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THE "YOU MAY NOT KNOW REPORT"

A PUBLICATION OF RETIREMENT LIFESTYLE ADVOCATES

Last month in the "You May Not Know Report", the headline of the first article was "Recession Confirmed?".

Seems that this month, we can eliminate the question mark from that headline. This[1] from "CNBC":

The U.S. economy contracted for the second straight quarter from April to June, hitting a widely accepted rule of thumb for a recession, the Bureau of Economic Analysis reported Thursday.

Gross domestic product fell 0.9% at an annualized pace for the period, according to the ad-

vance estimate. That follows a 1.6% decline in the first quarter and was worse than the Dow Jones estimate for a gain of 0.3%.

Officially, the National Bureau of Economic Research declares recessions and expansions, and likely won't make a judgment on the period in question for months if not longer.

But a second straight negative GDP reading meets a long-held basic view of recession, despite the unusual circumstances of the decline and regardless of what the NBER decides. GDP is the broadest measure of the economy and encompasses the total level of goods and services produced during the period.

I've been in the financial industry for about 3 decades. For that entire time, a recession has been defined as two consecutive quarters of economic contraction or 'negative economic growth'.

Regardless of the political machinations that would have you believe something to the contrary, recession is here.

The White House issued a statement to attempt to get ahead of the recession news, in essence attempting to change the definition of what a recession is.

The statement from the White House has been republished on this page for your review.

Essentially, in an effort to spin the story favorably during an election year, the White House is looking to change the definition of a recession. (Non-partisan note: neither political party has a monopoly on story spinning.)

Regardless as to what you want to call two consecutive quarters of economic contraction, we can all agree that it's not good economic news.

In my view, the primary culprit of this recession is Federal Reserve policy that has expanded the currency supply to such a great extent as to cause inflation unlike anything seen in more than 40 years.

Digging deeper, the currency creation takes place to attempt to mask the symptoms of deflation which emerges as a result of debt levels that are simply too large to be sustainable and serviced.

Ironically, the currency creation policy simply adds to debt levels and makes the eventual economic hard landing worse than it would have otherwise been.

The recession is here.

What is a recession? While some maintain that two consecutive quarters of falling real GDP constitute a recession, that is neither the official definition nor the way economists evaluate the state of the business cycle. Instead, both official determinations of recessions and economists' assessment of economic activity are based on a holistic look at the data—including the labor market, consumer and business spending, industrial production, and incomes. Based on these data, it is unlikely that the decline in GDP in the first quarter of this year—even if followed by another GDP decline in the second quarter—indicates a recession.

And, the average American consumer is feeling it.

As I noted on a recent "Headline Roundup" webinar (held live every Monday at Noon Eastern—call the office at 1-866-921-3613 for an invite to participate live; "Headline Roundup" newscasts are also recorded and posted at www.RetirementLifestyleAdvocates.com), American consumers are increasingly feeling the pinch of inflation since the first of the year.

At the beginning of 2022, according to "Real Investment Advice", the average American family was experiencing an annual deficit, the difference between income and expenses, of $4500.

Presently, that same American family has an annual deficit of $6350. That's an increase of more than 40% in a matter of months! (See chart, below.)

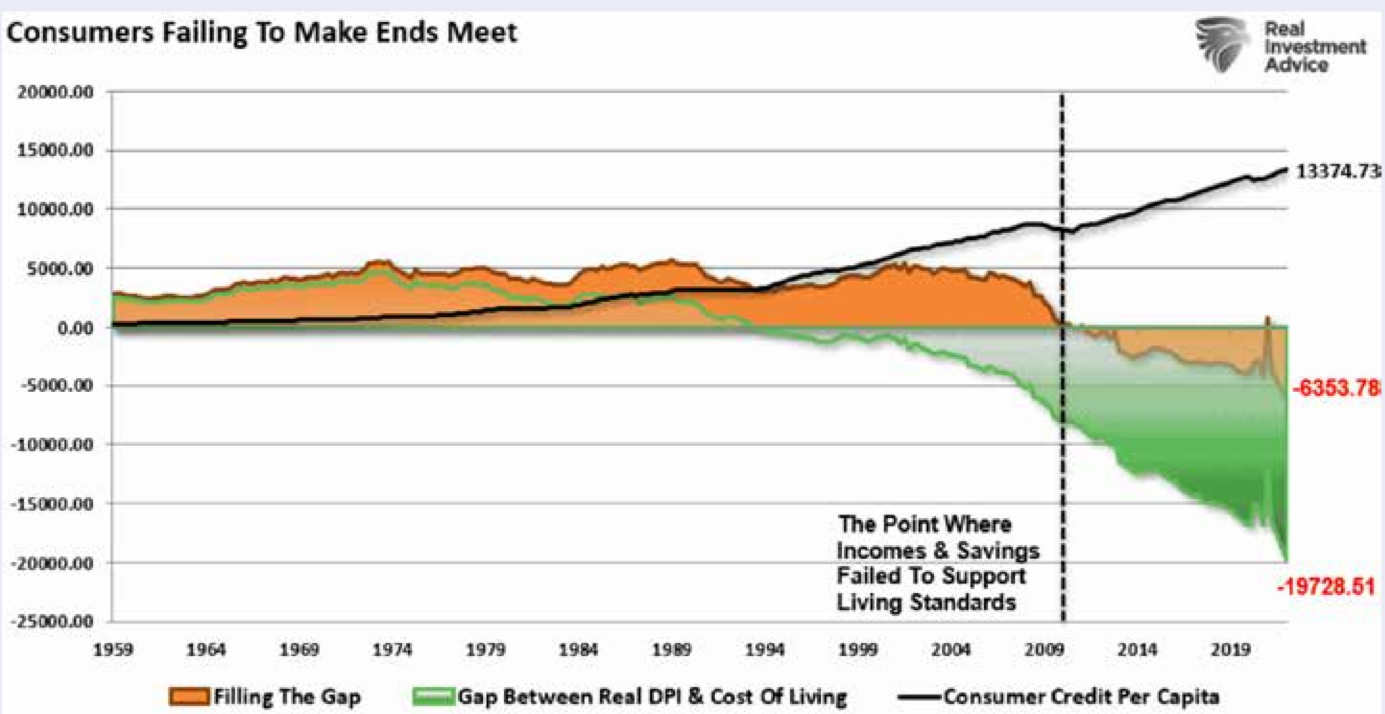
That average deficit, given that the US economy is more than 70% dependent on consumer spending, helps explain the recession in which we now find ourselves.

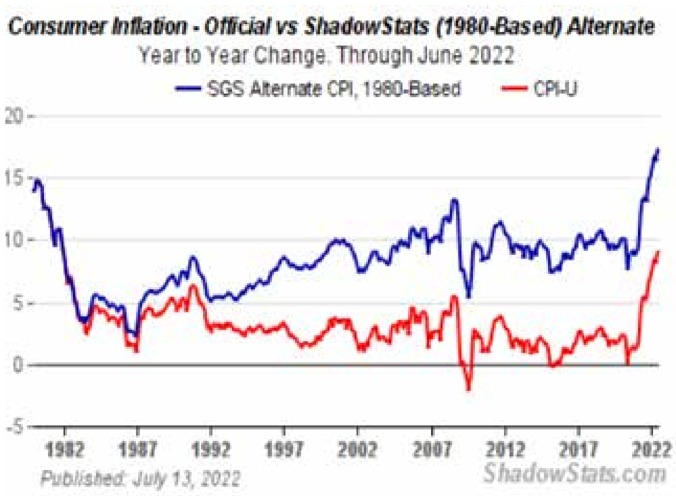
Don't look for any meaningful improvement in inflation until we have real positive interest rates. And we're a long way from that.

The official inflation rate, a highly manipulated number, is 9.1%.[2] The 10-Year US Treasury Note is presently yielding 2.66%.[3] That means that the real yield on a 10-Year US Treasury Note after adjusting for inflation is -6.44%.

However, that assumes you believe that the official inflation rate is accurate. It isn't.

John Williams, of www.ShadowStats.com, estimates that if the inflation rate were determined using the calculation methodology that was used in the 1970's, we would have an official inflation rate of about 17% as the chart on the next page illustrates.[4]





After 1980, the way that the inflation rate is calculated has changed twice. Each time an adjustment to the calculation was made, the reported inflation rate was lower than would have been had the adjustment to the calculation not been made.

Using Mr. Williams' estimated inflation rate, to get real positive yields and get inflation under control interest rates would need to be higher than 17%.

At their last meeting the Federal Reserve increased interest rates so they are now between 2.25% and 2.5%.

I don't expect the Federal Reserve to stay the course and continue to raise interest rates. As this recession intensifies as I believe it will, I think the Fed will end up reversing course and return to a policy of easy money.

I also expect that policy to fail and lead to even more inflation.

Wal-Mart Adjusts to Recession

The retail giant Wal-Mart has taken to offering customers refurbished items in an attempt to contain costs and still provide quality products. This[5] from "The Epoch Times":

Retail giant Walmart announced a new program created to help customers discover refurbished products at "everyday low prices."

As people look for ways to save money, "like-new" refurbished items have become a popular way to reduce costs without compromising on quality, Walmart said in a July 29 news release. Walmart already works with sellers and suppliers to provide refurbished goods at a "fraction of typical costs." The company has now made shopping for such items easier by adding a "Walmart Restored" section on its website.

"All products listed on the site have been professionally inspected, tested, and cleaned. And if for any reason a customer

isn't satisfied, we offer 90-day free returns to help enable shopping with confidence," the news release said.

By the fall of this year, Walmart plans on introducing the program in select stores. According to the company, refurbished products do not have any "visible cosmetic imperfection" when looked at from 12 inches away.

Walmart's initiative arrives as Americans are being pushed by inflation to cut spending even on essentials like groceries. In June, the 12-month Consumer Price Index (CPI) came in at 9.1 percent, the highest rate of inflation since the early 1980s.

Other items that have been hit by inflation include new vehicles, whose prices have risen by 11.4 percent, used cars and trucks by 7.1 percent, apparel by 5.2 percent, and medical care commodities by 3.2 percent.

U.S. GDP contracted at an annualized rate of 0.9 percent in the second quarter of 2022, after a 1.6 percent decline in the first quarter. Some economists describe two consecutive quarters of economic decline as a sign of recession, although the Biden administration argues against such a definition.

Second-hand store shopping and buying refurbished items are becoming quite popular. This from the same article:

According to a May report published by fashion resale platform ThredUp, secondhand shopping is becoming increasingly popular in the United States.

The American secondhand apparel market, after growing by 32 percent in 2021, is expected to more than double by 2026, to hit $82 billion. By 2024, half of the secondhand dollars are expected to come from online channels.

Among respondents of the ThredUp survey, 58 percent of consumers said that secondhand purchases have "helped them in some way" during this period of high inflation. In addition, 25 percent of consumers said they will consider buying more secondhand apparel if prices keep increasing.

"The last 10 years of resale were dominated by marketplaces, but brands and retailers are driving the next wave of secondhand," James Reinhart, ThredUp CEO and co-founder, said in the report.

In the tech space, businesses are planning fresh investments in the secondhand market. Paris-based Back Market, the world's leading renewed tech marketplace, for example, plans to double the size of its U.S. staff this year and has earmarked funds for the same.

The company entered the American market in 2018, and it expects to generate triple-digit annual revenue growth in the country this year.

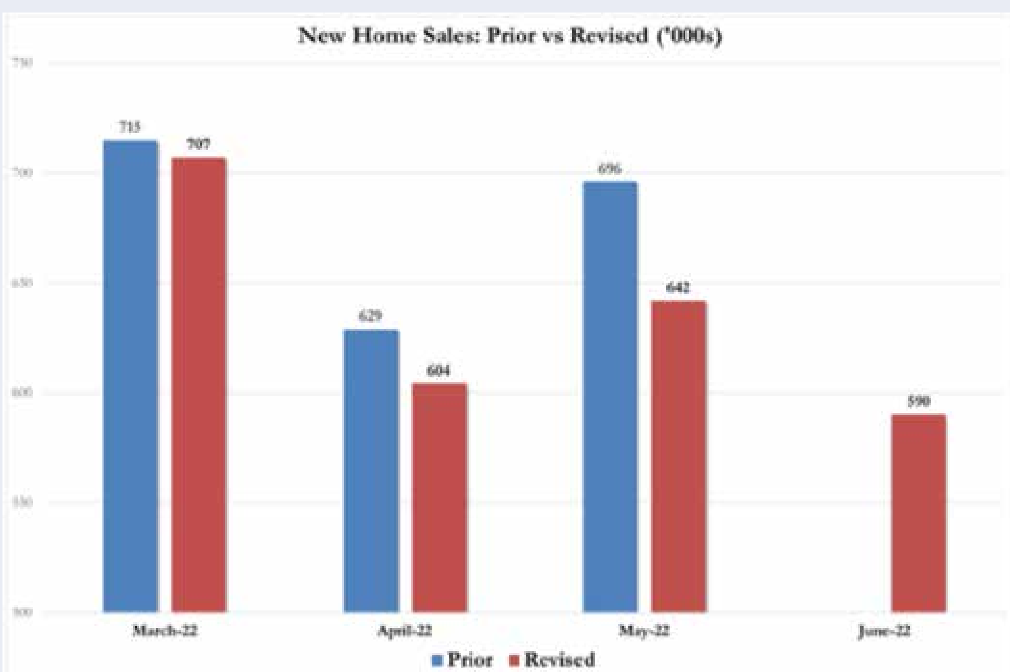
Real Estate Continues Its Slowdown

As suggested in past issues of the "You May Not Know Report", real estate is beginning to show signs of slowing down.

This[6] from "Zero Hedge":

> *Amid a plunge in homebuilder confidence, record low affordability, tumbling single-family starts and permits, and multi-decade lows in mortgage applications, it is no surprise that analysts expected a 5.9% MoM plunge in new home sales in June (especially after the surprise 10.7% MoM panic-buying surge in May). The consensus was right in direction but off in magnitude as new home sales plunged 8.1% MoM in June and the 10.7% surge in May was revised down to just +6.3% MoM...*
>
> *New Home Sales have fallen for 5 of the last 6 months and the last few months have seen a one-way street of downwards revisions...* (See chart, below.)
>
> *The New Home Sales SAAR has tumbled to its lowest since the nadir of the COVID lockdowns in April 2020...*
>
> *A potential silver lining is that inventory is finally on the rise with 9.3 months of supply seen in June, up from 8.4 in the prior month.*
>
> *And the best news of all - the median new home price tumbled 9.5% MoM to $402,400...* (See chart, page 7.)
>
> *This was the biggest MoM drop in the median new home price since Sept 2014...*
>
> *This new home sales print comes on the day that Pulte Homes admits buyers have hit a wall and is "dialing back" its spec-home-starts, noting that the homebuilder›s cancellation rate more than doubled to 15% in Q2 from 7% in the year-ago quarter, as soaring home prices and mortgage rates hinder affordability.*

While markets rarely go straight up or straight down, I expect a lot of down side in real estate



as we move ahead.

The large decline has already begun in Australia. This[7] from "Wolf Street":

The Reserve Bank of Australia (RBA) raised its policy rate twice, by 50 basis points each time, in May and July, from record lows, to 1.35%, in response to inflation which in the second quarter spiked to 6.1%, from 5.1% in the first quarter, and from 3.5% in the fourth quarter last year. And Australia's phenomenal and record-indebted housing bubble has started to react, though rates are still ridiculously low, amid this surge of inflation.

"The rate of growth in housing values was slowing well before interest rates started to rise," said CoreLogic's Research Director, Tim Lawless in the report on the Australian housing market. "However, it's abundantly clear markets have weakened quite sharply since the first rate rise on May 5."

"Although the housing market is only three months into a decline, the national Home Value Index shows that the rate of decline is comparable with the onset of the global financial crisis (GFC) in 2008, and the sharp downswing of the early 1980s," he said.

"In Sydney, where the downturn has been particularly accelerated, we are seeing the sharpest value falls in almost 40 years," he said.

In five of the eight capital cities, home prices fell in July from June, led by Sydney (-2.2%) and Melbourne (-1.5%). For the three months through July, prices fell by 4.7% in Sydney and by 3.2% in Melbourne.

Even in the markets where prices still rose (Perth, Adelaide, and Darwin), there has been a "sharp slowdown" in the pace of price gains since the first interest rate hike in May, CoreLogic said.

Fed – No More Forward Guidance

Jerome Powell, Chair of the Federal Reserve, recently announced that the Fed would be doing away with forward guidance, instead opting to look at things on a meeting-to-meeting basis. This[8] from Mises.org:

The Federal Reserve's Federal Open Market Committee announced Wednesday it is raising its key policy rate—the federal funds rate—by 75 basis points to 2.5 percent. According to the FOMC›s press release, the committee recognizes that economic activity is declining but that Consumer Price Index (CPI) inflation also "remains elevated":

Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.

The committee goes on to state that with these conditions in mind, it will raise the target rate in order to "achieve … [CPI] inflation at the rate of 2 percent over the longer run." Moreover, the committee states it "will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities."

There were not many surprises here. Most Fed watchers were predicting a 75 basis point increase, and that's what the Fed delivered.

This then leaves us with the question of what now. The Fed doesn't know, and the weakness of the present economy will keep the Fed very cautious moving forward.

As is clear from Powell's press conference Wednesday, following the release of the FOMC statement, the Fed is still holding out hope for a "soft landing" in which it can significantly reduce inflation without sizably reducing employment or causing a greatly weakened economy.

How the economy will react to the Fed's changes remains a complete mystery to the Fed, however, as has long been clear. It only took six weeks, after all, for the Fed to go from a stance of "economic activity appears to have picked up" (at the June meeting) to noting how "recent indicators of spending and production have softened" (in its July report).

The fact the Fed has no idea how things will go is emphasized by Powell's admission that the Fed isn't planning to offer any more forward guidance this year, which frees it up to make more last-minute decisions and to more aggressively make things up as it goes. Specifically, Powell said that moving forward "we think it's time to just go to a meeting by meeting basis, and not provide the kind of clear guidance that we did on the way to neutral."

Translation: "Things might go even more off the rails at any time, so let's just play it by ear."

Powell further emphasized that he believes the US is not currently in recession and that "we're [i.e., the Fed policy makers] not trying to have a recession and we don't think we have to." Powell, however, admitted that successfully pulling this off requires walking a very narrow path. Moreover, as Powell recognized, "growth is going to be slowing down this year," and the path to reducing CPI inflation without a recession "has narrowed" and may "narrow further."

These are not the words of a man with much confidence he can do what the Fed has long promised. The Fed line for years has been that it will "not allow" inflation to rise much above its 2 percent standard, and that the Fed has "many tools" to ensure this doesn't happen. All that big talk is now long gone.

Nor would Powell say what he would do if the economic situation worsened. When CNBC's Steve Liesman asked Powell what standard he was using to determine how the Fed should react to worse economic news, Powell didn't attempt any real answer and simply reiterated that the focus is inflation.

That the Fed is clearly worried about the slowing economy is apparent in just how little the Fed has actually done to tighten monetary policy in recent weeks.

Utility Bills to Skyrocket?

In Europe, utility bills are already dramatically rising. The same outcome may be about to happen in the United States. This[9] from Michael Snyder:

> *How would you feel if your power bill went up by 50 percent this winter? How about 100 percent? Unfortunately, these kinds of price increases are already being announced. The world was heading into a major energy crisis even before the war in Ukraine started, and now that conflict threatens to create an extremely severe energy crunch that would have been unimaginable just a couple of years ago. If some sort of a miracle doesn't happen, it is going to be a really, really cold winter for countless people in the western world.*
>
> *The Russians have been trying to use energy as leverage, and on Monday they announced that the amount of natural gas flowing through the Nord Stream 1 pipeline will be reduced "to just 20% of its capacity"…*
>
> *The Biden administration is working furiously behind the scenes to keep European allies united against Russia as Moscow further cuts its energy supplies to the European Union,*

prompting panic on both sides of the Atlantic over potentially severe gas shortages heading into winter, US officials say.

On Monday, Russia's state-owned gas company Gazprom said it would cut flows through the Nord Stream 1 pipeline to Germany in half, to just 20% of its capacity. A US official said the move was retaliation for western sanctions, and that it put the West in "unchartered territory" when it comes to whether Europe will have enough gas to get through the winter.

In essence, Vladimir Putin is "turning the screws", and it may just be a matter of time before he cuts off the gas completely.

The Europeans never should have allowed themselves to become so dependent on Russian energy, and now a major crisis is staring them in the face.

Last Wednesday, a modest rationing plan for the member states of the EU was introduced…

The "Save Gas for a Safe Winter" plan announced Wednesday sets a target for the 27 member states to reduce their gas demand by 15% between August and March next year. That reduction is based on countries' average gas consumption during the same months over the previous five years.

The plan is focused on curtailing demand by businesses and in public buildings, rather than private homes. Among the proposed measures, the EU Commission is encouraging industry to switch to alternate energy sources — including coal where necessary — and to introduce auction systems that compensate companies for reducing their gas consumption.

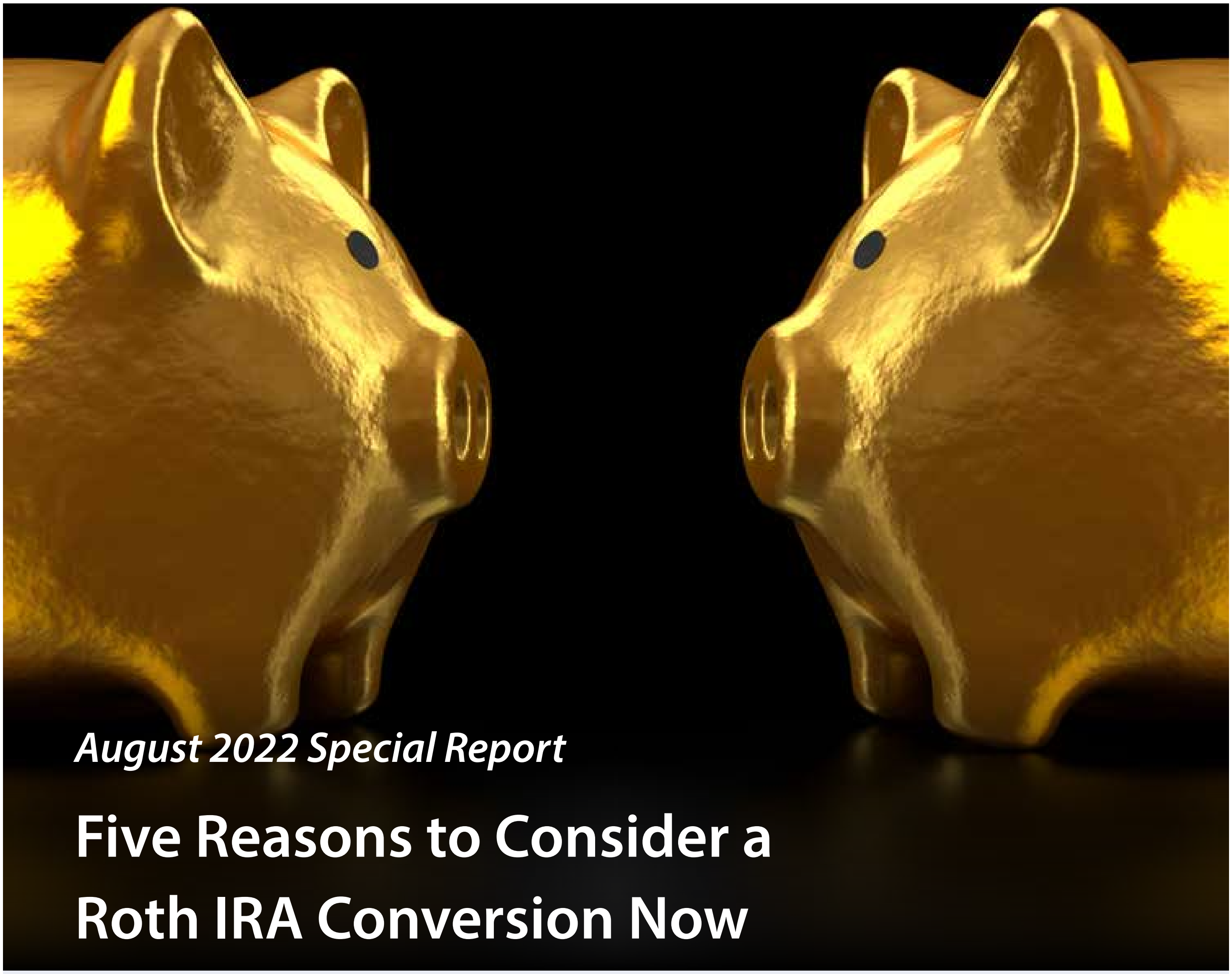
Of course such a plan is going to be almost impossible to enforce, and even if all of the member states meet their goals it still won't be enough if the Russians stop the flow of gas entirely.

The U.S. has been ramping up exports to Europe in an effort to help, and one official is openly admitting that this could cause a dramatic increase in prices here in the United States…

"This was our biggest fear," said the US official. The impact on Europe could boomerang back onto the US, spiking natural gas and electricity prices, the official said. It will also be a major test of European resilience and unity against Russia, as the Kremlin shows no signs of retreating from Ukraine.

Sadly, we are already starting to see the price of natural gas rise to very alarming levels.

According to Wolf Richter, the price of U.S. natural gas has "more than doubled" over the past year…..



August 2022 Special Report

Five Reasons to Consider a Roth IRA Conversion Now

This month only, we are making available a free report titled, "Five Reasons to Consider a Roth IRA Conversion Now".

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, you will discover why seriously considering a Roth IRA conversion may make sense presently. The report may help you determine if a Roth IRA conversion is right for you. Due to recent tax and economic changes, a Roth conversion can now make sense for many retirees and aspiring retirees.

This report is available for the month of August only.

Resources to Help You Stay Informed

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

The weekly "Portfolio Watch" newsletter. 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.

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