Endless Stock Boom Crisis

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Many have sensed the prevailing unreal conditions spreading with growing intensity worldwide. When the world doesn't make sense, the people that run it worry, and the people that live under it get mad. Or is it become mad?

The S&P 500 has quadrupled since March 2009. This October was the twelveth straight month of positive growth. The longest streak since 1935 – that wonderful decade we've seen duplicated and buried in paper euphoria since 2007. The market capitalization of Amazon and Apple have grown from $26 billion and $74 billion in early 2009 to $532 billion and $872 billion today. Yet instead of jumping into the pool many investors are worried because it doesn't make sense. The VIX or volatility index is an index of worry and is measured by volume of stock trades. Recently it hit a many decades low of 9 – down from 90 at the time of the financial crash.

The concern that is blossoming into fear and dread is based on undeniable reality – none of what is being experienced in the financial sector is being backed up by the like in the real economy. Growth there would mean sharply rising real earnings, spending and rapidly rising inflation. The same concerns that are keeping the big retail investors watching the fake boom from the outside have made millions of Americans step aside from the labor force – have made millions more around the world, especially in the US, UK, France, Italy and Germany pull away from the orthodox political arena. VIX rises as whatever intelligence capitalism can manage to muster reverts to stock stupidity.

China like the rest of the capitalist world is hoping (and praying now that "communism" is dead) that a rise in inflation will soon come thereby signifying a solid growth pattern. That country's PPI (Producer Price Index) went through 53 straight months of decline until September 2016 when it began to rise, which it has for 11 straight months. That of course is supposed to be reflected in a rise in the Consumer Price Index. It rose only 1.9% last month (as opposed to the 6.9% rise in PPI). In fact the CPI has been below the 3% that the government defines as price stability for 47 straight months. The PPI has been rising because of commodity price increases which can't be passed along to consumers in a weak economy. Thus what seemed like a good thing really isn't.

September 2017 new home sales rose almost 20% from August to an annualized 667,000 from 561,000. That's the highest number since 2007. Typically unmentioned: hurricanes cut into the August amount; 1.4 million new homes were sold in 2005; the unadjusted figure for September 2017 (52,000) was 2000 fewer than the same for September 1995 even though over those 22 years the labor force grew by 28.5 million from a potential labor force of 56.6. Typically a focus on the trees while ignoring the forest.

The promoters of the robust markets claim made a big deal out of the 3% (almost) GDP reading for the third quarter. A good deal of the growth was inventory build up. Real GDP excluding inventory was 2.21% for Q3 – considerably less than the 2.89% for Q2. Real Final Sales to Domestic Purchasers rose 1.80% - quarter to quarter Seasonally Adjusted Annual Rate – the lowest growth rate since Q1 2016. And Real Private Non-Residential Investment – a measurement of capital expenditure rose 3.9% – a smaller growth rate than in Q1 and Q2.

China has a problem. It's spectacular economic growth the past 25 years was due to a massive export surplus. So what do they do in a slow or no growth world? They've bided their time waiting for recovery with large scale internal development. But tying their foreign expenditures to the dying dollar has a deleterious effect on the economy because weak exports means less incoming dollars. Should current measures to stabilize the situation fail they may choose to go off the 'dollar standard' and make foreign purchases denominated in their own currency. Not a good thing for the home of the dollar.

The Nikkei 225 is at the highest level since 1996. Abe won re-election and now dominates the Diet. Optimism abounds because of the fantastic ability of the Japanese ruling class to imagine a fine future even though it never even shows up as a speck on the horizon. Total hours worked is in decline. Recent wage increases were purely transitory. Real wages have contracted year-over-year the past three months, and have been zero or negative 10 of the last 11 months. Abe's big win most likely has more to do with war-mongering with respect to North Korea than a vote of approval for economic policies.

October 2017 total employment declined 484,000 from the previous month. But the labor force shrunk by 765,000. Thus resulting in a decline of the unemployment rate to 4.1% – the lowest since December 2000. Wow! Average weekly earnings for production workers and all others must been booming like the stock markets. Not at all – wages rose 2.6% and 2.4% respectively. 4.1% is way beyond full employment – the labor force is more than 15 million workers short of where it should be, yet still only a meager wage increase. The reason is that stimulation in the form of creating an asset bubble so skewed the economy to the detriment of the real economy that the point of no return from the escape from reality may be on the horizon.

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