WEEKLY ECONOMIC UPDATE DEC. 30, 2024

Stocks notched a slight gain over the holiday week. A tech-driven rally in the first half of the week was clawed back in the second half as investors took profits following the market holiday.

The Standard & Poor's 500 Index advanced 0.67 percent, while the Nasdaq Composite Index rose 0.76 percent. The Dow Jones Industrial Average added 0.35 percent. The MSCI EAFE Index, which tracks developed overseas stock markets, rose 1.54 percent.[1,2]

Ho-Ho, Then No-Go

Stocks rallied during the first half of a shortened holiday trading week. Holiday cheer won out despite news of declining consumer confidence in December, a drop in durable goods, and new home sales reporting below expectations.[3,4]

The "Santa rally" lost its ho-ho-go after the midweek holiday. Megacap technology stocks led markets down on Friday, giving back most of the gains from the first half of the week.[4,5]

MARKET INSIGHTS

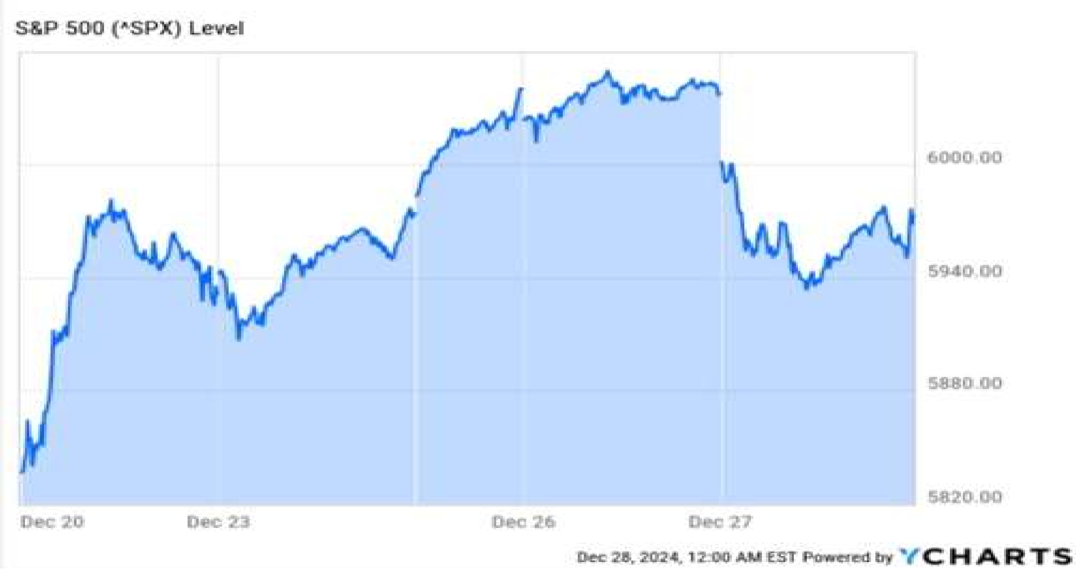
YCHARTS

Weekly Market Insights (WMI)

Major Index Return Summary

Name	1M TR	YTD TR	1Y TR	5Yr TR
Dow Jones Industrial Average	-3.25%	17.10%	17.55%	67.67%
MSCI EAFE	-1.09%	3.91%	5.09%	28.96%
Nasdaq Composite	4.47%	34.32%	33.78%	130.8%
S&P 500	0.38%	28.31%	28.21%	101.7%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 12/27/24	4.62%	4.25% 3.75% 3.79%	8.71% ▲ 23.20% ▲ 21.90% ▲

The Real Santa

While Santa got the headlines, the consumer drove the holiday shopping sleigh this year.

Holiday spending—defined by the period from November 1 through December 24—rose 3.8 percent in 2024, compared with 3.1 percent in 2023. Economists closely follow consumer activity since consumer spending makes up roughly two-thirds of total gross domestic product. Market watchers attributed the strong job market and growth in household wealth as the primary drivers of consumer strength.[6]

This Week: Key Economic Data

Monday: Pending Home Sales. 3-Month Treasury Bill Auction.
Tuesday: Case-Shiller Home Price Index.
Wednesday: Stock market closed.
Thursday: Jobless Claims. EIA Petroleum Status Report. Fed Balance Sheet. 30-Year Treasury Bond Announcement.
Friday: Motor Vehicle Sales. ISM Manufacturing Index. Federal Reserve Officials Thomas Barkin and Mary Daly speak.

“Test AI only on questions you already know the answers to, using it to understand the system’s biases and guardrails rather than treating it as an oracle.”

– Josh Stylman

Of Note

Many commentators cannot understand why Trump won the elections despite a robust economy. The reality is far more complex. Perhaps a part of the result stems from the observation the U.S. economy was significantly weaker than the official headlines suggested.

Anyone who has delved into the supposedly solid headline figures can clearly see the real weakness of the U.S. economy. An unsustainable increase in government spending and federal debt bloated the official GDP, making gross domestic income significantly weaker than headline GDP. Additionally, the Conference Board and University of Michigan consumer confidence readings, well below 2019 and 2021 levels, indicated a stagnant economy. Significant negative revisions and concerning elements were evident in the job reports. The entire improvement of the labor force since 2021 came from foreign workers, and the employment-to-population and labor force participation ratios remained significantly below 2019 levels. Real wages were stagnant in the past four years using official figures. Investment was weak, and the Russell 2000 index, which includes the top small-cap companies generating most of their business in the US, reflected an insignificant 1.8% sales growth and no real earnings growth between 2021 and November 2024.

Professors EJ Antony and Peter St Onge recently published an excellent study, *"Recession Since 2022: US Economic Income and Output Have Fallen Overall for Four Years"*, through the Brownstone Institute. It perfectly summarizes why Americans have not responded favorably to Bidenomics and his assessment of his economic legacy as the "best economy in the world" or "the best economy ever." The study concludes that adjustments reflecting a more realistic measure of average price increases in the period have understated cumulative inflation by nearly half since 2019. An enormous divergence between reported CPI and adjusted inflation led to an overstatement of cumulative GDP growth by roughly 15%. Furthermore, these adjustments indicate that the American economy has been in recession since 2022.
As the authors rightly say, *"Our results are consistent with the perceptions of the American public, of whom a majority believe we are in recession."*.

The study reveals that understating the CPI and GDP deflator measures of inflation has boosted GDP and real disposable income, resulting in figures that no American who pays bills and receives a wage can relate to. Once adjusted, the harsh reality arrives. The U.S. economy has been in recession for years. Interestingly, Keynesian economists spent these past two years trying to explain why the disaggregated macroeconomic figures did not match the strong headline GDP and disposable income. Despite their numerous justifications, the underlying issue was the government's overstatement of the growth in disposable income and real GDP.

Americans are not stupid. You cannot tell them that the economy is marvelous and stronger than ever when they do not see it in their daily finances. Such ludicrous propaganda may work in France or Spain, but not in America. Thus, the optimism, publicity, and complacency of a government that constantly repeats that the economy is great backfires.

Governments create inflation, a hidden tax that erodes the purchasing power of the currency through increased spending and money printing. People often mistakenly report inflation and CPI as identical. CPI is just a measure of the loss of purchasing power of the currency.

Economists often criticize the CPI and GDP deflator measures of inflation for their inadequate reflection of real inflationary pressures. Indeed, there have been numerous studies that show how CPI calculation understates real inflation. "Underweighting of rising food prices and overweighting of falling transport prices are the main causes of the underestimation of inflation," according to the IMF's Marshall Reinsdorf (*COVID-19 and the CPI: Is Inflation Underestimated?*). Peter Schiff also explains it perfectly: "If you run today's price data through the old formula, you will find that the CPI is nearly double the number the government reports. So, when the Bureau of Labor Statistics reported a 9.2% CPI in June 2021, it was closer to 18% when calculated using the 1970s formula." (*Why Do You Say the Consumer Price Index (CPI) Understates Inflation?*). Vahan P. Roth also comments that, *"One of the most important effects that an inaccurate and possibly biased measure of inflation has on the consumer and taxpayer is that it directly influences and justifies monetary and fiscal policy decisions" (How CPI calculations misrepresent real inflation, GIS)*.

Indeed, "the CPI is a government statistic, and since the government's expansionary monetary policy creates the inflation, officials have an incentive to underestimate it" (Mark Brandly at Mises). According to Professor Joseph Salerno, author of the excellent book "Money, Sound Unsound" (Ludwig von Mises Institute, 2015), the current method of calculating the annual inflation rate is backward-looking, as the previous eleven months' rates significantly outweigh the most recent monthly rate. In contrast, calculating the annual inflation rate by compounding and annualizing the most recent monthly or quarterly rate of change in the CPI gives a better idea of what inflation currently is and how it may be trending." Thus, after the recent figures, no one would declare victory over inflation, and the Federal Reserve's policy would be completely altered.

Bloated government spending has disguised a private sector recession and the real decline in real disposable income, real wages, and margins of SMEs (small and medium enterprises). We can now see that real GDP has been in contraction for the past two years, even after accounting for real inflationary pressures. Furthermore, the temporary and exogenous factor of widespread weaker commodities boosted the external contribution of gross domestic product.

The issue is that attempts to lessen the impact of currency destruction have repeatedly compromised the reliability of official data. As the government's influence in the economy increases, technical recessions may not show up in official data, but they still affect citizens. Furthermore, deficit spending and money printing now result in both higher taxes and lower real wages in the future. Therefore, the unintended consequence of an official recession is an increase in government debt, an increase in taxes, and a decrease in the purchasing power of the currency.

Biden and Harris believed that strong official headline figures would reward them, leading them to implement an ultra-Keynesian approach: the most aggressive government expenditure and debt increase plan in decades. They also thought that citizens would fall for the trick of blaming corporations and shops for inflation. They were wrong. They engineered a recession, and families and businesses suffered as a result. However, many people mistakenly believe that Bidenomics was a miscalculation that ultimately backfired. The objective was to advance the stealth nationalization of the economy by increasing the public sector size and dissolving the wealth of the private sector. The United States steered clear of these impoverishing Keynesian policies in the past and can continue to do so in the present.[7]

Footnotes and Sources

1. The Wall Street Journal, December 27, 2024
2. Investing.com, December 27, 2024
3. MarketWatch.com, December 23, 2024
4. CNBC.com, December 26, 2024
5. The Wall Street Journal, December 27, 2024
6. MarketWatch.com, December 26, 2024
7. zerohedge.com/economics/us-has-been-recession-years