



>: Keep Those Articles Coming!

Monday, May 7, 2007 / Ben Schott

I don't have much to report today, so this will be short and sweet.

If you're a brand new reader, or if you missed my article last week, you might not know that we have a contest going.

The winner of said contest will receive a free quarterly membership to Chris Rowe's *The Trend Rider* a \$1,500 value.

What's the rub?

None at all, actually. We're giving you and your fellow readers a shot at getting published in *The Tycoon Report*.

We've already gotten some great ones, so before you sit down to write, keep in mind that the competition will be pretty high-level.

We're looking for an investing lesson that you'd like to share with your fellow readers, a personal trading story, or even a strong (and well argued) opinion on anything market or stock related.

Think you have what it takes? Interested in having your article read by 100,000 investors? Heck, interested in the *Trend Rider* membership?

Whatever your motivation, if your article is good, you have a chance.

As I've said, please keep them under 1,000 words (but ABOVE 25, please, as I've gotten a couple of those ... not kidding), and include a brief bio on yourself.

The winning article will be published in next Monday's issue, just one week from today.

The **deadline for submissions is this Wednesday**, so there's not much time left.

If you'd like to submit an article, please send it directly to me at Editor@tycoonresearch.com.

And good luck!

A handwritten signature in black ink that reads 'Ben Schott'.

Ben Schott
Chief Investment Officer

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Monday, May 7

15:00 - Consumer Credit: Consensus \$4.5B

Big Picture

: Tax cuts and cash out mortgage refinancing provided consumer funding in past years as 6% yoy income growth and equity gains now provide the means outside of credit. Credit cards (revolving credit) make up 36% of total consumer credit, which stands at \$2.4 trillion. Nonrevolving credit helps finance auto purchases, tuition (including Sallie Mae), vacations and other forms of consumer spending. Annual growth of 4.4% is at the low end of the 3% - 13% yoy growth range over the last 10 years. Consumer credit includes household non-mortgage loans.

Implications: This monthly measure of consumer debt is volatile and subject to massive revisions. It is also released well after every other consumer spending indicator, including weekly chain store sales, auto sales, consumer confidence, retail sales, and personal consumption. For these reasons, the market almost never reacts to the consumer credit report.

Tuesday, May 8

10:00 - Wholesale Inventories: Consensus 0.4%

Big Picture: Wholesaler inventories growth of 8% yoy exceeds the 7% yoy growth in sales. The inventory to sales ratio bottomed at 1.12 months in June with a return expected in 2007 from February's 1.15 month. Longer term trends reflect some comfort at those I/S lows as technology allows for continued improvement in just-in-time inventory management. The smaller inventory swings from rebuilding and draw downs leaves a steadier pace of domestic growth.

Implications: The wholesale trade report includes sales and inventory statistics from the second stage of the manufacturing process. The sales figures say close to nothing about personal consumption and therefore do not move the market. Wholesale inventories sometimes swing enough to change the aggregate inventory profile (aggregate inventory is the sum of inventory at the manufacturing, wholesale, and retail levels), which may affect the GDP outlook. In that event they can elicit a small market reaction. More often than not, however, this release goes unnoticed except by market economists.

Thursday, May 10

8:30 - Export Prices Ex-Ag.: Consensus NA, Import Prices Ex-Oil: Consensus NA

Big Picture: Import prices are decelerating, partly due to the effect from petroleum prices and the prices from the Pacific Rim which show declines from a year ago. Export prices are on the rise as agricultural (20% yoy) and food prices reflect the increased demand for grains that are now being increasingly used as alternative fuels. Exports of industrial supplies (which include oil) are 11% higher than a year ago.

Implications: Though not a market-moving release, export/import prices are a useful indication of inflation pressures created by changes in foreign exchange rates. For example, when the dollar is strong, import prices tend to be under downward pressure. If an item in Japan costs 500 yen and the exchange rate is 100 yen to the dollar, the US\$ price \$5. If the dollar then strengthens to Y120, the US\$ price falls to \$4.17. Because US

exports must compete with foreign goods, there is also downward pressure on export prices when the dollar is strong.

8:30 - Initial Claims: Consensus 320K

Big Picture: Initial claims follow a subtle upward trend as the aberrations are watched for clues on the labor market and economy. The slow upward trends in both initial and continued claims reflect some slight loosening in the labor markets. Claims provide a nearly real time read on layoffs and the labor market as the post-recession low 4.4% unemployment reflects the broader read of layoffs and hiring.

Implications: Initial jobless claims measure the number of filings for state jobless benefits. This report provides a timely, but often misleading, indicator of the direction of the economy, with increases (decreases) in claims potential signalling slowing (accelerating) job growth. On a week-to-week basis, claims are quite volatile, and many analysts therefore track a four week moving average to get a better sense of the underlying trend. It typically takes a sustained move of at least 30K in claims to signal a meaningful change in job growth.

8:30 - Trade Balance: Consensus -\$60.0B

Big Picture: The August deficit reached a record high as lower energy prices have helped to pull the deficit lower. The deficit has been below \$60 bln for four of the last five months. The swing of petroleum import prices mask the weakening domestic demand for foreign goods as the weaker dollar and economy slowly provide the force. Exports feed a stronger world economy and have shown six new record highs over the last seven months. From a year ago exports have risen 9% as imports have risen just 3%. Import growth carries a larger effect as they are about 50% larger than exports. China commands roughly a third of the deficit as petroleum also amounts to about a 1/3. The massive size of the deficit is eyed for effects on the dollar and interest rates. The trade deficit demands an equal but opposite investment inflow from abroad as current foreign demand remains exceedingly strong given the return of petrodollars and as Asian export markets protect strong trade flows with dollar buying.

Implications: The trade report is most widely watched for trends in the overall trade balance. But trends in both exports and imports of goods and services bear watching as well. The export data in particular are important to watch for indications that a strengthening competitive position at home and/or strengthening economies overseas are boosting U.S. growth. Imports provide an indication of domestic demand, but given the severe lag of this report relative to other consumption indicators, it is not particularly valuable for this purpose.

14:00 - Treasury Budget: Consensus \$135.0B

Big Picture: Strong tax receipt growth continues to lead a path toward lower deficits given the stronger economy, profits and income growth. Spending remains stronger than desired (6% yoy growth over the last year) as fiscal discipline is needed. The FY05 improvement sliced away a quarter of the record \$413 bln FY04 deficit as FY06 sliced away another \$71 bln. FY07 has already sliced \$45 bln through March as a -\$172 bln CBO estimate for FY07 leaves the deficit at a small -1.2% of GDP. Spending restraint is needed to continue to slim the budget.

Implications: The monthly Treasury budget data follow strong seasonal patterns which produce huge month-to-month fluctuations in the deficit. These fluctuations tell us little about long term budget trends. To the extent that the market analyses the monthly Treasury data, the focus is on year/year changes in receipts and outlays, since the data are not seasonally adjusted. Only in April, the most important month for tax inflows to the Treasury, does the market pay any attention to this report. The data can be predicted with reasonable accuracy by using daily data in the Daily Treasury Statement.

Friday, May 11

8:30 - Retail Sales: Consensus 0.4%

Big Picture: Retail sales are slowing under the weight of a high Fed policy rate, as the current rise in gas prices steal the boost from late 2006. Strong retail sales growth had been fueled by low interest rates, vehicle discounting and mortgage refinancing as those forces faded in late 2005 and 2006. Despite the improved employment and income growth the Fed tightening and high energy prices have had a deflating effect on consumer spending and big ticket durable goods purchases particularly. Income growth and the low unemployment provides support and is the best read on the future sales pace.

Implications: The retail sales report is a measure of the total receipts of retail stores. The changes in retail sales are widely followed as the most timely indicator of broad consumer spending patterns. Retail sales are often viewed ex-autos, as auto sales can move sharply from month-to-month. It is also important to keep an eye on the gas and food components, where changes in sales are often a result of price changes rather than shifting consumer demand.

8:30 - PPI: Consensus 0.6%, Core PPI: Consensus 0.2%

Big Picture: September 2005 PPI growth of 6.9% yoy stood at a 15 year high and has more than halved to 3.2% yoy currently. The core stands at 1.7% yoy from July 2005's decade high of 2.8%. The stronger pipeline pressures of the last year have only partially fed in to finished goods as energy prices and now food prices provide the volatility. The directional trends for goods-based producer prices have turned toward lower yoy growth and hardly contribute to the service-based pressures in consumer prices.

Implications: The Producer Price Index measures prices of goods at the wholesale level. There are three broad subcategories within PPI: crude, intermediate, and finished. The market tracks the finished goods index most closely, as it represents prices for goods that are ready for sale to the end user. Goods prices at the crude and intermediate stages of production often provide an indication of coming (dis)inflationary pressures, but the closer you get to crude goods, the more that these prices track commodity prices which are already available in traded indexes such as the CRB (Commodity Research Bureau).

10:00 - Business Inventories: Consensus 0.2%

Big Picture: The inventory to sales ratio stands at 1.29 months from the record low 1.24 months in January 2006 as inventory gains (6% yoy) compare to a 3% yoy rise in sales. Expect a continued slow pace of

inventory growth (a lower I/S ratio) to slow production but leave a smaller drag on economic growth than the -1.2% in Q4. The long trend toward smaller I/S ratios and the tighter range leaves less effect on economic growth.

Implications: The business inventories report includes sales and inventory statistics from all three stages of the manufacturing process (manufacturing, wholesale, and retail). But by the time it is released all three of its sales components and two of its inventory components have already been reported. Because retail inventory is the only new piece of information it contains, the market usually ignores the business inventories report.

Source: www.Briefing.com