BARRON'S

Barron's, June 24, 2009

Exit Ahead? Not So Fast

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The collapse in tax revenues should show the FOMC how far short the economy is from recovery.

THE FEDERAL OPEN MARKET COMMITTEE supposedly is discussing an "exit strategy" at its policy meeting that ends Wednesday. That presumes that its destination is anywhere in sight.

Notwithstanding the so-called green shoots that appear to be popping up in various series of economic statistics, other numbers show things to be withering, if not rotting outright. What's more these data are not seasonally adjusted or otherwise fudged. They're tax receipts, and nobody pays taxes on phony, phantom jobs or earnings.

According to Trim Tabs, income-tax withholdings in the past four weeks are down 6.1% from a year ago; in the last two weeks, they're down an even bigger 8.1% from last year. That marks a sharp deterioration from May, when income-tax withholdings were off "only" 4.8% from a year ago.

"The deterioration in growth since May indicates wage declines and job losses have accelerated," according to note to TrimTabs' clients.

Meanwhile, "other" taxes were down 39.5% year-on-year, down from 33.6% in May. Corporate income taxes were down 35% from a year ago in the latest four weeks after having been down 12.3% year-on-year in May.

TrimTabs' numbers corroborate the dismal numbers on state personal tax revenues, which were down 26% in first four months of the 2009 from a year earlier.

According to the Nelson A. Rockefeller Institute of Government, 34 of 37 states that submitted data reported declines. Arizona, one of the epicenters of the housing collapse, saw the biggest drop, a stunning 55%. The Nos. 2 and 3 states were South Carolina and Michigan, with declines of 38.6% and 34.4%, respectively. California, whose massive budget woes are front and center, had the fourth-highest decline, at 33.8%

Not only do plunging tax revenues tighten the fiscal vise on the federal, state and municipal coffers, they provide unambiguous confirmation of the truly dire straits of the economy.

These numbers, of course, are at odds with the surge in the stock market, which had lifted the averages by about a third from those March lows. Now, however, equities appear to be rolling over, which could be nothing more than profit-taking to nail down wins ahead of the end of the second quarter.

But the advance also seems to be losing steam in bourses abroad as well as in commodities, which suggests much of the surge was liquidity-driven, not unlike last summer's spike in crude oil prices to $147 a barrel. We'll see.

ONE BOURSE THAT HAS HAD an "official" bear market appropriately enough is Russia. The RTS index, which is denominated in dollars, fell another 2.9% Tuesday, bringing its decline since June 2 to 21%.

Faring even worse has been the Templeton Russia and East European Fund (ticker: TRF), which was among the egregiously overpriced closed-end funds featured here a couple of weeks ago ("The Closing of the American (Investor) Mind", June 10.)

Since then, the price of the Templeton Russia and East European Fund has come crashing down even harder, to 15.95 from 23.15, a loss of 31% in a mere fortnight.

Part of that reflects the air coming out of the closed-end fund's premium over net-asset value, which was deflated by half. Even so, TRF still commands an outrageous 48% premium to NAV, down from the absurd 98% premium when I pointed it out in my earlier column. That's the danger of paying too much for a closed-end fund, or anything for that matter, no matter how hot the stock seems at the time.