After the Fall

8-21-15

Monday was a good example of how (but not why because irrationality is a rejection of reasoning) markets react to economic reports. The market started down because the northeast Fed report showed manufacturing at -14.92 – falling across the board from 3.86 (experts predicted 4.50). The lowest point in 6 years. Then the markets made a huge reversal based on home builders' wishful thinking, rising the most in 10 years (even as the last reported new home sales of 482,000 annualized was the lowest in a year). Thus something real was steamrolled by hot air. Actually, this is not a 'how' or a 'why' but simply a 'what ?' [On Tuesday it was reported that building permits fell 16.3% in July, almost completely wiping out the 'promising' June surge, and possibly ejecting home builders from their dream world.]

A Wall Street Journal news reports cites Delogic research indicating that mergers and acquisitions are on a record setting pace of $4.58 trillion by the end of a year topping the previous high of $4.29 trillion in pre-crash year 2007. Cause? Slow pace of profits and revenue, mixed with cheap credit.

According to Wells, Fargo investors cashed in $1.1 billion from investment grade bond funds – biggest withdrawal in 2 years. Reasons – low yield (currently 3.4%) and because companies use money for non-productive purposes – mergers and acquisitions, stock buybacks and dividends. The Fed's apparent threat to finally raise interest rates a smidgen is also a factor.

Japan's second quarter GDP declined at an annualized rate of -1.6%. Meaning that Japan may soon enter its 5th recession in 6 years.

Speaking of GDP – a survey of prominent economists claim that the Chinese 7% GDP growth rate is exaggerated – real rate 6.3%

In Britain rail fares have increased 3 times faster than wages the last five years. Why? The privatization of much of the national rail system. Now when a Brit buys a ticket he makes a coerced sizable contribution to the corporate dividend piggy bank. Thus the benefits of a private market economy – and with lousier service, too.

S&P 500 earnings last twelve months came in at $97.35 per share in Q 2 – down 5.6% from prior year. Down 8.2% since Q 3 2014. Yet at about 2100 the S&P is only off about 50 points from its all time high.

Yellen supposedly is very keen on the Employment Cost Index generated by the BLS. The annual growth rate was about 3.6% in 2007. Fell to about 1.5% in 2009 and is now about 2.5%. But the ECI is 70% wages and 30% benefits. The Average Hourly Pay Rate followed the ECI closely the first two categories but it now significantly lower at 2.0%. Note – this is quite close to the bottom and quite far from the last 'good' year. This why it is incorrect to speak or write of a “recovery” without pointing to the tiny minority that is actually experiencing it.

Major downturn on Thursday. A number of Dow markets have surpassed 52 week lows. The Hang Seng has entered correction territory. Among the reasons – The preliminary Chinese Caixin/Markit PMI came in at 47.1. It's now deep in negative territory. The median estimate was 48.2. Oil and other commodities are crashing. And chaos may return to Greece now that the Tsipras “Coalition of the Radical Left” government has fallen. That opens the possibility that the Greek masses may do something really radical come next month's election.

The slide grew worse on Friday. The DJIA was down more than 500 points, its worse close in 4 years. All the major US indexes have gone negative year to date with many also hitting 52 week lows. They include: DJIA. DJ Transportation, DJ Total Market, Barrons 400, NASDAQ Composite, S&P 500, S&P Mid-Cap 400 and Russell 2000. Since the entire capitalist world is in “do whatever it takes” mode its leaders will quietly boost the props by Monday's opening. As it's the thesis of *unrealeconomy* from its inception that a finance > finance boom cannot possibly induce a real economy recovery, that is, finance has to stimulate something real and not just itself, and that when it does fail it will be a failure of a unique sort. It will mean that the very mechanisms designed to help real economies get back on their feet will have knocked it from its knees flat on to its face while at the same time destroying itself. Much like war time when the capitalist state takes operational control of all aspects of the economy because allowing the capitalist free market free rein is a sure way to lose, they will have to liquidate private financial entities and replace them with technocrat-run state operations. Has the world capitalist system reached this point? Virtually all major capitalist states have shot their wad and are now experiencing failure. But if the masses remain passive, there is always one more dead rabbit to be pulled from the hat.

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