Lombard Street Research

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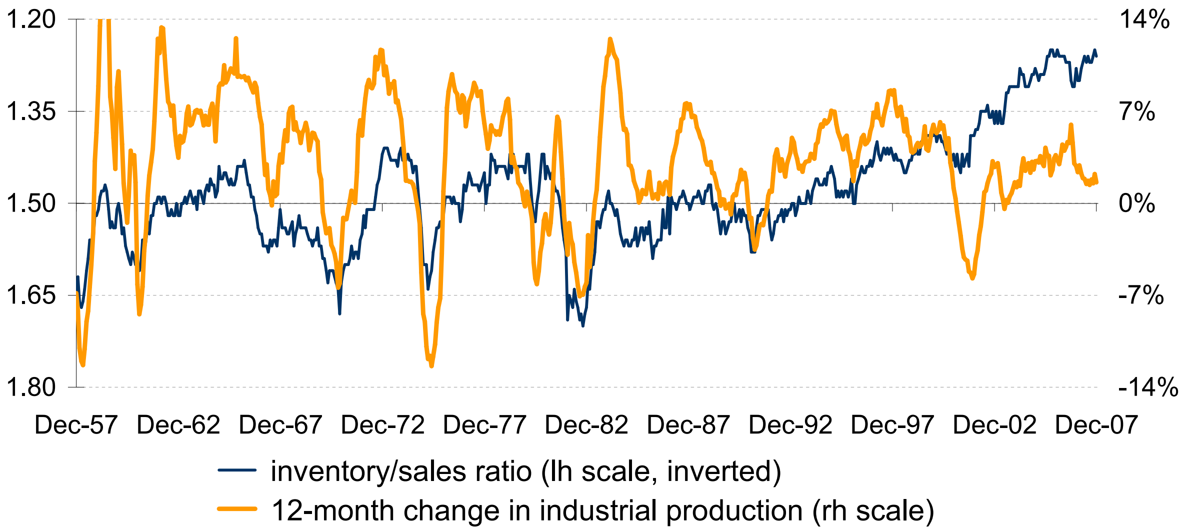
US feckless sap the reckless

WE SUGGEST: Non-financial stocks to feel the draught soon

SUMMARY: January retail sales ex autos and gasoline were unchanged, meaning down in real terms. Gasoline sales were up, but so were prices. Autos sales up 0.6% are hard to square with a 6-7% unit drop. Inventories are well restrained, however, so the fall in Q1 GDP could be modest. Q2 depends on the fiscal package.

The US economy goes into 2008's first quarter with negative "carry" as a drop in December retail sales was followed by January data today that imply lesser real sales after inflation adjustment. The 0.3% nominal rise comes in a month in which core inflation could be 0.2-0.3%, food prices are rising, and energy prices probably were up a little too. It is more likely than not that the CPI relating to goods alone was up by over 0.3%. The car sales number for January was up 0.6%, which is odd considering the 6-7% drop in vehicle sales. Maybe only Rolls Royce, Mercedes and Cadillac made sales in January. If we discount this, or even presume it was a miscounted negative, the ex-autos-and-gasoline change of 0.0% suggests falling real sales, as inflation for this category, which includes food and non-gasoline energy, was highly likely to be positive.

Inventory/sales ratio vs. industrial production



While today's December inventory data showed a small climb in the inventory/sales ratio – with inventories up 0.6% and sales down 0.5% – the long-term trend of a declining ratio, generally ascribed to effective use of hi-tech, seems to be intact – in contrast to one's concerns of a year or so back. (This ratio is inverted in the chart above.) Combined with some continued growth in exports this has been enough to contain cyclical downward pressures on industrial production, which has stagnated for the past several months, and is still up over 12 months. Reasonably well contained inventories will be a favourable factor for the economy this year, given likely continued consumer weakness, the ongoing housing disaster, and the probable fall-off in business cap-ex.

Basic pessimism cannot be allayed by the inventory data, however. The reckless bankers and mortgage brokers pursued the feckless lower strata of the income distribution with predictable (and predicted) results. The combined impact on house prices, bank profits, bonus income and stock prices leaves no escape. Q1 GDP should be down. Q2 might be too, except that we await the timing and precise amount of the tax rebate package.

Charles Dumas
charles.dumas@lombardstreetresearch.com