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Those Walmart E-mails and the U.S. Economy

Much was made of some internal e-mails from Cameron Eiger, a Walmart VP, expressing his frustration over slow sales at the start of the year. In a February 1 e-mail to company executives, he wrote: "Have you ever had one of those weeks where your best-prepared plans weren't good enough to accomplish everything you set out to do? Well, we just had one of those weeks here at Walmart U.S. Where are all the customers? And where's their money?"

These were followed up by Jerry Murray, Walmart's VP of finance who wrote in an internal e-mail on February 12: "In case you haven't seen a sales report these days, February MTD [month-to-date] sales are a total disaster. [They are] the worst start to a month I have seen in my 7 years with the company."

Part of the decline was expected, due to the rise in payroll taxes of two percent that reinstated the full deduction effective on January 1. Part was not: Delays in tax refund checks as the IRS struggled with last-minute changes to the code following the fiscal cliff agreement on December 31. That amounted to about $20 billion not going to Walmart's customers that their executives were counting on to make their month.

The *Wall Street Journal* jumped on those e-mails as an indication of a general slowing of the economy being reflected by the world's largest retailer. The *Journal* noted that the various headwinds faced by the company, and the American economy by implication, included the expiration of the payroll-tax cuts which continue to extract about $80 a month out of Walmart's customers' paychecks. Also was the rising price of gasoline, with a gallon of gas in some parts of the country exceeding $4 a gallon for regular unleaded. And food price increases are putting Walmart in a difficult position as well. The U.S. Department of Agriculture estimates that groceries will cost three to four percent more this year than last, and half of Walmart's revenues come from groceries.

In addition, the *Journal* pointed out that unemployment hits Walmart's customers harder than average as well, making it more difficult for them to continue spending as robustly as they have been. The *Journal* concluded that "if higher gas prices and lower income levels represent a new normal, consumer spending is in trouble — and with it, the fortunes of both Wal-Mart and the U.S. economy at large."

Such hand-wringing may be premature as the fortunes of Walmart, as indicated in their year-end financial report, are doing just fine thank you. On February 21 the company

> reported fiscal year 2013 fourth quarter diluted earnings per share from continuing operations (EPS) of $1.67, a 10.6 percent increase compared to last year. Full year EPS were $5.02, also a 10.6 percent increase over last year.

That's about four times the growth of the overall U.S. economy last year and encouraged Walmart to increase its dividend as well:

> The company announced its annual fiscal year 2014 dividend of $1.88 per share, an 18 percent increase or $0.29 per share, over last year's dividend of $1.59 per share.

Even the difficult fourth quarter on which the company executives were focused did just fine, as well: "For the fourth quarter, Walmart U.S. reported a 1.0 percent sales increase."

This isn't doing anything to help the credibility of the Economic Cycle Research Institute (ECRI), which called for another U.S. recession as far back as September 2011. ECRI continues to say that its call is accurate, just premature.

Doug Short, on his Advisor Perspectives website, has taken issue with ECRI's recession call ever since it was made and is persuaded that the latest data, being reflected and confirmed by Walmart's results, "severely damages [ECRI's] recession call … [and] I continue to think that an ECRI retraction of their recession call is long overdue."

He tracks the "big four" indicators: industrial production, employment, real spendable income, and sales, and averaged together they show a slowly growing economy, albeit very slowly. He short hedged his bet, however:

> Despite my rejection of ECRI's recession call, I continue to believe the U.S. economy remains vulnerable. However wrong ECRI might have been, recession risk remains.

If Short is right, those Walmart e-mails and the *Journal's* reaction to them were premature. Despite the anti-capitalist mentality currently ruling in the corridors of power in Washington, D.C. the economy continues to muddle along, slowly — oh so slowly — working its way through the worst recession since the 1930s.

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