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DIMINISHING STOCK MARKET

Back in 1997, investors could choose from more than 8,000 publicly-traded companies listed on the various exchanges. Today, that number is just over 4,000. What's going on?

A variety of explanations have been proposed, all of them sound plausible, but none can account for half of all stocks available for you and me to buy and sell to have vanished from the marketplace.

One explanation is that smaller firms are choosing to remain private, to avoid the disclosure and other regulatory strictures imposed by the Securities and Exchange Commission. By one estimate, comparing the number of new startup firms and the number of new listings since 1996 with previous history, there would have been at least 9,000 new listings today. Normally, these new listings would have provided supply in the public markets to offset the relatively high number of mergers, which combined two or more firms into one ticker symbol. The National Bureau of Economic Research noted that there have been an unusually large number of mergers occurring in the U.S. after 1996. It doesn't have any explanation for it.

Another, more recent trend is fewer initial public offerings from Chinese companies, and some are leaving. Chinese companies listed on the American exchanges is not a trivial phenomenon; of the 2,765 companies listed on Nasdaq, 846 are foreign companies, many of them Chinese.

Finally, a growing number of companies went public through the back door, where an existing shell company already trading on one of the exchanges would be purchased by a Special-Purpose Acquisition Company (SPAC), which would then sell additional shares, and buy one or more private companies that otherwise would have been listed individually.

Globally, it would seem that the U.S. is falling behind in terms of individual companies listed on the various exchanges. Nasdaq finishes third globally, behind the Japan Exchange Group (3,870 listed companies), and the TMX exchange in Canada (3,535). The New York Stock Exchange's 1,807 listed companies falls behind comparable exchanges in Shenzhen, China (2,765), Hong Kong (2,420), Korea (2,467), India (2,209) and Shanghai, China (2,194).

When it comes to overall value, the New York Stock Exchange (25.15 trillion aggregate value of all listed stocks) and Nasdaq ($18.99 trillion) lead the pack by a very wide margin; the next closest competitor is the Shanghai exchange in China, with $7.24 trillion in listed value. The bottom line is that even though the number of stocks listed on U.S. exchanges has been declining, U.S. investors still have the most valuable and liquid investment options in the world.

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MORE JOBS, HEALTHY ECONOMY

Arguably the clearest indication of the health of the U.S. economy is the monthly jobs report. If companies are hiring, then presumably they are growing and making money. If they're laying off workers, then that might suggest that their sales and revenues are declining.

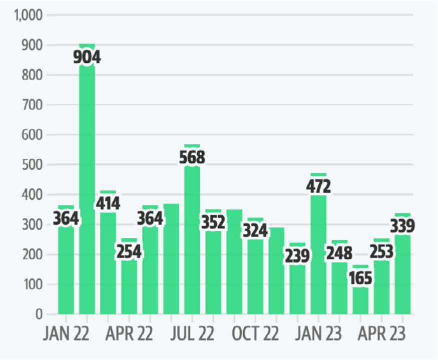
Oddly, the monthly jobs report also seems to be the hardest statistic for economists to predict. The newly-released report for May is a case in point; economic forecasters were expecting U.S. non-farm-related companies to add about 195,000 new jobs to their payrolls, which would mark a decline from April's 253,000 reported new openings. In fact, the U.S. Bureau of Labor Statistics reported that there were 339,000 jobs created in May, and most of the coverage talked about the astonishment of Wall Street analysts. Any figure over 200,000 is considered a bullish sign for the economy.

For those who look closely at the numbers, the most interesting part of the report was that, despite the surprising number of new jobs, the unemployment rate went up, not down, from 3.4% to 3.7%. The two statistics come from two different surveys; one asking employers how many people they're adding or subtracting in their payroll, the other asking households whether they've done work for pay in the past month. The contradiction can be resolved if more people are returning to the workforce, who may previously have given up looking for employment. Another reason for the divergence is (and this is still unexplained) the number of self-employed individuals fell by 369,000 from April to May. Self-employed people are counted in the survey of household but not in the survey of businesses.

Other job-related indicators were similarly mixed. The average work week declined a bit, from 34.4 hours to 34.3 hours, but average hourly pay rose 4.3% over a year earlier. That's down from 6% a year ago, suggesting that companies may not be bidding quite as aggressively against each other for workers.

What does this mean for you and me? Every finger points to the Federal Reserve Board's response, which might see the huge increase

Total monthly increase in non-farm payroll (thousands). Note that $339,000 is actually somewhere near the aveage for the past year.



in jobs as an alarming sign that the economy is overheating and inflation is ramping back up (rate increase, higher borrowing costs and one step closer to a recession) or as a blip on the radar (no rate hike and more enthusiasm for stock market performance). It also means that the economists who have been predicting an imminent recession seem to be wrong yet again. Sooner or later, they'll get their wish, but probably not when America's companies are aggressively hiring new workers.

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SHARE REPURCHASING DEMAND GOING DOWN?

Pretty much every economic theory rests on the idea that prices are set by the balance between supply and demand. If there are more buyers than sellers, or more demand than supply, prices will go up because the buyers will be bidding against each other. If there are few buyers, prices will have to go down to attract more buyers back into the market.

Which raises an interesting question: who are the buyers in the stock market?

Most people don't realize that one of the most reliable bulk purchasers of equities is companies themselves. Economists at Goldman Sachs have calculated that, in dollars, there was a greater volume of corporate buying than there was demand from pensions, mutual funds or households over most of the past decade.

In virtually all cases, these companies are buying back their own stock—some $923 billion worth last year. The actually contribute more than that in terms of supply and demand, because when a company buys back its own stock with excess cash, that stock is taken off the market—reducing supply. Some analysts think that corporate buybacks was a big part of why the S&P 500 gained 15% in price since the October low.

Why would a company purchase its own shares? Precisely for the reason that was just outlined: it drives up the company stock price, which serves shareholders. But of course, that money could alternatively have been invested in creating new factories, adding new services or research and development into building a larger and more profitable company. Share buybacks are a way of tacitly admitting that you don't really know where to spend that cash on hand to benefit the company itself.

Some analysts now believe that share buybacks are going to slow down for the remainder of this year. In aggregate, companies have experienced two successive quarters of declining profits, reducing the available cash to become a major purchaser. Cash balances have fallen an estimated 13% in the last 12 months—the sharpest decline on record. And as borrowing costs (due to higher interest rates) have gone up, cash is needed to avoid incurring expensive debt.

At the same time, there are rumblings of a recession on the horizon, which, if it happens, would allow companies to buy their own shares at cheaper prices—and prop up their share prices in a market downturn.

If companies cut back on their stock purchases, it would remove one of the biggest sources of demand in the gigantic auction house that is the U.S. stock market. It's possible that bullish investors will step in to replace that demand. But most economic theory suggests that the balance between buyers and sellers, demand and supply, can be a delicate one. The good news from all this is that if prices were to fall dramatically, Corporate American might step in to shore up their respective stock prices—and buy back their own shares at a relative bargain.

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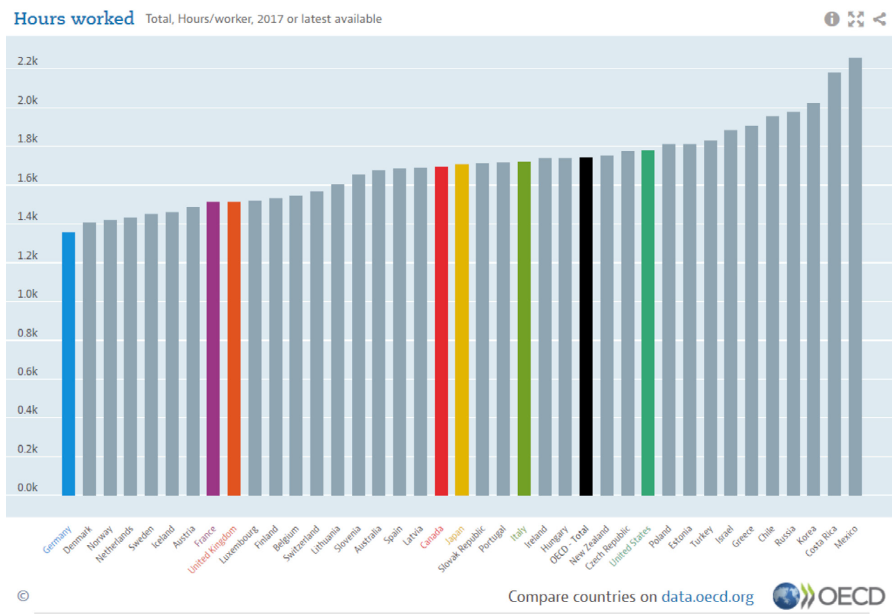
WORKING HOURS

American workers typically get fewer paid vacation days than their counterparts in other countries—and, indeed, there is no federally-mandated number of paid vacation days in the American business ecosystem. But another way to measure the 'workaholism' of a country's working population is the number of hours they work per week or year.

The numbers are surprising. Workers in Germany typically work fewer than 1,400 hours a year, which is slightly below Denmark, Norway, the Netherlands, Sweden, Iceland and Austria (all just over 1,400 hours). French workers, who are constantly held up as an example non-workaholism, work roughly 1,500 hours a year, on average, which is almost exactly the same as in the UK. Canadian and Japanese workers are a bit more likely to be seen at the office; they average 1,700 hours a year, similar to Portugal and Italy.



At the other end of the spectrum, Mexican workers average more than 2,250 hours of work a year, and in Korea, workers are in the office or otherwise toiling for roughly 2,000 hours. Korea's workaholic status is likely to change in the next survey, however; its National Assembly recently voted to cut the workweek from 68 hours (!) down to 'just' 52.

Where does the United States fall on this spectrum?. The average American worker spends about 1,800 hours at work, roughly the same as workers in the Czech Republic and Poland, fewer hours than Turkey, Israel, Greece, Chile and Russia.

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