Beware of Energy Stocks

As the price of oil falls below $80 a barrel beware of energy stocks. The US oil boom has been a big plus for the American economy. Money spent for oil and natural gas stays at home. The lower price of oil is a plus for consumers and businesses. But, the world economy is not yet fully recovered. There is the risk of a dip back into recession in Europe and the Chinese are facing up to the fact that they simply cannot maintain a 7.5% economic growth rate. Thus, a headline in *Bloomberg* states, U.S. Stocks Retreat as **Energy Shares Decline** with Oil.

U.S. stocks retreated, following the biggest weekly rally since January 2013, as energy producers led losses after oil dipped below $80 a barrel. Halliburton Co., Newfield Exploration (NFX) Co. and Nabors Industries Ltd. fell more than 5.5 percent to lead losses in energy companies.

The stock market rally this year has been partly because the economy is better, especially in the USA. And it has been partly because people need somewhere to invest their money at a time when interest rates are very low. The boom in US oil and natural gas could turn into a glut when China sees lower manufacturing and Europe slides back into recession. Business confidence is falling in Germany which is one measure of where things might be headed.

How Goes Germany Goes Europe?

Businesses in Germany are not optimistic. As reported in *The Wall Street Journal*, a survey of businesses notes that **German business confidence** is weakening.

German business confidence slumped in October, a key indicator showed Monday, suggesting that significant growth risks remain in Europe's largest economy. However other data released Monday points to a bottoming out of the eurozone's weak bank lending trend, although experts doubt that this will rebound soon.

Taken together, the reports signal that the eurozone will have a tough time emerging from close to stagnant growth levels in the near term, even if the risks of a credit crunch have subsided. The closely watched Ifo Institute's survey's lead indicator for Germany fell to 103.2 in October from 104.7 in the previous month. The drop was below analysts' expectations of a fall to 104.5 and comes on the heels of recent data showing sharp declines in Germany's key industrial sector in August. It was the Ifo indicator's sixth straight fall, reaching its lowest level in almost two years.

Germany is the third leading exporter in the world behind China and the USA. It is currency the engine that drives the European economy and finances much of it as well with a roughly quarter of a trillion dollar yearly trade surplus. So, if the Germans are worried about business prospects, beware of the world economy and especially beware of energy stocks.

Slower Chinese Growth Rate

The engine that has driven many third world economies in the last few decades has been the growth of Chinese manufacturing. This year economic growth targets have been set at 7 percent, the lowest in years. But, there is worse to come. It may well be that a four percent growth rate will eventually be more realistic. Experts believe that **China growth may slow** significantly from 2020 and onward. Bloomberg notes:

China's economic growth will slow to about 4 percent annually after 2020 following decades of rapid expansion, according to the Conference Board. China faces a "deep structural slowdown and broad uncertainty" in the decade ahead, the New York-based research group said in the report yesterday. China's development model, based on state direction of capital and growth-fixated monetary policy, generated "deep seated" risks and imbalances, it said.

The future is a mixed picture. Higher US energy production will directly help the US economy and the US balance of payments. But, beware or energy stocks along the way. The US will be producing more of it is oil and natural gas. China will need less and so will Germany.

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