

The American Economy: Anomaly or Alchemy?

12-05-14

Mainstream American financial reporting has been struggling with an increasingly heavy burden -- How to create convincing reasons for a divide in the world economy that shows the US (and its fading mini-clone the UK) ascending while the rest of the world is being drawn into another recessionary vortex. If there is one truism about capitalism it is that as the dominant world system a part of it cannot be thriving while the rest of it is failing unless part "a" has physically conquered part "b". The world economy is so interconnected that boom and bust means sink or swim for all. This week provided some data on how the trick is performed.

The week started out with negative reports even as the markets continued to rise with Dow and S&P repeatedly setting new records. That bedrock of a recovery, an increase in consumer spending in the form of retail sales took a hit because the National Retail Federation reported an 11% decline (from \$57 billion to \$50 billion) in Black Friday sales. ComScore tried to minimize the negativity by claiming an 11% rise in Cyber Monday sales (at \$2 billion still very minor compared to store sales), but IBM reported those sales to have risen only 8.5% compared to an increase of 20.6% the previous year. Enough of those negative vibes managed to penetrate equity enthusiasts to end the 5 day moving average rise at 29 days.

JPM reported that global PMI is down to a 51.8 reading (another composite had it at 51.1 - down from 52.1 the previous month) and that pretty much reflects the status of the Eurozone. But the ISM came in with a cheery 58.7 for the US. Yes, but Markit/NTC reported a much lower 54.8 for this country. Could it be that UK based NTC Economics (calculates PMI in 26 countries - recently bought by Markit) is slightly more objective when it comes to gathering PMI data for the US (and less so for the UK which usually has the highest such numbers of any major economy)?

The rouble is at its lowest since 1998. Putin warns of a recession next year. A fair number of the "good" capitalist countries are near or in recession, but we must listen to a continuous stream of "how Russia is paying the price for working against the Nato axis" from the mainstream media. Oil has fluctuated but loses more for every brief gain. Much talk of possibly a \$60 a barrel base. Japan's economy continues its slide while the Nikkei hit a new 7 year high even though Moody cut the country's credit rating because it has the highest debt to GDP in the world along with a worsening economy. Abe's magic market brilliance consists in a flood of liquidity and a huge purchase of equities by state institutions. The state pension fund has sunk almost \$400 billion into such investments. So the capitalist state not only gives but also receives without bothering with the middle man investor, unlike the US (as far as we know). Abe's trashing of the yen has also encouraged the worldwide carry trade. Buy foreign equities with no interest yen loans and pay it back with ever cheapening yen. Europe was saddened because the Germans appeared to have reined in the "do anything" to sustain capitalist greed,

Draghi.

Wednesday began the strangest of the week's economic reports. ADP releases its own report on jobs growth a couple of days before the BLS on Friday. Normally both reports are fairly close. I believe last month both were identical. So ADP came in with 208,000 new jobs for November. Expectations were about 230,000. Then the BLS comes along with its own report on Friday -- 321,000. This appears to be another effort, along with touching up holiday sales and manufacturing PMI, to fabricate a reality. As noted in other messages, the BLS relies on unverified data communicated to them from a selection of companies - this is called the Establishment Survey. Jobs data is also gathered in the Household Survey. But in the latter Census Bureau personnel meet face-to-face with those they interview. Surveys at a distance have been shown to be less accurate than direct interviews. It's a common practice for those interested in accurate surveys to confront a selection of those surveyed directly in order to determine a margin of error. In this manner surveys of, for example, dietary habits have been shown to contain false information in up to 85% of those surveyed. From March to September the ES had reported a monthly average of 210,000 jobs (1.47 million jobs total). But over that same period a job figure derived from the HS averaged only 145,000 (858,000 total). The huge discrepancy between ADP and BLS, and between October and November reports, was not repeated in the HS reports - November being only 4,000 more jobs than October. Other data increased suspicion - 150,000 full-time jobs were lost in November while 77,000 part time jobs were added. The labor force participation rate remained at the late 70's low of 62.8%. Unemployment rate remained 5.8%. According to StreetTalkLive, in 2000 we had 211 million Americans between the ages of 16-54 (this to eliminate the Baby Boomer effect) of which 118 million were employed (56%). Now we have 248 million between those ages and only 114 million employed (46%). The BLS buttressed its apparently bogus jobs number by citing a 0.4% increase in average wages. But real hourly wages have been essentially stationary for months. If some are enjoying a great improvement in real wages, they aren't workers.

But there is plenty of evidence that America's pretense of breaking away from the losing pack is nothing but algorithmic alchemy. The New York Times published an Experian report that the auto loan delinquency rate rose 27% year to year in the third quarter (\$4 billion). Auto manufacturing and sales were the one bright area of the real economy, but that was only due to a large proportion of sub-prime loans (very low down payment and 72 months at zero interest), much of which has been securitized and sold to investors. Now the chickens are coming home to roost, and they won't accept an algorithm in lieu of feed.

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