



2019 FEBRUARY NEWSLETTER

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About 200 YEARS AGO ... in 1823

SANTA CLAUS saved America !!!



It was the year Clement Clarke Moore wrote his famous poem ... "A visit from Saint Nicholas"

Santa came along at the right time in American history.
In fact, he came along to help out this year as well ... yay Santa!

The 2018 economy was a pretty good year, but at the end of the year, a lot of economists started preaching doom and gloom ... interest rate increases ... trade war with China ... drop in the stock market, etc., etc.

BUT ... Santa to the rescue !

American shoppers were out in force to fill the empty spaces under the Christmas trees ! Half of America streamed into the shopping centers.

2018 retail sales were up 5.4% over last year !! That's \$3.7 TRILLION!! and retailer research firm Customer Growth Partners reported. "best ever Saturday and Sunday" before Christmas !!

And Santa delivered lots of presents ... under the Xmas tree !

AND SUPPORTED OUR ECONOMY! Hooray!! Hooray!!

In fact ... the Holiday Season retail sales were OVER \$1 Trillion.

And speaking of consumer confidence ... in September 2018 just before the holiday season, the index went to 138 ... which was an 18-year high (since September 2000). Obviously, this looked good for the retailers and the Economy and in fact it was.

This is what happens when you have low unemployment, solid business income growth, higher consumer confidence and of course ... Santa.

Well, what do YOU think ? What about your confidence ??



Is there a recession coming ... ooohh? ... Or ...

Is there another year of good economic growth coming ... hmmm ...

Well, let's review some facts before you make your decision.

- **Gross Domestic Product**
 - A solid 3% growth rate for 2018 ... not great ... but not bad.
 - Highest rate since 2005
- **December job gains of 312,000**
 - One of the strongest months of job gains in the last decade.
 - The Unemployment rate remains historically low at 3.9%.
 - The average hourly pay increases 3.2% from a year ago.
 - (In January the job gains were 304,000 !)
 - The strong job growth suggests employers believe U.S. consumer spending will stay strong.
- **Labor Participation Rate**
 - Recorded 63% in December.
 - The 68-year average from 1950 is ... 63% ... ta da
 - Highest recorded was 67% in January 2000.
 - Lowest recorded was 58% in December 1954.
- **Sales of automobiles**
 - Has been slowing ... by 1% or so for the last six months.
 - But higher prices have been good for company profits.
 - The industry remains healthy.
- **Corporate profits**
 - Estimated to be approximately 18% higher in 2018.
 - Approximately a 7% increase in sales gains.
 - This is the highest in 7 years.
 - Powered by tax cuts and a growing Economy.
 - Looks pretty good ...
 - 71% of S & P 500 companies reported fourth-quarter profits ahead of forecasts ... this is very good.
- **Institute for Supply Management Index**
 - Recorded 57.6 in December ...
 - (Anything above 50 indicates an expansion of manufacturing).
- **U.S. factory growth in January 2019**
 - Was the highest since May 2018
 - New orders, employment, and purchases rose faster.

BUT, the best indicator of all is ... Wine Sales !!



Wine shipments everywhere increased by 1.25% in 2018. 405 million cases of wine sold ... now that's a lot of wine !

AND IN THE LOCAL SF BAY AREA ... MEGA SHIPS

These are ships that measure 1,300 feet long and can carry 18,000 shipping containers. WOW ... that's BIG !

So ... the story is that TraPac, a terminal operator at the Port of Oakland, has completed a \$67 million expansion to accommodate these ships. This is in addition to the Port of Oakland completion of a \$90 million refrigerated distribution center and a \$14 million project to lift the heights of the cranes.

This is all in anticipation to the growth in cargo trade.

AND WHAT ABOUT HOUSING ?

Housing starts ... new construction in 2018 has declined from annualized 1,344,000 houses being built in January to 1,256,000 in November ... a 6% decline.

PERSPECTIVE

From 1959 to 2018 Housing starts averaged 1,432,000 houses being built per year ... reaching an all-time high of 2,494,000 in 1972 ... (the record low of 478,000 was in 2009). Keep in mind these numbers do not reflect the rapidly expanding population during these years.

So ... when did this Holiday sales season all begin? And why?



Well, it was early in the history of America. Our country began in 1789 and America was entering the 19th century. And at that time ... America was changing from a Farming and Agriculture Economy to a Manufacturing Economy.

**This was a time of enormous economic change ...
(not unlike the historical change America is currently experiencing as we enter the Technology/Information Economy).**

PERSPECTIVE

May 17, 1792 ... A group of 24 merchants start a stock exchange under a tree at 68 Wall Street ... stock trading begins!

It started with cotton ...



Until the 18th century, the human race only had clothes which were difficult to wash and constantly filthy ...

Cotton ended this misery with easier and cleaner clothes to wear.

Sounds like something so simple, but it was very important then.

But there was the cost ... believe it or not ... it was very expensive.

For example, to produce:

- A pound of cotton thread took 14 man-days.
- A pound of silk thread took 6 man-days.
- A pound of linen took 2 days.
- A pound of wool took 1 day.

This imbalance created a need for a mechanical invention to bring down the cost.

And this invention showed up ... In 1794 when Eli Whitney patented the cotton gin.

Using a cotton gin ... a person could produce 50 pounds of cotton a day instead of just one !!

By 1812 the cost of cotton yarn had fallen by 90% and cotton became America's largest export and source of revenue. People had more clothes because it was easier and cheaper to make. This first wave of the industrial revolution allowed many millions of people worldwide to dress comfortably and cleanly.

PERSPECTIVE

Kids in the early 1800s often wore clothes that had been cut down from worn-out grown-up clothing and in warm weather ... went barefoot.

But Eli Whitney created something much more ... he created the 'American System', a format for the first factories to create standardized products that could be mass produced at a cheaper cost ... manufacturing had begun.

By 1812 another big change began ...



THE WAR OF 1812 WITH ENGLAND ?

The early centuries ... 1400s to the 1700s the American continent was a farming world. But that world was radically changing with the beginning of the manufacturing age as America left the 1700s.

As America entered the 1800s.

- Most goods were still produced by individuals or small companies.
- Water and steam-powered machinery made manufacturing easier.
- Substantial increases in demand for American made goods.

But the War of 1812? Well ... yes

The War cut off the supply of many manufactured goods from Europe ... and consequently encouraged the growth of industry in America.

So much so that in 1790 the first cotton spinning factory opened in New England. Then by 1815 there were 213 such factories! It was a prosperous time.

FACTOID

In 1818 ... John Jacob Astor founded the Pacific Fur Company which made him the first American multi-millionaire ... even adjusted for inflation, one of the richest men in American history.

AND THEN CAME THE "ERA OF GOOD FEELINGS" (1817 - 1825)

A period in the political history of America that reflected a sense of national purpose and a desire for unity in the aftermath of the War of 1812.

The era saw the collapse of the Federalist Party and the end of bitter partisan disputes with the Democratic-Republican Party.

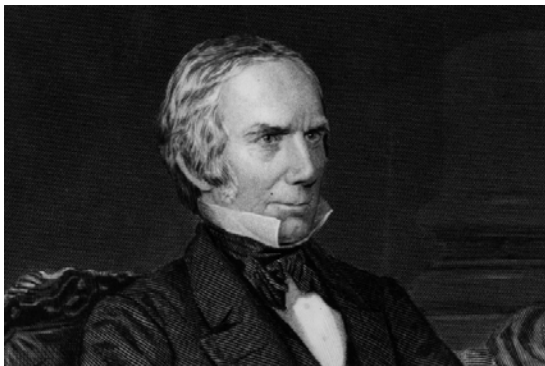
James Monroe was the 5th President of the United States during the "Era of Good Feelings".

And ... the new American policy of the Monroe Doctrine was established.

- The U.S. would not interfere in existing European colonies.
- The U.S. would keep out of Europe, its alliances and wars.
- The American continent could no longer be colonized by European powers.
- Any attempt by European powers to extend their control over any part of the American continent would be considered a threat.

In other words, Europe ... BUTT OUT OF AMERICA !!

AND ... then there was Henry Clay. Uh ... Who ?



Possibly the most innovative and influential politician in American history. Presided as Speaker of the House multiple terms from between 1811 to 1825.

- He supported the Monroe Doctrine.
- He believed America should secure its economic independence from Europe by enlarging its own manufacturing sector.
- And that America could and must become a leading industrial power and such expansion would make America the greatest Nation on earth.

In other words ... a brave new world was coming.

FUN FACTOID

Dancing was the frontier craze of the 1820s & 1830s ... at the time America produced more first-class professional dancers than any other country in the world. And being Henry Clay was a passionate man. Probably the most accomplished dancer among the politicians of his generation. He loved to dance on the table at a banquet.

HOW TIMES HAVE CHANGED ABOUT IMMIGRATION

From 1810 to 1820 the population increased by 33% from 7 to 10 million. Part of that was due to a booming birthrate. But ... European immigrants were steadily increasing their numbers. It was cheap to travel from London ... there was no paperwork. You got off the ship and looked for a job ... no customs ... no immigration office ... no passport no nothin' imagine.

Quote from John Quincy Adams, Secretary of State at the time; "We will keep out nobody. Arrivals will suffer no disadvantages as aliens. But they can expect no advantages either. Native-born and foreign-born face equal opportunities. What happens to them depends entirely on their individual ability and exertions, and on good fortune".

And the Christmas holidays were also changing



During the farming years ... the gift-giving was the landlord's finest food and drink ... "cakes and ale" ... served within his house and with his workers. Such gifts were not "presents" in the modern sense of being purchased in a commercial market.

But during the 1820s ... as the manufacturing age was moving people from farms to cities and factories ... the farming tradition was disappearing. The gift exchange was being brought inside and limited to the family circle. The food and drink no longer made sense ... the family was already well fed.

What made Christmas special for the family had to be a different kind of "gift" ... a Christmas "present" and that was the kind of gift that could be conveniently acquired through purchase.

And then came along a very very popular poem ...

"A Visit from Saint Nicholas" also known as "The Night Before Christmas".

On Christmas Eve ... while the wife and children sleep ... a father sees Santa Clause ... with the eight reindeer ... enter the house through the chimney ... with a bag of toys ... filling the stockings ... and wishing everyone a good night ... as he flies away ...

It had a massive impact on the history of Christmas gift-giving. It brought "gift-giving" into the house with the children and the immediate family.

So Santa Claus became the ultimate in branding and is the biggest spending item in America ... more than health care and defense.

AND THIS WAS CRITICAL FOR A MANUFACTURING ECONOMY !!!

How is that?

Well ... what is manufacturing ??

- It is the narrow specialization of tasks within a production process
- So that each worker can become a specialist in doing one thing.
- Especially on an assembly line producing a lot of things.

And when you produce a lot of things you need someone to buy a lot of things. And this makes for lots of jobs to buy more things.

So ... when someone buys a silly manufactured Christmas ornament ... someone else has a job and feeds his family. (not a silly ornament to him).

And ... this is all good for a manufacturing economy and the buying of stuff.

In other words ...

Santa Claus is the ultimate icon of the Manufacturing Age !!

Go Santa!!

FUN FACTOID

Advisors say SANTA relies on a series of algorithms derived from Heisenberg's uncertainty principle ... this allows him to be in an infinite number of places simultaneously as long as nobody believes he is really in any one of them.

So ... BACK TO WHAT YOU THINK

And what you think is very important because you are part of that Consumer Confidence number

And what you think determines what you are going to buy this year or not.

And what you think will decide how many "gifts and presents" you buy this year ... (to put under the Xmas tree of course).

And whether and by how much you help the economy ... and SANTA?

SO ... to help you think ...



WE HAVE ... THE CRYSTAL BALL INDICATORS

I have tracked 20 indicators of the Economy for the last six months of 2018. These indicators include Unemployment Rates, Consumer Confidence, Home Sales, Inflation Rates, et cetera.

And the indicators indicate:

POSITIVE	10	50%
NEGATIVE	5	25%
NO CHANGE	5	25%
Total:	20	100%

Aannndd soooo ... the job market continues to be historically strong ... consumer and business confidence is good. The retail industry is definitely happy ... the stock markets are normal volatile ... inflation is down ... oil prices are low ... interest rates are low and stable ... but the housing market is a little down ... but not by much.

MY CONCLUSION

The Economy is holding steady as most of the vital life signs are good ... there is still positive momentum going forward ... particularly in the labor markets ... **AND THE GOOD ECONOMY CONTINUES TO ROLL ON ... GO TEAM !**

- ✓ 2019 will be a moderate year with a 2-3% growth rate. Not as good as 2018 but reasonable.
- ✓ A 4% growth rate does not seem possible in the foreseeable future. It is disappointing that we will not be back to the prosperous days of the late 1990s ... where we had 4 years above 4% growth.
- ✓ Unfortunately, a slowing world economy ... no more tax breaks ... and a rising Federal debt approaching \$22 Trillion ... does not help to encourage a rising economy.
- ✓ And the Washington political environment is contentious and creating uncertainty around policies that affect the Economy. This is not positive for the business community.
- ✓ Optimistically, look forward to a better Economy.
- ✓ **BUT ...** the Economy currently is stable in a reasonably good place and will continue in a good place for a while. No disasters in the foreseeable future.

NOW ... what do you think?



REGULATION NATION

If you live in Wisconsin ... be very careful ... if you sell your homemade pies to the neighbors ... you could go to jail for up to 6 months.

But a bill that would legalize this practice was defeated by ... guess who ? The Wisconsin Bakers Association ... Surprise?

They didn't want any competition ... only help from the government ... but ... but the Courts have made it clear ... protecting businesses from competition is not a legitimate role of government. I guess not in Wisconsin.

BUT DON'T WORRY !! HOME COOKING IS NOW LEGAL IN CALIFORNIA

California ... where selling home cooked food was also criminally illegal ... came around and passed Assembly Bill 626 on September 18, 2018. This new regulatory law allows for ... Are you ready ?

MICROENTERPRISE HOME KITCHENS

WOW, that sounds pretty fancy.

Well, if you want to become one of these enterprises to sell your pies and home-cooked meals you only have to:

- ✓ Have Food Manager training and required certification.
- ✓ Have a maximum of one employee (yeah, Aunt Betsy ... hah)
- ✓ Your 'operation' can sell no more than \$50,000 a year.
- ✓ You must submit written standard operating procedures to the (LEA), local enforcement agency including food types to be used. And the days and times you will be using your ... Are you ready ? ...
"MICROENTERPRISE HOME KITCHEN OPERATION"
- ✓ And there are of course a number of other requirements. But my favorite is the annual ... or more often ... inspection by a "health official" to come by and check out your kitchen. Sounds like fun ... serve him some of your home-made pie !

Oh ... and let me not forget the \$1,000 of permits and fees to get started. All to protect us from getting some 'horrible disease' from home cooking? And make another bureaucrat's salary.

Oh, and by the way we're not done yet ... To further protect you ...

These home-cooked foods can only be so-called "low-risk foods". Hot stews, dumplings, jams and candies.

Hmmm ... does apple pie qualify ?

And ... to make this even more ridiculous. The law requires county and city environmental health departments to choose whether to issue permits and to pass a similar local ordinance of course.

No counties in California to date have passed any legislation ... of course.

America ... land of the free ?

And would you believe?



California Senate Bill 1192: Children's meals

OK ... here goes ...

A restaurant that sell's a children's meal, that includes a beverage, shall make the 'default beverage' one of the following:

- ✓ Water or sparkling water
- ✓ Unflavored milk
- ✓ A nondairy milk alternative ?

But ... a sugary drink can still be purchased for the same price ... But the customer has to ask for it ?

What's the point of this regulation?

Oh, the bureaucracy wants to support parent's efforts to feed their children nutritiously. Very noble ... hmmm.

And ... you think you know how to walk ? aahhhh ... maybe not?

Do you know about Assembly Bill 390 ???



Crossing the street at an intersection

Under existing law ... a pedestrian ... (that's you) ... facing a "WALK" symbol may proceed across the roadway in the direction of the signal. It is a crime to not comply with this existing law.

(So how many times have you broken this law ... you criminal you ?)

But, the new law ... would authorize a pedestrian ... (that's you again) ... facing a flashing "DON'T WALK" or "WAIT" signal;

... to proceed (as long as you complete the crossing).
... before the display of the steady "DON'T WALK" or "WAIT" signal.

WHEW! ... Thank God ... we are saved ... Just beat that signal !!!

(It's a good thing the California Assembly has the time to deliberate such weighty and important issues).

BUT ... what's scary is that California passes MORE than 2,000 bills A YEAR!!!

LEGISLATIVE YEAR	BILLS PASSED
2009 – 2010	1,772
2011 – 2012	1,908
2013 – 2014	2,077
2015 – 2016	2,194
2017 – 2018	2,552

In the last 5 years California has averaged 2,100 new bills per year !!!

PERSPECTIVE

Notice the increase from 2009 - 2010 at 1,772 new bills passed compared to 2,552 bills in the 2017 - 2018 Session?

By the way, that's a 44% increase. In other words, California is passing new laws at a faster and faster pace ... Lucky us.