

THE SLOWS



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The Economy Gets Better But At New, Lower Levels

New York, 1930's, Walker Evans | Edited by Gregor Macdonald

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Joe Fahmy
Of The Next Big Move
With Good Thoughts
For Every Trader

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THE SLOWS

The US economy is hobbling along under relentless debt-deflation but now enjoys a brief ray of sunshine: exports in everything from plastics to electronic equipment are soaring. But the FIRE economy is not coming back. So, Washington has finally figured out that doubling shipments of coal and wheat at least puts a some people back to work. You can call it a recovery if you like. But it's taking place at new, lower levels.



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As if America's hotel industry wasn't hurting enough, now comes an iPhone app for B+B's.

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It was not a good week for the California Muni Market. Friday's California jobs report won't help.

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The ten year chart of total employment in the State of California is motionless, with no recovery in sight.

A NOTE FROM THE EDITOR

Welcome to StockTwits Macro Weekly, the weekly magazine of the StockTwits investment community. Each issue features a core essay, written by the Editor. Around this, we build in the key news events and observations, from the past week. [To have each issue sent to you, sign up here.](#)

You will also find StockTwits Macro Weekly functions as a live document, that is eminently clickable and is therefore a helpful launching pad to other relevant content. Feedback from readership is welcome, and we are always on the lookout for written contributions from the community: gregor@stocktwits.com

A promotional graphic for Gregor Weekly. It features the Gregor Weekly logo (a house icon) and the website URL gregorweekly.com. A yellow starburst graphic says 'Premium Blog'. Below this, a list of 'Member Benefits' is provided: 'Hand crafted model portfolio', 'Real time changes to model portfolio', 'Mid-week portfolio discussion', and 'Weekly macro note'. At the bottom, a dark red banner says 'Sign up for two-week free trial'.

THE SLOWS—Along the St. Lawrence Seaway ships overflowing with American wheat make their 2000 mile journey from the Port of Duluth to the Atlantic Ocean. From there, to markets in North Africa and Europe, this export of grain partially makes up for this year’s disastrous crop failures in regions such as the Russia-Ukraine wheat belt. Wheat exports from the Great Lakes region are up nearly 90% from the same period last year. As covered in [previous issues of StockTwits MacroWeekly](#), this is all part of the fortuitous intersection between the resumption of growth in the developing world, and, Washington’s almost wartime footing in its obsession to boost American exports. And it’s working. The recent trade data from the Census Bureau shows that total [Food, Feeds, and Beverage exports](#) are up 10% over last year. In addition to the heady price increases, this of course explains why American farm incomes are soaring, along with capital investment in farm equipment. Indeed, the price of farmland itself which has been on the march all decade, is [once again recovering strongly](#) post the 2008 financial crisis. Is it any wonder that unemployment rates in states like North Dakota, Nebraska, and Iowa remain exceedingly low?

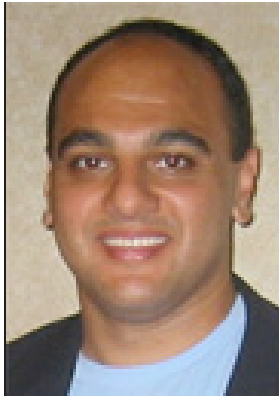


Meanwhile, in the states devastated by the collapse of the Finance, Insurance, and Real Estate (FIRE) economy, job recoveries are hard to find. The hot regions of the previous decade, San Francisco, Greenwich, and the Carolinas are now handing off to Iowa City, Bismarck, and Des Moines. The shift illustrates that the credit bubble economy remains pegged to very high price

Indexes

INDU 11203 TNX 2.88 GOLD 1353.10 VIX 18.04 SPX 1199.73 DXY 78.480

StockTwits.TV: The Next Big Move with Joe Fahmy



Why do we enjoy so much watching Joe Fahmy's **The Next Big Move**? Simply put: you have to like a market oriented TV show that kicks off with a pithy quote, and a resolute host who tells you exactly what he believes. Joe has now returned from a several week hiatus, and in last week's episode he lays down his usual mix of compelling stock setups, and market philosophy.

Here's the quote the Joe used to start off his show. Ask yourself: does it make sense? And also, who said it? *Win or lose, everybody gets what they want out of the market. Some people seem to like to lose, so they win by losing money.* Clearly, the observer here has a savvy understanding of how humans operate. And kudos to Joe for reminding viewers of this prescient insight. But it's not a surprise. After all, the admonition that Fahmy offers repeatedly to traders is a timeless one: Know Thyself. [Watch the show here.](#)

[StockTwits.TV](#) can also be taken as an iTunes subscription.

levels in both real estate and labor, while the agricultural and nascent-exports and manufacturing economy is creaking awake from a long slumber. The spread between these two economies partly explains many of the current debates on inflation vs. deflation, stock market prices, austerity vs further stimulus, and the question of whether the US will return to economic growth. Deflation in wages and real estate prices shows no sign of stopping in areas where capital gains and bonus income of the previous decade joined in with historic residential real estate speculation. High priced real estate continues to either go no-bid, or is falling steeply in price along the Eastern seaboard and also the West Coast. Many of the service industries also that sprouted up around the FIRE economy have also not recovered, especially residential construction, repair, and maintenance. In short, the *Excess Capital Economy*, especially as related to consumption, has gone away and shows no sign of returning. This will complicate the long-standing notion that America either should or can focus on creating "high-wage jobs." In a world of global wage deflation, now driven by resource and infrastructure needs in the developing world, the belief that additional "high-wage jobs" are on the way for OECD countries looks more like a dream, than a reality. On the contrary, there is a churn starting to take place now in the US job market as some Americans return to work but at much lower pay levels. Essentially, instead of avoiding global wage convergence, the US is succumbing to it.

It's not just the farm economy that's benefiting from Washington's war on global currency-peggers, and the FED's devaluation of the USD. The Dow Jones [Electrical Components and Equipment Index](#) has nearly recovered all of its post 2008 losses as companies like Emerson Electric [\\$EMR](#) respond to the relentless infrastructure buildout in the developing world, with its need for coal plants, dams, and railroads. Speaking of coal, if you cannot find a job in the US

now as a real estate broker, hotel manager, home renovator, or have watched your small business collapse, there is work in the coal industry. US exports of metallurgical coal--the higher priced coal that is used in steelmaking--have bolted higher the past year by 100%. A quick perusal of job openings at various ports and resource companies shows decent availability of jobs, but, in the 10-14 dollar per hour range. Perhaps an American would like to work at [Evrast Steel](#) of North America, in Portland, Oregon. Or how about the [Port of Richmond, Virginia](#) which ties into exports of Appalachian Coal? As long as you are not trying to carry a 500,000 dollar mortgage, and don't mind living on the Great Plains, there are jobs to be had in America.

The confusion over America's economic recovery, therefore, with the ongoing theoretical fight over inflation and deflation, slots nicely into these changing realities. If you are still working in finance but have now shifted your focus to the high growth in the developing world, or if you work in start-ups, at a big tech company like Google, or live in a lower-cost farm state, you are not likely feeling the current advance in inflation. But if you live in one of the vast, post-war car-commuting regions like San Bernardino, California, or Florida, you are getting hammered by food and energy costs as your wages either slump or have disappeared altogether. This is reflected in the fact that [low-income consumer spending is once again declining](#). Also, Washington's exports campaign and weak dollar policy is punishing [for the lower two quintiles](#) of American wage earners as food and energy costs are a much bigger proportion of their take home pay. Clearly, this is why we are seeing new advances in Food Stamp use nationally as food stamps (the SNAP program) are a release valve for household budgetary pressure overall. Frankly, the US food stamp program should really be thought of as a food [and energy](#) coupon program.

Bed + Breakfast 2.0



We've noted with interest the proliferation of condominiums for short term rental in US cities. It makes sense. With so many underwater properties in downtown areas, why not compete with hotels by renting them out? This would seem to be the natural extension of underwater homeowners renting out their homes, while they wait for a recovery in prices. (which is still not forthcoming). Well, now there's an internet service that easily connects travellers and room providers. And it's not just national, it's global.

Airbed & Breakfast ([airbnb.com](#)) [has created an iPhone app](#) that allows you to search 8000 cities in 166 countries, for a place to stay. While this service probably will not do for the business traveller, you could do worse than staying in a [modern, green-designed guest house in a place like Portland, Oregon](#). As for the hotel market itself, business remains very tough and 2011 forecasts are being lowered. Although hotel occupancy rates are off their worst levels of 2009 (30 year lows) [they are still below 2008 levels](#). Perhaps someone will soon create a RevPar metric for the B+B market.

Create of Save a Muni



Following up on last week's *California Calling* issue of [StockTwits Macro Weekly](#), the Golden State did indeed *make its presence known* in the last few days, through the tremors it caused in municipal bond markets. The break lower in a number of listed, closed-end Muni Bond funds slowed down however and stabilized this week, but not before a series of intriguing realities unfolded out of California. In short, like other large states, California appears to have finally hit a wall in its attempts to borrow. This week, Sacramento had to scale back offerings of both municipal bonds and revenue anticipation bonds. Worse, the state had to pay a higher interest rate on the issue. It was not a good week for municipal bonds nationally, either. Investors [withdrew the most from muni bond funds since 1992](#).

By Friday, the smoke has cleared (for now) in California's bond market but the week ended with more bad news: the number of employed persons in the state once again failed to make any recovery. As Moody's downgraded the City of San Francisco the same, persistent question lingered: without a job recovery, how will the State pay its debts?

The Obama administration, for all its apparent innocence towards the fundamental problem facing the US economy, is probably starting to face up to these intractable realities. Ben Bernanke [has responded to blowback](#) against the FED by essentially saying: *suck it up, people*. The President also was chattering this weekend that the surplus nations needed to [allow their currencies to gain](#). In addition, even Congress is probably starting to realize the FIRE economy is not coming back. So, it's better to at least have a slow, plodding economy that muddles through for years. What the world needs to get sober about is that Washington has discovered a powerful tool in the USD as a weapon to boost exports, and punish all currency-peggers. While the indebted OECD will ultimately lose the war against debt-deflation, this is one battle the US can indeed "win."

--Gregor Macdonald, 21 November—Amherst, MA

