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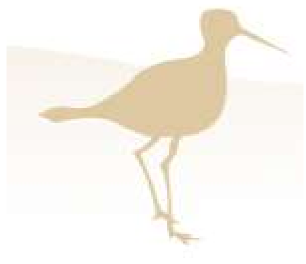
Sandpiper Capital

Gleanings



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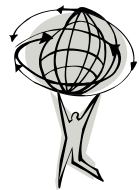
"With two thirds of the growth of our economy coming from consumer spending, it's not surprising that it's growing much more slowly as wages have stagnated. This trend appears to be likely to continue for many years to come."



Market Returns Annually and Year to Date

Index	2015	2016	2017	YTD
S&P 500	1.4	11.9	21.8	**2.7%**
ML 1-5 yr Gov't/Corp	1.1	1.6	1.3	**-.3%**
EAFE (Dev Fgn Mkts)	-.8	1.0	25.1	**-2.8%**
Emerging Markets	-14.8	11.5	35.8	**-7.1%**

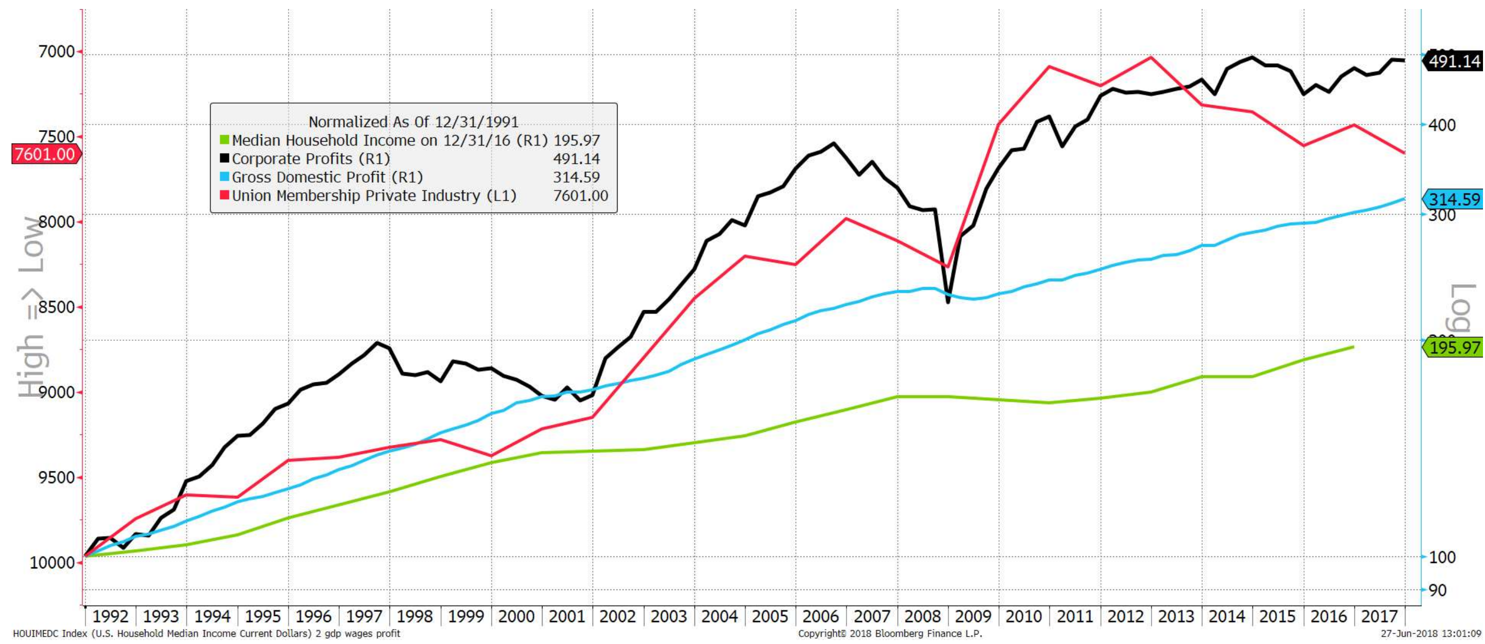
New bear market for wages

In a blow to organized labor, the U.S. Supreme Court ruled last Wednesday that government workers who choose not to join a union cannot be charged for the cost of collective bargaining. As public sector union membership (at 35% currently) declines due to the financial deficit created by this ruling, the reduced bargaining power for public employees over the next twenty-five years will likely be even more severe than that experienced by the private sector over the last twenty-five, (whose membership is now down to 7%). What's this have to do with investing? In the graph below, the red line indicating total private sector union membership is on an inverse scale - the upward slope indicates a *drop* in membership - falling from about ten million workers in 1991 to 7.6 million currently. Not surprisingly, the black line that represents corporate profits increases faster when union membership declines. Household income,(in green) drops as bargaining power erodes with 2016 year end incomes about 38% lower than you would expect if they had continued to grow at the same rate as the economy. With two thirds of the growth of our economy coming from consumer spending, it's not surprising that it's growing much more slowly as wages have stagnated. This trend appears to be likely to continue for many years to come.

Too upshots then:

Declining union membership will likely aid profits over the next decade or two, helping long run stock prices.

Declining household incomes will affect spending and keep overall growth (averaging just over 3% per year over the last ten years) at about the same or lower pace. This will keep long term Treasury rates subdued and the Federal Reserve on their toes as economic weakness persists.



While job growth and overall business employment optimism remain robust, there are certainly pockets of weakness in the economy, especially in the service sector. Amazon, EBay, Etsy and other on-line retailers continue to take market share, bringing a lot of pain to traditional retail chains. Service sector layoffs announced so far this year are well in excess of the rate seen at the worst of the last recession. In the chart at the bottom of this page, you can see that while there were significant wage pressures (in red, shown as the two year rate of increase) from a tightening labor market for much of 2017, layoffs (shown as a percentage of payrolls) have restrained that growth to under 3% per year in 2018. The idea that the Federal Reserve needs to raise short term rates in order to slow the economy and subdue wage inflation may well lose some currency as the year progresses.

Major Retail Announcements

	Stores Closed	Job Cuts	Reason
Macy's	68	10,000	Restructuring
The Limited	250	4,000	Bankruptcy
American Apparel*	110	3,457	Bankruptcy
Wet Seal Inc.	171	3,000	Bankruptcy
Lowe's		2,400	Cost-cutting
Sears/Kmart**	150	406	Cost-cutting
Abercrombie & Fitch***	60	150	Cost-cutting
HHGregg	220	5,000	Bankruptcy
JC Penney	140	5,500	Restructuring
Family Christian Stores	240	1,300	Closing
L.L. Bean		900	Cost-cutting
Payless	400		Bankruptcy
Radioshack	552		Bankruptcy
Bebe	190	960	Restructuring
BCBG Max Azria	120		Bankruptcy

Tom Lukic