From Cheers to Fears

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"Get used to it, we're just a lower growth economy now [but even near zero quarters] won't necessarily be a sign that something bad is happening." So says Ethan Harris of Bank of American Merrill Lynch.

The cycles are cycling with increasing rapidity. After much effort by economy boosters to convince all its traction is about to reach takeoff, the scheme is suddenly shot down. The market indexes started the week with early trading declines an ended in the green because of positive buying cues such as the Fed announcement and oil price increases, but by weeks end all indexes were red. The first reading of first quarter GDP came in at a surprisingly low 0.5% average. The usually fairly accurate Atlanta Fed projected 1.4%. The first reading of the 4th quarter was 0.7% and by the final reading up to 1.4% (largely on the discovery of more inventory -- not a sign of economy health), but this figure is likely to stick. Consumer spending was was a weak 1.9% and business investment down 5.9% - the largest slump since 2009. Jeffrey Snider of Alhambra Investments notes that from the third quarter of 2014 when the GDP briefly touched 5% the following 6 quarters have averaged 1.7% GDP growth. The slowest period in this simulated recovery began the latter part of 2011 and through 2012. Growth those 6 quarters was 1.8%. Paul Krugman in a recent column blamed fears of the return to secular stagnation on the lack of competition (because of government approved monopoly formations) among large firms. His example was Verizon. It's a hugely profitable company that has shown little interest in building up its very profitable FIOS system. It has no need to because it has no real competition. If you want a land-line -- for most people, Verizon is where you must get it. Another problem for Verizon is that its land line business is unionized (and currently on strike). 70% of its income is from the mostly non unionized cellular business. But as Snider nicely points out, we are already in secular stagnation only now it's described in Ethan Harris' terms -- slow growth economy, under performing economy, or my favorite, we are in an period of rational expectations -- be sensible, learn to live with lousiness. But that 1.7% over the last six quarters that the stagnation may be at a breaking point -- a nice cleansing collapse that clears away the mountain of debt and the financial institutions that hold them.

Moody's downgraded more companies in the first quarter than it did in all of 2015 - 51 (22 oil and mining) lowered to junk. Only 8 in fourth quarter and 45 all last year. $265 billion of American corporate debt now enjoy that rating. It was $105 billion first quarter last year. From Financial Times - Joe L. Lewin.

>New home sales fell 1.5% in March. That's the third decline in a row. Prices were down 1.8% -- Y to Y for both.
>Apple revenue fell 13% last quarter (its second quarter). It was the first quarterly decline since 2003.
>Durable goods orders rose 0.8% in March -- about half of projected figure. The February figure was revised downward to minus 3.1%.
>Core capital goods (non-military, excluding aircraft) fell 2.4% for the 14th

consecutive month. The decline in manufacturing is reflected in lost of industrial jobs -- 18,000 in February and 29,000 in March.
>Facebook profits in the first quarter was $1.5 billion -- almost triple a year ago.
>Amazon had a 28% increase in sales and 64% of revenue. At about $500 million (up from a $50 million loss Y to Y), the company had its largest quarterly profit. Relative to the larger economy, Amazon's main source of income means that it's gains are losses for brick and mortar merchants. It doesn't signify a strengthening of the economy as, for example, higher auto sales (assuming that purchases are actually paid for).
>ExxonMobil - Profits down 63% -- revenue down 28%.

The meeting of the FOMC indicated that interest rates will continue on hold even though everything is wonderful. It did hint at a possible increase in June. Meaning -- Don't worry about May. Markets were mixed.

The Bank of Japan surprised most economists by holding off on any further stimulus until they are sure their negative interest rate policy is an absolute failure in getting banks to lend more with lower borrowing costs. The truth: The last attempt to revive the economy was more like a dagger in its heart. At least earlier worthless actions were able to shift the payback reasonably into the future. Core CPI (excluding fresh produce) fell at an annualized - 0.3%. Japan for its size exceeded all other nations in money printing yet never even managed to remain in positive territory let alone achieve its interest rate goal of 2%. The current world crisis should once and for all rid all those who think flooding the economy with cash must lead to inflation. The government's only period of brief success came a couple of years ago after its massive increase in sales tax. The BOJ's announcement led to a strengthening of the Yen and a large weakening of the dollar (thus the more expensive oil -- it's usually priced in dollars, that means those with stronger currencies relative to the dollar can buy oil cheaper). The Yen change led China to do the same to its Yuan -- the highest jump in 11 years.

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