Chicago PMI: Permitted Misuse of Information

06-02-17

At 9:45 a.m. the ISM reported its Chicago Business Barometer (aka PMI) as 55.2, a four month low. Then at 11.21 a.m. it reported a corrected version – its barometer actually rose to 59.4, the highest in two and a half years.

The press release commentary on the wrong report included the following:

> After rising for three consecutive months, demand lost ground in May. New orders fell by a hefty 9.6 points to hit the lowest level since January. In line with lower orders, Production also receded, although by a softer margin.

Then for the corrected version:

> After rising for three consecutive months, demand lost ground in May. New orders fell by 4.5 points to 61.4 in May. In contrast, Production continued to strengthen.

The same blah-ness for radically opposite reports with the only wording change being that 'Production' went from soft to stronger.

The numbers are derived from surveys which merely asked purchasing managers whether the month was 'better' the 'same' or 'worse.' The only factor that is consistent is the lousiness of the source of information. It would not take advanced technology to hook up a system that could report hard data. But deception is a core value of capitalism, and with the real economy being moribund for almost 10 years, it's more necessary than ever to keep the only sector that really is thriving juiced. The financial economy is the alchemist's dream. Nothing is really made, bought or sold, yet after passing through a mysterious process it generates money, real money that can buy real stuff as if the recipient actually worked for it. Its only negative is the seething anger in those that really have to work for theirs.

Meanwhile, after being declared over the hump and finally on track for robust growth, the real economy is once again sputtering into its periodic funk. Not that the market fiends care about that or anything else. You would think they would be concerned about the President of the United States leading his nation into the ranks of the 'world is flat' kooks. Such of a nasty break with its closest allies might be expected to unnerve the markets. Not at all. The markets had a nice rally. All that matters is that reversing environmental costs means more profits.

On Friday came the shockingly bad employment report. The April Establishment Survey report of 211,000 new hires was substantially downgraded to 174,000. May came in at a miserable 138,000, about 50,000 less than the consensus. The

Household Survey actually reported a loss of 233,000. 429,000 dropped out of the labor force leaving the net increase for the first 5 months at a mere 144,000. That reduction led to a decline in the unemployment rate to 4.3%, the lowest in 16 years. If that were achieved in a reality wages would be rising and the consumer sector of the economy would be thriving. But it's fake official news – fake but good enough for the markets. The negative news stirred the buyers for a nice gain – maybe the Fed will have to skip a hike in June.

None of the essential elements of the real economy are doing well at the present time:

– Retail sales are 18% below a recovery baseline.

– There are two main components of the revolving consumer economy: student loans and auto sales. The former is a disaster but the latter had been the only bright spot of the consumer economy but in May auto sales were below the 17 million mark for the third straight month.

– New home sales were thought to have turned the corner but the last report was 569,000 annualized. Recall that sales peaked prior to the slump at 1.4 million. Then fell to a low of about 350,000. As of yet they are not even halfway out of their slump.

– The trade deficit $47.6 billion, higher than the highest estimate.

– The best indicator of economic health is real GDP and its recent history tells the story of the economy. Real GDP in 6 quarters of 2012-13 averaged 1.20% and there was a near recession. Then in 5 quarters of 2013-2014 it averaged 2.89%. Four quarters covering parts of 2014-15 the average was 2.21%. And now the 6 quarters from the last of 2015 to the first of 2017 its 1.55% during which there as another near recession (the last of 2015 and first of 2016).

So far the truth of the real economy has been obscured by the glitz of the financial economy. There is no telling how much longer it can maintain its strength. It's like a body that runs on junk food. Tasty treats, but eventually the price will be paid.

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