

## Anomalous Boosterism

05-27-16

Here's an example of how mainstream financial reporting works to maintain a positive impression. Japan reported terrible numbers for April exports and imports. Exports down 10% compared to the previous April -- the 7th month in a row of falling exports, and imports down 23%. Bloomberg's headline -- Japan's Balance of Trade Beats Estimates -- and then states the positive figure in Yen -- more than 800 million of the little things -- Comes across much better than a whopping \$7 million trade surplus.

The OECD reported that there were 67 days worth of oil in commercial storage. That's five days more than there were in the depths of the 2009 depression. One may wonder why oil prices have climbed 75% since January even as the glut worsened. According to Julian Lee of Bloomberg it's because oil producers are pumping oil at maximum capacity, therefore if there is a disruption, output cannot be increased (Saudi Arabia used to be reserve producer but is now currently going all out). Probably some truth in this although he might have mentioned the weakened dollar contributes to a higher nominal oil price. Lately it's being exported that China is accepting oil as payment for loans. and there's always speculation by commodity traders because equities have been going sideways. A more serious criticism is that the claim resembles the Hubbert Curve -- the faux scientific sounding assertion that purports to predict peak oil production by somehow determining the total availability of supply. Every now and then the HC is trundled out by those pushing for a move away from fossil fuels, and then stashed away when it's proven wrong. The claim that maximum current production is a known quantity is equally dubious.

A strange beginning of the week. Monday American indexes zoomed up and down finally closing with little change. The explanation -- concern about upcoming economic reports. Overnight futures zoomed up and on opening, so did the American markets, though volume was low. The reason -- April new home sales were 619,000 -- the highest since January 2008, and the highest single month in 24 years. For many months the housing figures have ranged a little above or a little below 500k, then out of the blue sales are 619k (average estimate was 521k). One might have expected an anticipation of this in home builder confidence, but that has been stagnant since the beginning of the year. And more strangeness -- the median home price was \$321,100, the most ever recorded. Several recent spikes have been corrected much lower, so the same may happen to this fishy figure. Some conspiracy theorists think it a Fed plot. It wants to raise interests rates -- it promised 4 this year and half the year is gone with none. But it's afraid that markets will drop like a stone with an increase thus causing a chain reaction of bad things, like debt defaults. This big time positive news will hopefully convince speculators that the economy *really* is strong, thus have no fear of a rate rise.

Those other home sales (existing) also had a large rise of 5.1%, highest rate since January 2010, but not higher than 2006 before the recession began.

Markets were cheered by the housing news while ignoring the much more important real economy reports. Of course they are all guesstimates because PMI's are gathered from just three words -- worse, same, better -- transmitted to government agents by company manager. From those words are generated numbers which may or may not have anything to do with reality. There is only one area of the economy that seems to really support the claim of recovery, and that is the high jobs numbers. But that increased employment should mean more money to spend and a boost in the real economy. Nothing of the kind has happened. Industrial production PMI is in negative territory. The service sector was supposedly taking up the slack. That fell 1.6% in May to 51.2%. The combined PMI of the two is 50.8%, just a hair above contraction. If accurate, that should deserve more attention than home sales.

To follow the above theme, orders for non defense capital goods excluding aircraft fell 0.8% in May (a 0.3% rise was expected), the third month in a row and the most in 5 years. It was down an annualized 8.7% the last three months. Capital goods expenditures are the key figure in determining GDP growth. Durable goods rose 3.4% much of that due to a 65% increase in plane orders. Jeffrey Snider of Alhambra Investments displayed an interesting chart showing huge downward revisions of durable goods shipments from original estimates. From May 2015 to May 2016 a \$234 billion subtraction -- almost a half trillion from 2012. Doesn't matter -- those big estimates did their job.

S&P 500 Earnings Per Share the last quarter came in at \$87 average for last twelve months. The previous first quarter is was \$99. The peak was \$106 a couple of years ago. That's a decline of 18%. Meanwhile share prices remain within 3% of their average high. Worth noting that the last twelve months for June 2007 (just before the August crash date) was \$85.

First quarter GDP was increased from 0.5% to 0.8% (expectation -- 0.9%). And Yellen announced there will be interest rate increases "in coming months" -- a statement that is technically meaningless.

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