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It's "Show Me" Time: Quarterly Earnings Season Begins Today

By Louis Navellier

Despite sizzling temperatures and Fourth of July fireworks, the stock market cooled down after Friday's payroll report put investors in a bad mood. But most bad news has a silver lining: (1) The world economy is slowing down, but that means lower oil prices and (2) Companies aren't hiring as fast, but their higher productivity could boost earnings. For the week, the Dow Industrials and S&P 500 fell 0.84% and 0.55%, respectively, but the Russell 2000 rose 1.08%, and NASDAQ eked out a 0.08% gain.

Stat of the Month: Job Growth Shrinks 67% in the Second Quarter

The U.S. Labor Department reported last Friday that only 80,000 payroll jobs were created in June, up only slightly from an upwardly revised 77,000 in May and a downwardly revised 68,000 in April. Economists expected 100,000 new private sector payroll jobs, so June was another big disappointment.

In the first quarter, the Labor Department reported average monthly job growth of 226,000, while the second quarter average fell 67% to 75,000 per month. The unemployment rate remained at 8.2%. Some experts say that rate would be over 11% if you added "discouraged workers" back into the labor force.

Another interesting statistic is that disability claims – younger workers applying for approximately $900 per month from the Social Security Disability Insurance program – continue to outpace job creation. In the past three years, the U.S. has created 2.6 million payroll jobs and 3.1 million new disabled workers! Is it possible that there were 500,000 more new disabled workers than new job hires in the last three years? This trend continued last month: In June, another 85,000 workers left the workforce to collect disability.

As usual, the ADP (private-sector) payroll job report was far healthier than the government report. On Thursday, ADP said that private sector payrolls rose 176,000 in June, more than twice the 84,000 total reported by the U.S. government. According to ADP, the service industry created 160,000 of those jobs (vs. 16,000 in manufacturing). Also, 93,000 of those jobs were created by small businesses (under 50 employees), 72,000 jobs at medium-sized businesses, and 11,000 at large businesses (over 500 people).

In other economic news, we saw minuscule same-store sales growth of only 0.1% in June, the smallest increase in almost three years (since August 2009). Two-thirds of the 20 retailers surveyed by Thomson Reuters missed their sales estimates. Some consumers are now living "paycheck to paycheck." Mid-range stores fared worst, while discount retailers and some luxury retailers had positive sales growth.

The best news came Tuesday when the Commerce Department reported that factory orders rose by 0.7% in May, well above economists' consensus estimate of 0.1%. "Core" capital goods rose 2.1% in May, a huge turnaround from a 1.4% decline in April, so not all of America's economic indicators are falling!

Soaring Vehicle Sales & Falling Gas Prices Buck the Negative Trend

Last week's brightest retail sales report came from vehicle sales, which rose 22% in June. The demand for fuel-efficient vehicles soared. Toyota led the way with a 60.3% sales increase, followed by Honda* with a 48.8% gain. Chrysler's June sales rose 20.3%, followed by GM's 15.5% sales gain and Ford's* 7.1% gain.

Gasoline prices are down, but they may resume rising again, since Iran was on the warpath last week, launching a barrage of missiles at “mock enemy bases” as part of a major war games exercise. On July 1st, the European Union’s embargo against Iranian oil officially kicked off. Iran has been having a hard time selling its crude oil for several months now. As a result, Iran’s excess crude oil production is now stored in about 65 Iranian tankers, which essentially serve as floating oil storage “fleet” of facilities.

International experts say that Iran’s crude oil exports have been cut by 25% since the beginning of the year. Currently, Iran is producing 2.8 million barrels a day, but only exporting an estimated 1.6 to 1.8 million barrels per day, so Iran will have to cut its production soon. As a result, crude oil prices may rise between now and Labor Day when worldwide demand slows. However, when Iran’s growing glut of crude oil is finally released on world markets, it will likely result in a big price decline in crude oil.

In the meantime, there is a quiet buildup of 13,000 U.S. military forces in Kuwait, including an addition of F-22 and F-15C fighter jets and a buildup of U.S. Navy ships, including a doubling of minesweepers in the Persian Gulf region, as part of the effort to enforce international sanctions against Iran’s oil exports.

A Global Slowdown Depresses Commodity Prices, Especially Oil

The other force putting downward pressure on crude oil prices is the global economic slowdown. Last week, HSBC reported that China’s Purchasing Managers’ Index (PMI) dropped to 48.2 in May, down from 48.4 in May. (Any number under 50 signals contraction.) On Wednesday, Markit announced that the euro-zone PMI rose to 46.4 in June, up from 46 in May, but Europe is still in the doldrums. Last month, unemployment in the euro-zone hit a record high, as 1.8 million Europeans lost their jobs in the past year.

In response to the global economic slowdown, several central banks stepped in to rescue their respective economies. On Thursday, the European Central Bank (ECB) cut its key lending rate by 0.25% to an all-time low of 0.75% and cut its overnight deposit rate (the equivalent of the Federal Funds rate) by 0.25% to 0%. Still, Spanish 10-year bonds surpassed 7% yields, while German 2-year yields turned negative!

Also on Thursday, the Bank of England raised its quantitative easing by 50 billion pounds ($78 billion), and the People’s Bank of China surprised many observers by implementing its second rate cut in less than a month, lowering its one-year lending rate by 0.31% to 6%. Clearly, several central banks are trying to save their respective economies by flooding their nations with more liquidity and lower interest rates.

Global growth rates are near zero in many lands: The euro-zone is expected to contract by at least 0.6% in the second quarter, while France’s fragile 0.3% growth rate is threatened by President Hollande’s proposed 75% tax rate on millionaires. Furthermore, the International Monetary Fund (IMF) warned on Tuesday that U.S. GDP growth could fall below 1% if it fails to deal with its “fiscal cliff” by year’s end.

Last week, the euro dropped 2.8% to the U.S. dollar. The U.S. dollar is now at a two-year high relative to the euro, which closed under $1.23 on Friday. As we celebrate the Fourth of July, it’s encouraging to see that despite all our problems, America remains an oasis relative to other nations and their currencies.

Later today, the second-quarter earnings announcement season will begin. My prediction is that despite a continuing global slowdown, the market will respond favorably if we continue to see an avalanche of positive earnings surprises in the next few weeks.

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