

Darkness Settles Over the Last False Dawn

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Most people who give any thought to the state of the economy know that the recent spate of new highs in the American markets is a false front created by company stock buybacks augmented by investors buying into the wake of their stock value inflation. The falseness of stock valuation as an indicator of economic health would be made much clearer if the recent history of other major markets were reported. For example the UK is not only mired in a multi-year political morass, its economy has barely skirted recession, yet its FTSE at 7400 is not that much lower than its all time high of around 7900. Germany is also in political upheaval, yet its Dax 30 at 13236 is still quite near its all time high of 13600.

In the US the only data point indicating economic recovery is the laughable 3.6% unemployment rate. It's hard not to get a few chuckles out of imagining the movers and shakers kicking themselves for making it the lowest rate in 50 years when the real economy is in fact mired in a recession-like stagnation making the falseness of the data obvious to any thinking person. A truly healthy capitalist economy will manifest a rising tide of corporate profits, job growth and wages. There has been none of this in the US since the slump, and since the end of the last reflation in 2014 it's been generally downhill.

The total jobs figure for 2014 is 2.95 million, the most since 1999. The following years reveal a smaller, ragged, line of descent. The monthly average for 2018 was 225,000. So far in 2019 it's 167,000. 300,000 is the bottom of a decent monthly figure.

The decline in payroll growth is no doubt related to the large increase in unit labor costs the last quarter of 2018. According to the BLS hours worked have declined on average to the lowest point since 2010. Evidently employers have retained their workforce in expectation of a real recovery just around the corner. The same for workers who had hope to improve their standard of living. Neither have occurred and capitalists will only retain workers if profits return to growth.

According to the Bureau of Economic Analysis corporate profits have declined 8% since the start of the third QE in 2012. In the real economy economic factors are in broad decline, and if that continues there will be an undeniable economic slump. But over the period of corporate profit decline corporate equity valuation has increased by almost 90%. Thus we can all look forward to a fight between the real and the fictitious. The most the fakers can hope for is a prolonged draw.

Economic Data

– Germany experienced a small GDP decline in the second quarter. Since the data in the third quarter seemed even worse a technical recession was expected. Not yet, at least in this reading of 0.1% growth. Stay tuned.

– The NY Fed announced that it will increase the size of its 42 day repo operation from at least \$15 billion to at least \$25 billion. The reason is because the last auction was twice oversubscribed. Lack of available cash for daily transactions can lead to a broad based panic if not set right quickly. The failure of private institutions to provide the services they were created for because they feel the need to secure their own well being is in itself a bad sign for future prospects.

China News

-- The norm in this country is that if an antifa sets a trash bin afire or throws a brick through a storefront window we can expect massive media outrage. But that same media has been very accepting of the far more destructive conduct of Hong Kong rioters. There is very little reporting on how much real damage they have caused, the main concern is harm to the markets and the elite moving elsewhere. The snack chain Best Mart 360 had 102 outlets in Hong Kong. Over the past six months 75 of them have been firebombed or otherwise trashed. The complaint of the juvenile perpetrators is that the company founder is from Fujian and supports Beijing. 1.2 million residents of HK are Fujian. Evidently a company founded on the mainland doing business HK gives too much credence to the historical truth that HK is in fact part of China. When, how, and if, China does something definitive to end the strife will indicate how far along the country is toward its goal of becoming a fully developed capitalist nation. The longer it does nothing, the sooner we will start to see the same thing happening on the mainland.

– In the US the rise and fall of market valuations is most frequently tied to trade talk signs of success or failure, but recent declines in the Shanghai Composite Index are clearly the result of the broad based decline of the real economy. The latest bad news is that Chinese industrial profits in October decline 9.9% from the previous October. That's the biggest drop since such data began being compiled in 2011.

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