A Cool Fall Predicted

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Jeffrey Snider (of Alhambra IP) presented an interesting observation made by one W. Stanley Jevon back in 1871. In comparing economics with other sciences (i. e. – real science) he said of the latter that they do not have the weight of authority – no great influence on the movers and shakers of the world. As an example he cites the prominent political economist of his time J. S. Mill declaring that there is nothing in the Law of Value that neither he nor any future need clear up. Perhaps it was just that example of Mill's ludicrous brilliance that Marx had in mind when he said of him (to paraphrase) – The imbecile flatness of the bourgeoisie's current level of intelligence is best measured by the altitude of its great intellects. It makes no difference whether they know what they're talking about; whatever the authoritative figure of the economist says is still useful as a baseline for investors to make their decisions. The key is that they respond uniformly.

On Wednesday ADP reported 237,000 new jobs in the private sector for August. Today the BLS said is was only 156,000, and deducted 20,000 jobs from July, 21,000 from June, and moved up the unemployment rate to 4.4%. The markets had large gains on the good news, including the ADP report. Did they give any of it back? Not a bit – all were green today because the authoritative figures merely had to say, yes disappointing, but all else is solid. They pointed to the new 36,000 manufacturing jobs, that sounds solid, and ignore the weak, the decline in the manufacturing production index (possibly meaning more workers than needed). Or maybe it's the infrastructure stimulant that Trump has not been able to deliver on being brought to fruition by a force of nature named Harvey on the suffering millions of Texas. Just leave it to economists to polish up the bright everything, right up until the cinders flicker a last bit of light. Charted, the 6 month moving average of the Establishment Survey visually proves that job growth in 2017 is the worst its been since the slow climb from the depth of the Slump began.

The Bureau of Economic analysis revised real personal income excluding transfers figures and they show that for the last three months of 2016 they contracted. Incomes grew 1.3% in July, the fourth straight month less than 1.5%. Real disposal income has grown more than 1% per capita since last July. Added to that the personal savings rate is in major decline and revolving credit debt is high. Meaning – the average consumer has adopted the recovery myth and thrown caution to the wind. Tapped out and ready to crack should the economy enter into another hiccup slump within stagnation.

Thanks to 17 quarters of non-negative GDP, Draghi has all but declared a final out victory for the EU economy – but the euphoria is really due to squelched baselines. Here are some figures using a seasonally adjust baseline from 1995-2008 in real quarterly GDP. In 2011 there was a 9% gap, by 2013 it was 16.5%, and by the beginning of 2017 it was 23.6% below the true economic recovery baseline point. For the ruling classes the turmoil infecting the continent is not caused by rot at the top but a mysterious manifestation of human quirkiness. Sure, the flood of refugees from nations ripped to shred by imperialist depredations in order to process the remains for asset growth back in the homeland is a bit of a bummer, but let's just strike if off as the cost of the modern civilizing process – first destroy their nations and culture and eventually the inhabitants will become cosmopolitan vagabonds. Keep in mind that the ECB actually raised rates in July 2008 already thinking the worst was over when it was just beginning. They also raised them twice in 2011 out of fear that their 'robust' economy was overheating. In the US the 'authoritative' economists were doing just the opposite. Such is the reasoning process of our most brilliant economists!

"From 2008 to 2015, the nominal value of the global stock of investable assets has increased by about 40 percent, to over $500 trillion from over $350 trillion. Yet the real assets behind these numbers changed little, reflecting, in effect, the asset-inflationary nature of quantitative easing. The effects of asset inflation are as profound as those of the better-known consumer inflation." (J-M Paul in Counterpunch). Helps keep zombie companies alive and the most useless people disgustingly rich.

Corporate profits grew at their best rate immediately after the slump due to the mass layoffs, then shrunk after the economy rose from its depths. Corporate cash flow – its historical quarterly growth rate is 2%, is now $1.82 billion short of where economic history says it should be.

Much was made of the upward revision of 2nd quarter GDP which was supposedly 3% (actually it was 2.98%). History: two thirds of he quarters in the 1980's were above 3%. in the 90's it was the same with a 15 quarter streak all above 3%. Of the first 32 quarters following the slump, 24 of them were below 3%. The average person knows something is seriously wrong. It's likely that economists are also cognizant of reality. But when they don't know what to do there is nothing left by authoritative gibberish.