

## The FED Agrees – 'Our Data is Dreck'

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American markets concluded their fifth week of positive results with the DJIA and the S&P 500 now up for the year. The key piece of upbeat news was the Fed's downbeat FOMC report on the condition of the American economy. Yes, the core inflation rate is above their 2% goal (2.3% core rate), and the core Personal Consumption Expenditure rate jumped to 1.67%, and the miraculously low 4.9% unemployment rate still remains blessed, but when one stops a moment and sniffs the stench, one realizes that it's all just plain crap. Positive statistics must discover proof in the functioning of the real economy, and the outlook of the folks struggling to survive during its prolonged slump, in order to sustain belief. Just as sovereignty resides in the individual and not in the vetted candidates a few nose-holders deign to vote for, so verification of policies would come with the re-election of those responsible for their creation and implementation. Instead the US is experiencing a unique simultaneous breakdown of both official parties. On the one hand there is a racist, xenophobic, proto-fascist with an additional defect that he happens to be a fool, and on the other a candidate who actually calls himself a socialist is mounting a serious challenge against an old political hack and war criminal, who along with her husband has served as mistress and master of Goldman Sachs' Wall Street salon for more than two decades. As a presidential candidate she faces the challenge of having convincing primary/caucus victories only in states that will likely vote for the other candidate come election day. That means the beast from Brooklyn will have to be trained into a bipedal state by Inauguration Day or the world's scariest country will stun the globe into a standstill. What now happening in America is not only a rejection of any notion of a recovery, but an expression of disgust with the insistent demand that we all look at the bright side of life while the hopes of homo sapiens are being dimmed out the world over.

The divergence between purchases and repurchases of shares in S&P 500 companies is currently approaching the widest gap ever according to a report by Lu Wang of Bloomberg. Those legal individuals known as corporations, in a striking act of generosity by entities not known to have that human capability, are projected to repurchase \$165 billion of their own shares in the first quarter, close to the 2007 record, just to enrich its servants (aka, shareholders) at the expense of its own health and well-being. It's regrettable that such charity now only begins, and ends, at home, as outsiders that had offered support through mutual funds and ETFs are withdrawing assistance in record amounts, \$40 billion since January alone. Retail selling of shares is expected to total \$60 billion this quarter. That would leave a gap between self-consumption and excrescence of \$225 billion – the largest since 1998. The \$2 trillion in repurchases since 2009 are the main cause of the tripling of share value. But with corporate profits in decline, and retail investors escaping afflicted companies, it all may soon end. In the trenchant words of Vikas Gupta (at Arthveda Capital) "It's definitely not sustainable that the only buyer is companies themselves."

The two linchpins of the non-revolving credit industry are student and auto loans.

Much of the \$1 trillion plus student debt has been widely reported, and accepted, as something that will never be payable. Fortunately the \$1 trillion auto loan debt involves a thing that can be seized and re-sold. There are rumors that indentured servitude is being considered for indebted students, but while it's tempting to have them work off their prepaid labor so that the savings can be used for tax cuts to stimulate entrepreneurial start-ups, it's more likely to create a very unproductive occupy-like anger release movement instead. Autos, on the other hand, are fine commodities that can be bought and sold a number of times. The trick is to get them sold the first time. Now that the auto loan business has used up all the good credit buyers it's digging deep into the 620 FICO or less category. And like home loan lenders did before the last slump, bad debt is being packaged with the decent stuff into bonds that once sold can be used as loans to sell more cars. The 60 plus day delinquency rate of those loans packaged into such bonds over the past 5 years has now reached 5.16% last month. According to Fitch Ratings, that is the highest is almost 20 years. "What's driving record auto sales is not the economy, but record auto lending," says Mr. Weinger of 3-Sigma Value LP NY. Losses in the industry can be expected to climb, especially as the Manheim Used Vehicle Value Index has been falling. (some data Serena Ng, WSJ and Wigglesworth, FT)

While the Chinese economy continues to weaken, there is one segment that is gaining traction and strength – the willingness of the working class to strike against the failed promise of capitalism. Strikes have risen from 1379 in 2014 to 2774 last year. Imagine if this time the Chinese working class (and not the peasantry) overthrows capitalism for a second time, and the revolution spreads beyond state borders. No doubt James Jesus Angleton will rise from the grave and declare that he knew it was a plot all along.

Jeffrey Snider of Alhambra Investment Partners wrote a nice update of the old Kennedy Administration's (WW Rostow) program for state administered economic "take off" -- this time with rockets instead of planes. Physics is science and economics is not, thus, while the scientific concept of hysteresis can reliably manage to launch and object into orbit, the basis for a social science that can do the social equivalent is woefully lacking. Snider then goes on to beat up on his Keynesian enemies with the familiar libertarian stick -- like they think they must intervene to end recessions. Snider - "Recessions are not and have never been permanent. Why of course not! The entire economic system can be overthrown and replaced with a non market economy. These people still do not understand that Keynesian economic policy merely buys time during which the system and its beneficiaries continue to enjoy their comfortable lives with some even quietly passing away before the next financial crisis. They accept the fact that there is no known solution. As an apologist for capitalism Snider then makes the absurd assertion that the uprising against the mainstream represents a rejection of Keynesian policy. Does he really think that actions which at least managed to prevent complete collapse would be rejected for his libertarian plan of doing

nothing except for calling out the police to maintain order while invisible brain of capitalism reboots itself into a functional plan? There is no possibility of defining variables for the development of solutions in a class divided society which much obscure every facet of its structure in order to keep itself standing.

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