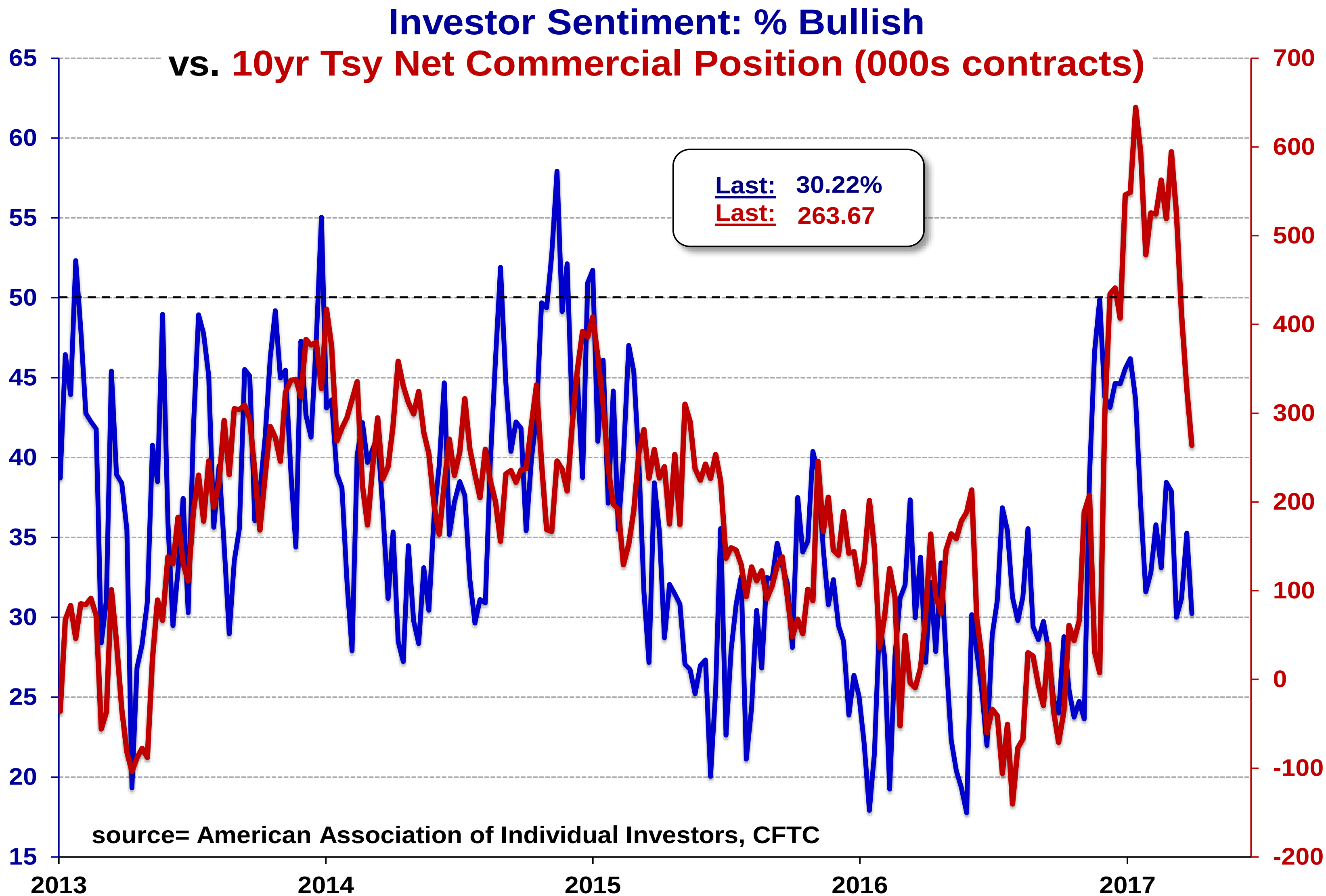
When looking at 'Control Group' Retail Sales, we find it stuck at/near recession (and ***historic***) lows as % GDP. So, again, while we may see some favorable m/m and y/y data emerge from monthly Retail Sales reports, it's important to keep in mind that ***consumer contribution (spending on 'stuff') to economic growth has faded dramatically***. We would need to see a radical shift higher in consumer spending to safely say they are 'back in the game'. For now, the odds of this coming to pass seem quite low.



As noted in our Jan. 31st Macro Weekly issue, each time the 10yr Treasury Net Commercial Position as % Open Interest has risen above the ~12% range, it has signaled an imminent reversal lower in yield. Sharp decline in % Open Interest data (shown here) suggests recent pressure on 10yr yield may just be getting started.



Bullish Investor Sentiment drops -5pts to 30.2% for the week; 10yr Tsy Net Commercial Position drops -19% to 263k contracts for the week (***down -59% from Jan. high of 644.5k contracts)***. The market has, so far, taken all of this in stride.



Percent of S&P Indices above 50DMA rises slightly to 52.8% for the week, yet has given up all post-election gains. Support pillars remain weak. All eyes this week on key reports: Auto Sales, ISM data, Durable Goods, and capping off the week with Payroll Employment. Specifically, we'll look to both Weekly Earnings and Retail Employment data for clues to health of the consumer. Should retail employment post a second month straight of noticeable declines (which, along with all the lower revisions highlighted in our March 14th report, would prove more than a bit troublesome), we would expect the market to react unfavorably.