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THE "YOU MAY NOT KNOW REPORT"™

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Strong Economy? No, It's a Debt-Fueled Illusion

By Dennis Tubbergen

Often in these pages of "The You May Not Know Report", we discuss the fact that central bank policies and government stimulus payments have combined to create what is an artificial economy.

Now, as interest rates are creeping higher and as easy money policies are tempered, economic reality is setting in. That reality is that the economic prosperity that we have experienced since the financial crisis was nothing more than a debt-fueled prosperity illusion.

Michael Maharrey, writing for Schiff Gold, comments[1]:

> *Retail sales surged in January, creating the impression that the economy is humming along nicely. After all, there can't be a problem if consumers are out there consuming, right?*
>
> *But a lot of people are ignoring a key question: how are people paying for this shopping spree?*
>
> *As it turns out, they're putting a lot of this spending on credit cards.*

Even with a big 1.8% decline in retail sales in December, revolving credit, primarily reflecting credit card debt, grew by another $7.2 billion that month, a 7.3% increase.

To put the numbers into perspective, the annual increase in 2019, prior to the pandemic, was 3.6%. It's pretty clear that Americans are still heavily relying on credit cards to make ends meet.

Meanwhile, household debt rose by $394 billion in the fourth quarter of 2022. It was the largest quarter-on-quarter increase in household debt in two decades. Debt balances have risen $2.7 trillion higher than they were at the beginning of the pandemic.

Clearly, this isn't a sign of a healthy economy. Americans are spending more on everything thanks to rampant price inflation that doesn't appear to be waning, and they're relying on credit cards to do it. Saving has plunged. This isn't a sound economic foundation, and it isn't even sustainable. Credit cards have a nasty thing called a limit. And with credit card interest rates at record-high levels, people will reach those limits pretty quickly.

I ran across something the other day that pro-

vides an even more striking example of just how reliant the US economy is on debt.

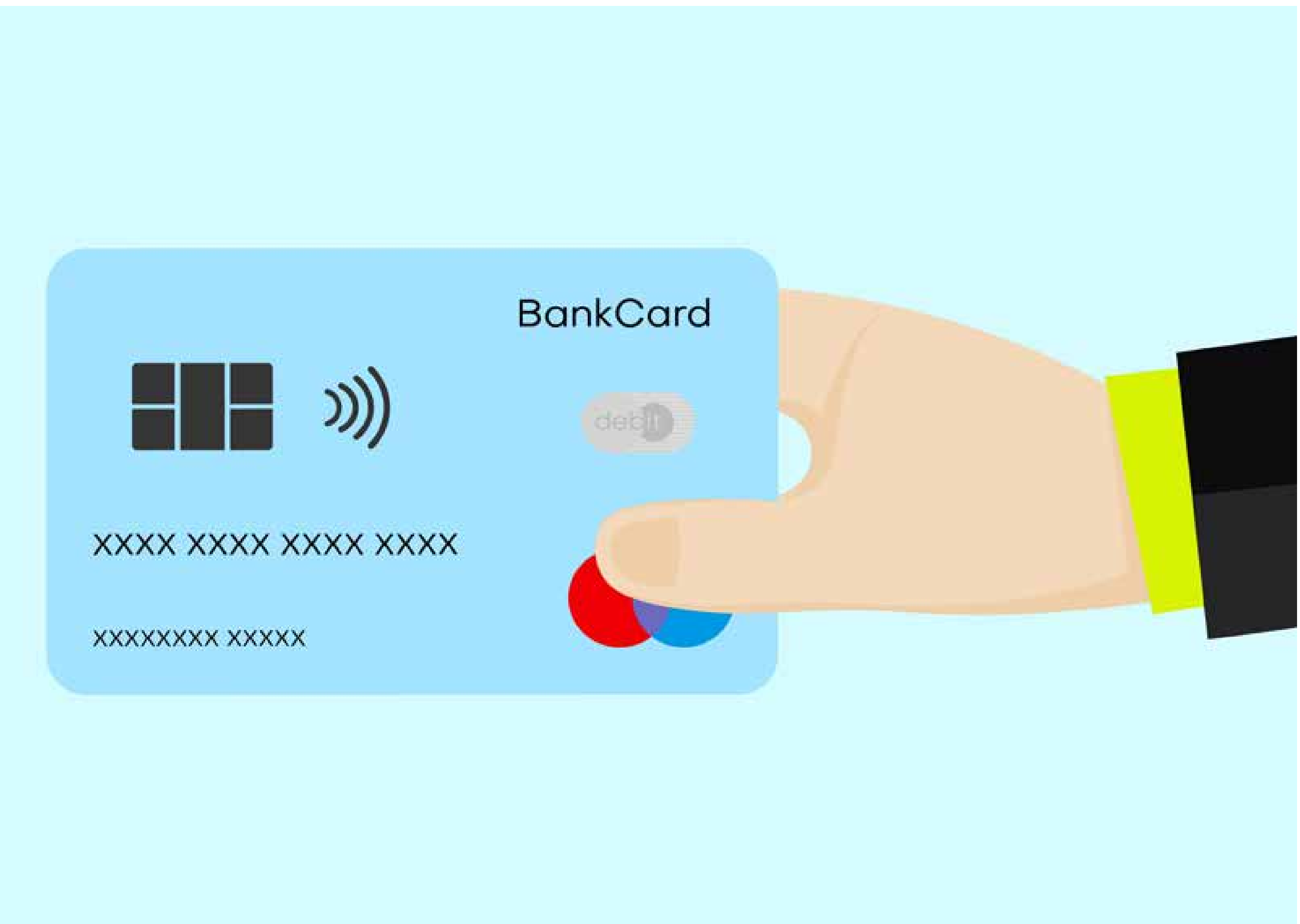
A company called the Wisconsin Cheeseman sells gift packs of cheese, candies and other treats. And you can buy the gifts on their in-house credit plan.

Let this sink in for a moment. A primary pitch from a gift company is that you can buy on credit.

The annual percentage rate will run you a modest 5.75% to a hefty 25.99% depending on the state. (Most states are currently above 20%. But don't worry. Your payments can be as low as $10 a month.) Just don't think about the fact that you'll probably be paying for this cheese for years to come.

There are other companies facilitating borrowing this doesn't even show up in the official debt figures.

The use of BNLP services such as Affirm, Afterpay and Klarna has exploded in the last couple of years. These services allow consumers to pay off purchases through installment payments, often interest-free. In a December 2021 report, Cardify CEO Derrick Fung said buy now, pay later has rapidly become more mainstream.



"The consumer over the last 12 months has become more compulsive and BNPL products are the result of us being locked up for too long and wanting more instant gratification," he said.

Buy now, pay later is a convenient way to spread out spending, but there is a dark side. It encourages consumers to spend more. Nearly 46% of those polled said they would spend less if BNPL wasn't an option.

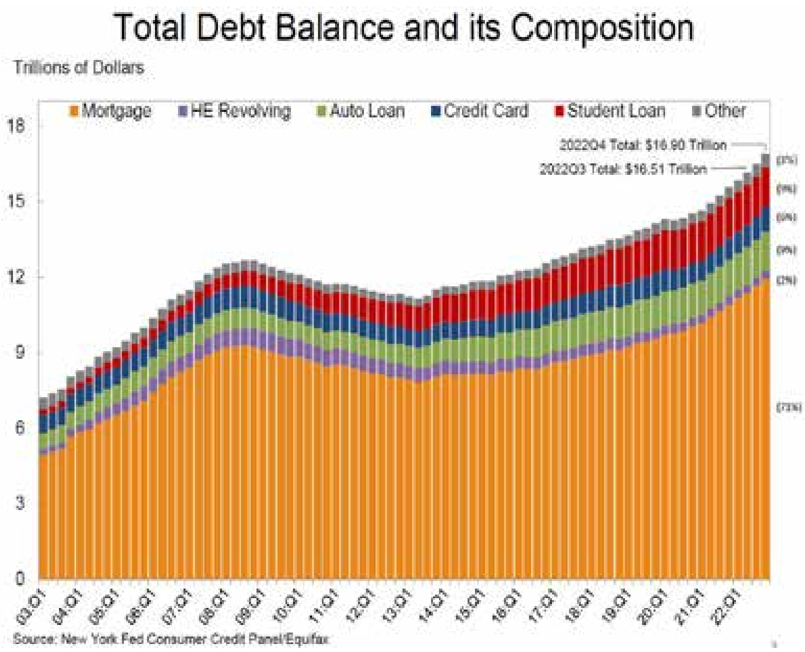
The rise of buy now pay later (BNPL) is another sign of a deeply dysfunctional economy. Americans are piling up millions of dollars of additional debt using BNPL on top of their credit cards.

So, while the mainstream pundits tell you the economy is strong, they are looking at a facade. It's a house of cards. And eventually, it will collapse.

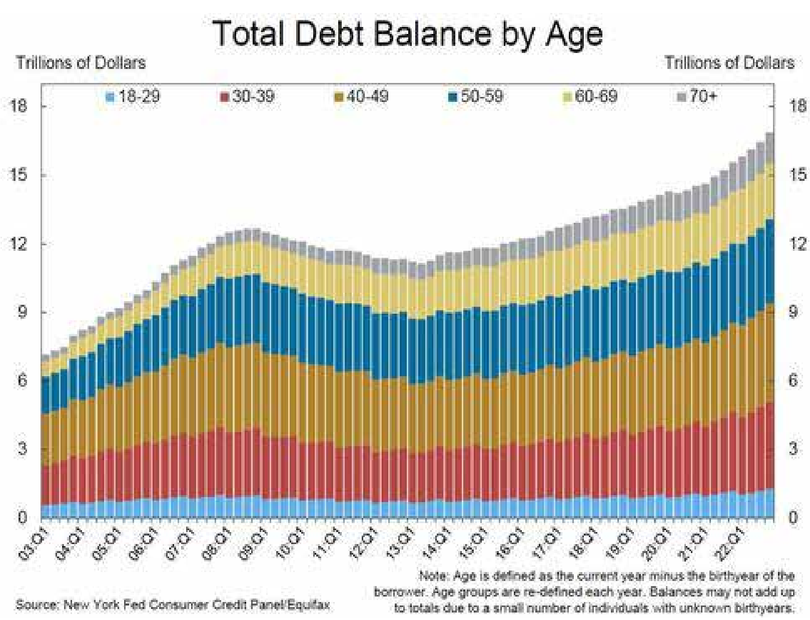
American consumers continue to "support the economy" by spending money today despite rising prices. But they're borrowing to do it. Tomorrow is fast approaching. And with it depleted savings, higher interest rates, and looming credit card limits. This is simply not a sustainable trajectory, no matter how the mainstream press tries to spin it.

Meanwhile, consumer debt continues to increase at an alarmin pace. This[2] from "Zero Hedge":

While it won't tell us anything we don't know - since it is two months delayed and we already get monthly updates from the Fed via the G.19 statement - this morning the NY Fed published its quarterly Household Debt and Credit report, which showed that ***total household debt in the fourth quarter of 2022 rose by 2.4% or $394 billion, the largest nominal quarterly increase in twenty years, to a record $16.90 trillion****. Balances now stand $2.75 trillion higher than at the end of 2019, before the pandemic recession.*



And the same chart broken down by age:



While dramatically increasing consumer debt will make the eventual deflationary reset worse, that's not the most alarming statistic here. The most troubling but of data is found in the second chart which breaks out debt by the age of the debtor. Notice it's the age 60+ age group that are adding the most debt on a percentage basis. That's a good indicator that many Americans are now resorting to credit cards and other new debt to meet living expenses and deal with inflation.

The bottom line is this – this trajectory of debt accumulation cannot be maintained. It's only a matter of time before there is a return to reality and we enter a severe deflationary environment.

There are already signs that we may be returning to reality. As we noted in this publication last month, sub-prime auto loans are beginning to default. This month, there is even more evidence that these defaults are becoming more prevalent.

This[3] from "The Wall Stret Journal":

> *The U.S. economy is on a steady footing and the unemployment rate is super low. Yet a rising number of Americans are falling behind on their car payments.*
>
> *Some 9.3% of auto loans extended to people with low credit scores were 30 or more days behind on payments at the end of last year, the highest share since 2010, according to an analysis by Moody's Analytics.*
>
> *The past few years have been unusually good for consumers, who stowed away extra money during the pandemic, but sky-high inflation is eating away at those gains. Car prices, in particular, jumped because of a shortage of vehicles. Many borrowers took out large loans to buy them, leaving little breathing room to keep up with payments if they hit a rough patch.*
>
> *"The households that were on the financial ledge to begin with might have been tipped to the point where it's hard to keep up on the car loan and everything else, and people have to make some very hard decisions," said Pamela Foohey, a professor at Cardozo School of Law who studies consumer law.*
>
> *Stress in the auto-loan market is concentrated among borrowers with credit scores below 660 and is especially high among people with bottom of the barrel credit. But the stress could spread if the U.S. goes into a recession, as many economists expect. If job losses increase, many more consumers might find themselves unable to keep up with the record amounts of debt they took out in recent years.*
>
> *Chris Woodward, of Cedar Falls, Iowa, was laid off from his software job in August, his second job loss in eight months. Soon after, he fell behind on the loan tied to his 2011 Ford Flex. While looking for a new job, he also fell behind on rent and ran up his credit-card bill, he said.*
>
> *He set up a GoFundMe fundraiser as a last resort. So far, his family of four has received about $10,000, which allowed him to make enough payments to hold off an auto repossession or eviction, though he remains behind and is juggling which bills to pay each month.*
>
> *"It's weird to go from having a good salary and*

not stressing, to, 'How am I going to buy diapers?'" said Mr. Woodward.

Mr. Woodward bought his car in early 2022, roughly when car prices were peaking. Used-car prices jumped 47% in 2021, then fell 15% in 2022, according to the Manheim Used Vehicle Value Index, which tracks U.S. wholesale-auction values.

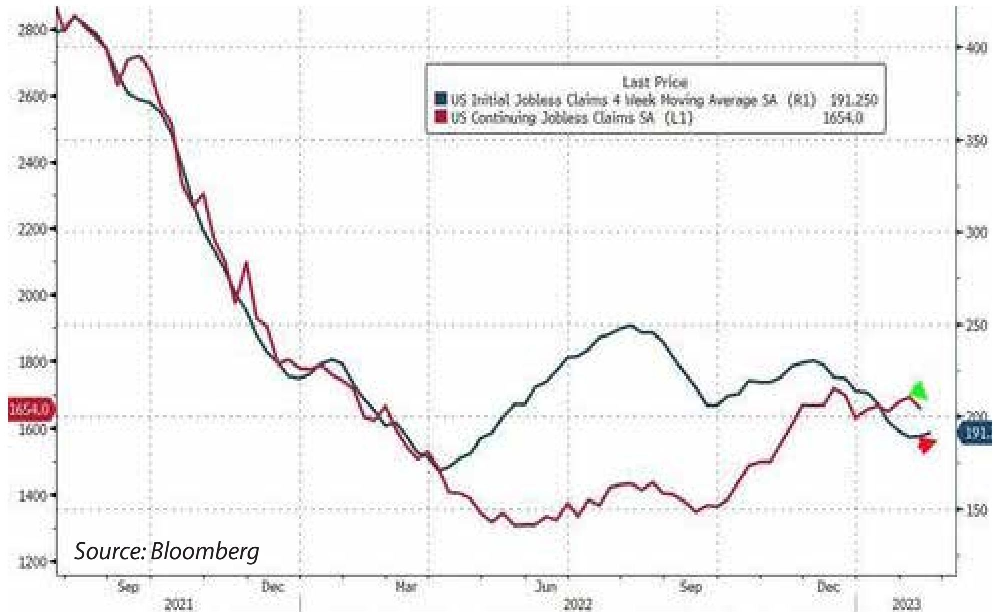
Borrowers who took out big loans at the height of the boom owe far more than their vehicles are worth. Those buyers are sticking lenders with bigger losses when they fall behind.

Ally Financial Inc., which operates a large auto-lending business, said in January that the loans it extended between mid-2021 and mid-2022 are experiencing bigger early losses than its other loans. In the fourth quarter, the percentage of its car loans that were more than 60 days past due rose above pre-pandemic levels for the first time.

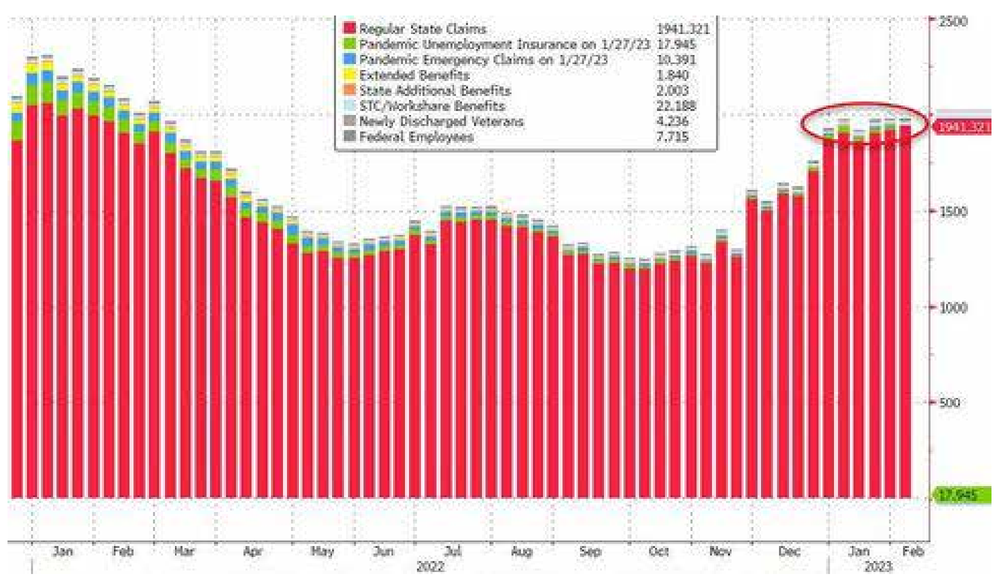
Car prices peaked when borrowers' financial profiles looked especially strong. Consumers had received government stimulus and cut back on spending early in the pandemic, which padded their savings.

In still more evidence that we are beginning what will likely be a painful return to economic reality, the number of Americans receiving jobless benefits is now hovering at one-year highs. This[4] from "Zero Hedge":

Initial jobless claims continues to hover 'bullishly' around the 200k mark (last week was 192k), despite the ongoing news of mass layoffs (and severance), dropping to four-week lows...



The total number of Americans claiming some form of unemployment benefit rose to 1.941mm last week, hovering at one-year highs...



Iraq Ditches US Dollar

The worldwide movement away from the US Dollar continues with Iraq now moving toward using the Chinese currency in trade in place of the US Dollar.

This[5] from "The Cradle":

> *The Iraqi central bank announced on 22 February that, for the first time, it plans to allow trade from China to be settled directly in yuan instead of the US dollar to improve access to foreign currency.*
>
> *"It is the first time imports would be financed from China in yuan, as Iraqi imports from China have been financed in (US) dollars only," the government's economic adviser, Mudhir Salih, told Reuters on 22 February.*
>
> *According to a statement released by the Iraqi central bank, carrying out transactions in the Chinese currency would boost the balances of Iraqi banks with accounts with Chinese banks.*
>
> *However, this option depends on the size of the central bank's yuan reserves.*
>
> *A second option to boost local banks' yuan balances would involve converting US dollars held in the central bank's accounts with JP Morgan and the Development Bank of Singapore (DBS) to yuan before paying the final beneficiary in China.*

The Iraqi central bank has been on a mad dash to compensate for a dollar shortage in local markets. This crisis prompted the cabinet to approve a currency revaluation earlier this month.

Last year, the US Treasury and the Federal Reserve Bank of New York began enforcing stricter controls on international transactions by Iraqi commercial banks, forcing them to comply with specific SWIFT global transfer system criteria to access their foreign reserves.

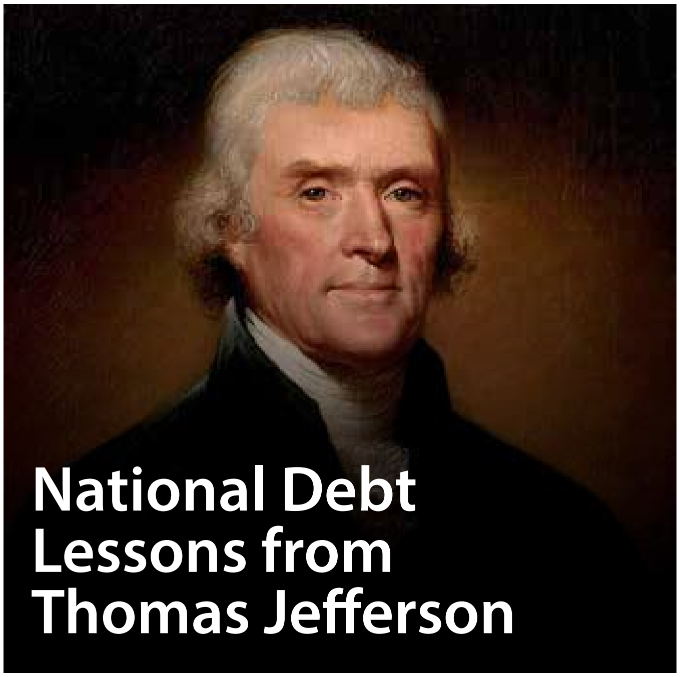
The move was allegedly meant to "curtail money laundering and the illegal siphoning of dollars to Iran and other heavily sanctioned [West Asian] countries." However, the sudden rules change for Iraqi banks sent the economy reeling as 80 percent, or more of Iraq's daily US dollar wire transfers could no longer be completed.

Last week, a senior Iraqi delegation visited the US capital to discuss easing the US Treasury measures. Following the trip, Foreign Minister Fuad Hussein denied reports that Washington imposed conditions on Baghdad to help with the dollar crisis.

Hussein added that it is "only a matter of time" before the exchange rate stabilizes.

Since the war in Ukraine started, several nations in the Global South have begun to move away from the US dollar in bilateral trade with China. Many others have chosen to boost their Chinese yuan reserves at a time when the hegemony of the greenback continues to weaken.

The move away from the US Dollar worldwide continues to gain momentum.



National Debt Lessons from Thomas Jefferson

The U.S. President that warned us about having private bankers controlling the issuance of our currency (too bad we haven't listened) also set a great example when it came to managing government finances[6].

The way Thomas Jefferson handled the national debt should serve as a blueprint for today. But instead, modern presidents look more like college students on a spending spree with their first credit cards.

As Democrats and Republicans shadowbox in their fake debt ceiling fight, the US government continues to spend money at an extraordinary clip. Just four months into fiscal 2023 and the US federal budget deficit is already approaching half a trillion dollars.

We all know how the debt ceiling fight will end. Congress will raise the borrowing limit and the government will keep right on spending money.

That reveals the nature of the problem. It's not the debt ceiling. It's the spending.

When Donald Trump took office in January 2017, he inherited a $19.95 trillion federal debt. He handed over a $27.75 trillion debt to Joe Biden. In just four years, the Trump administration added $7.8 trillion to the national debt.

Joe Biden took up right where Trump left off. In October, the national debt blew past $31 trillion. It now stands at $31.46 trillion. It will remain there until the fake debt ceiling fight resolves and it will then spike quickly toward $32 trillion.

But this isn't just a Trump/Biden problem. Every modern president inherited a huge national debt and managed to expand it during their time in office. In fact, since 1940, every successive presidential administration has spent more than the previous administration in inflation-adjusted dollars.

But there was a time when some presidents took paying off Uncle Sam's debts seriously. For instance, Thomas Jefferson faced a huge national debt when he took office in 1800. But unlike his modern counterparts, he didn't grow it further. In fact, he significantly whittled down the debt.

Jefferson and his fellow Democrat-Republicans in Congress knocked about $26 million ($420.8 million in 2018 dollars) off the debt through his two terms in office — this despite taking on an additional $13 million of added debt for the Louisiana Purchase.

How did they do it?

Well, it was pretty simple. They cut spending and applied the savings toward paying down debt.

Jefferson summed up his budget policy in a letter to Elbridge Gerry in 1799, writing:

> *"I am for a government rigorously frugal and simple, applying all the possible savings of the public revenue to the discharge of the national debt and not for a multiplication of officers & salaries merely to make partisans, & for increasing, by every device, the public debt, on the principle of it's being a public blessing."*

Despite facing a number of contingencies, Jefferson limited federal spending, keeping total outlays flat at between $8 and $10 million throughout his presidency.

The Democrat-Republicans held costs down by cutting the federal bureaucracy. And they even managed to do this with a federal workforce totaling just 130 employees.

There wasn't a whole lot of fat to slice, so Jefferson went to part of the budget where the money was being spent – the military. He argued that funding a standing army in peacetime was a colossal waste of money. In his first message to Congress, Jefferson wrote:

> *"Sound principles will not justify our taxing the industry of our fellow citizens to accumulate treasure for wars to happen we know not when, and which might not perhaps happen but from the temptations offered by that treasure."*

Congress responded to Jefferson's message, reducing the army to 3,000 soldiers and 172 officers. It also cut the navy to six frigates and reduced the number of foreign embassies to only three — in Britain, France, and Spain.

All of these spending cuts freed up about $7 million in revenue annually. Secretary of Treasury Albert Gallatin used the surplus to pay down the debt.

At the same time, Congress even reduced taxes, eliminating the hated whiskey tax, along with other internal taxes.

During Jefferson's tenure, the federal debt fell from $83 million in 1801 to $57 million in 1809. As Chris Edwards at the Cato Institute noted, the drop in debt was impressive, especially considering that the government swallowed that $13 million of added debt from the Louisiana Purchase.

Jefferson was also the beneficiary of a growing economy. After falling in the first two years of his first term, primarily due to the tax cuts, federal revenues soared to nearly $17 million by the end of his presidency. This was largely a function of a huge increase in import duties. Instead of using growing revenue to increase the size and scope of the federal government, Jefferson and Gallatin applied the surplus to pay down the debt.

There's a basic lesson here. If you want to reduce debt, you have to make government smaller. As Jefferson wrote to Lafayette in 1823:

> *"A rigid economy of the public contributions and absolute interdiction of all useless expenses will go far towards keeping the government honest and unoppressive."*

March 2023 Special Report

Social Security Tax Reduction Strategies

This month only, we are making available a free report titled, "Social Security Tax Reduction Strategies".

To request your complimentary copy this month only, return one of the postage-paid reply cards included with this month's newsletter. You'll notice that we've included three reply cards with this month's newsletter; we've done that so you can request a copy of this report for anyone you know that might find this information helpful.

In this month's special report, we will discuss strategies and techniques that many Social Security recipients can use to reduce taxes on the Social Security benefits that they receive.

Some of these strategies should be put in place PRIOR to collecting Social Security. If you are paying tax on your Social Security benefits or are now beginning to think about your retirement income planning, the information in this report could greatly benefit you.

This report is available only during the month of March.

Time Deposit Rates

At the time of publication, these rates were valid:

1-Year	4.30%
2-Year	4.55%
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Call the office for details at

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Resources to Help You Stay Informed

All these resources are available at the Retirement Lifestyle Advocates website: www.RetirementLifestyleAdvocates.com.

As previously mentioned in this month's "You May Not Know Report"™, the weekly "Portfolio Watch" newsletter is available on the Retirement Lifestyle Advocates website. Each week, I give you an update as to where we are economically speaking and in the financial markets and where we are going based on my analysis.

The weekly "Headline Roundup" webinar. Replays are available on the website. "Headline Roundup" happens every Monday live at Noon Eastern Time. To get an invite to the live event, give the office a call at **1-866-921-3613**.

The weekly "RLA Radio" show and podcast.

We also have the RLA app available. All these resources are also available on the app.

You can download the YOURRLA app for free by visiting the app store (either Google or Apple) and searching under YOURRLA.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.

Sources

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