WEEKLY UPDATE
DON'S BLOG 2018.01.29

The first guesstimate of the fourth quarter 2017 GDP came out last week and was reported at an analyzed 2.6%. This was somewhat short of what was expected, but still a number in line with what we have seen since 2009. It did reflect a good Christmas season, but a large increase in imports turned out to be a negative influence on GDP. If you may recall, imports minus exports takes away from the reported number. Again, although the 2.6% number was a good overall number, its quite possible the first quarter of 2018 may be even weaker. That is due to the savings rate declining from 3.3% during the 3rd quarter 2017 to 2.6% (not a misprint) in the 4th quarter 2017. David Rosenberg, Canadian economist, made the point that had the savings rate stayed the same, GDP would have been 0.6% instead of 2.6%. Please note chart #1 below which reflects real consumer spending with personal savings. It appears the wealth effect of a booming stock market has taken us back to the pre-2009 spending and savings pattern. Consumers have reacted by drawing down savings in order to buy stuff. You will note in chart #2 that shopping increased dramatically in 2017. Lindsey Piegza, chief economist for Stifel said of this increase:

> "Consumers are still out there spending, but their purchases are being supplemented by low energy costs, credit and a reduction in savings rather than organic income growth," said Lindsey Piegza, chief economist at Stifel Fixed Income in Chicago. "Without sustained improvement in wages, consumers will struggle to maintain even today's moderate pace of consumption."

As of 11/30/2017, the savings rate was the lowest since 2005.

The stock market continues to do well. The bond market has been somewhat weaker due to the Fed program of normalizing short-term rates. It is widely believed that the Fed will raise short rates again in the spring. If would seem reasonable to believe it might be April or May before a decision is made. As mentioned above, the first quarter 2018 may be weak enough for them to hold off for a while. There is some indication that lenders are becoming a bit stringier. Most believe the market direction mentioned above will continue. Also, most believe inflation may be headed higher. I hesitate to provide chart #3 which compares the total system leverage to stock prices. Debt and equity trends can produce a toxic potion. Charts #4 and #5 reflect the savings rate in a different manner and the source of Christmas spending—credit cards.

Chart #1

Chart #2

Chart #3

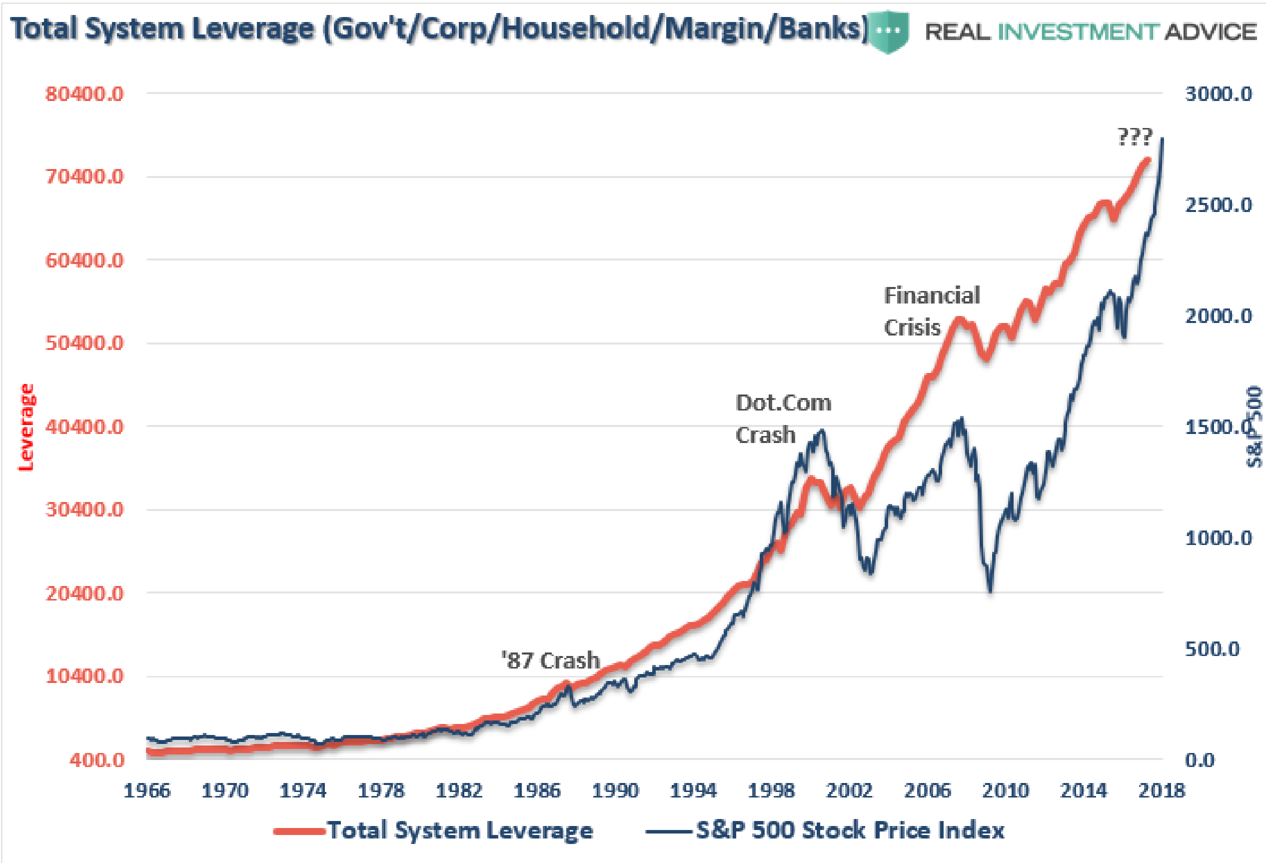
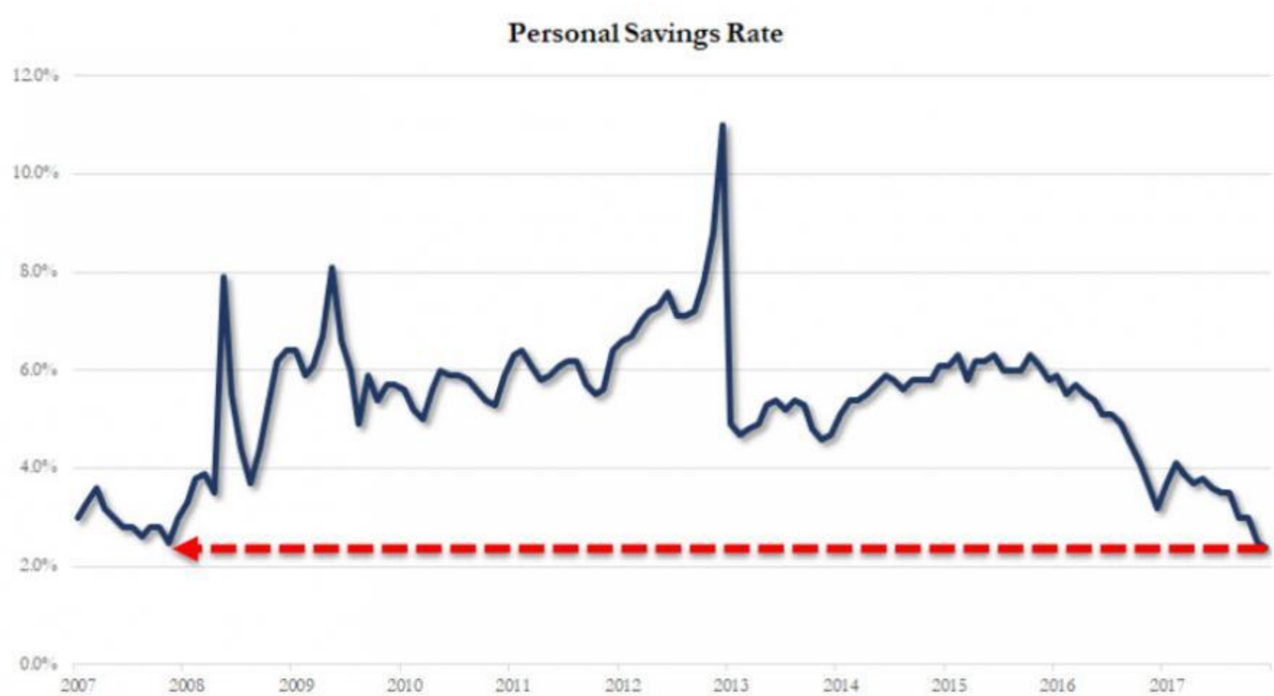


Chart #4



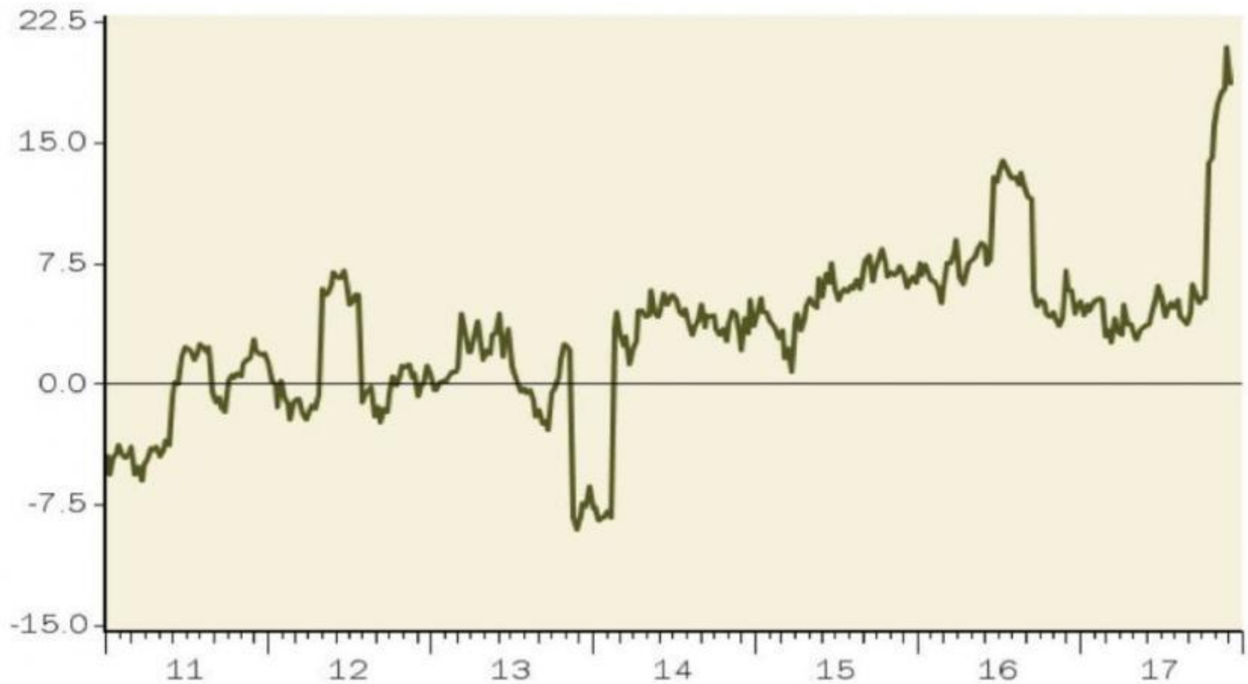
Adapted from zerohedge.com

Chart #5

CHART 10: CONSUMER LOANS: CREDIT CARDS

United States

(13-week annualized percent change)



Source: Haver Analytics, Gluskin Sheff