Fed Induced Acromegaly

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The Fed's use of secondary and artificial means to spark a revival in the real economy can be likened to fading athletes attempting to prolong their careers through the use of human growth hormones and anabolic steroids. The massive injection of financial liquidity induced great asset expansion in the peripheral economy while providing only marginal benefit for those trying to survive in the real economy. The Fed's cheating has worked much like the medically unjustified ingestion of HGD and AS -- it greatly increases tissue that is of poor quality and has the unintended consequences of damaging organs that should be isolated from such effects -- like the real economy adopting financial practices (stock buy backs, low interest loans for dividends, currency speculation) instead of focusing on improvements in industries that are necessary for life to thrive. It's a shallow increase in strength that leads to a further deterioration in overall health.

Kenya recently provided a good example of how the trend toward make believe economics has spread from the center to the periphery. It used the latest generally accepted accounting practices to jump its GDP growth by an astounding 25%. The World Bank gave the process its stamp of approval by moving Kenya up from a poor income nation to a middle income nation. But Kenya's poverty rate remains 45.9% and life expectancy is still 61 years. Nigeria, admiring the quick and easy (and cheap) way Kenya retouched the image of the quality of life of its people, performed that same gimmick on its GDP. It took nothing but a little paperwork to leap over South Africa and become the number one economy in Africa. Yet both nations remain capitalist hellholes -- so much for make believe.

The real economy has reached a point where it is showing clear signs of the side effects caused by an excess of financial abuse. The week began with a major down day in the markets which some mainstream media idiotically reported as caused by a single instance of Ebola in Texas; not the series of bad Markit PMI reports from around the world. The Eurozone is now down to 50.2, the slowest growth in 14 months. Even the UK which is also infected with US-style financial abuse fell to 51.6, the slowest rate in 17 months. Many countries are now in negative territory, including European powerhouses Germany and France. Australia is down to 46. The US dropped 2.4 points to 56.6 (always remember that when it comes to massaging figures, the US is the world leader). And it's now official, Brazil has had two negative GDP quarters and is back in recession. Meanwhile Italy, the world's eight biggest economy, has done the same after tiny growth the last quarter of 2013 (and that after years of continuous negative GDP).

According to Case-Shiller home prices fell for the third month in a row, though YtoY it was + 6.75%.

In July factory orders rose 10.5% - a record. In August factory orders fell 10.1% - a record. In dollars that's up $56 billion and down $55.8 billion. Easy come, easy go.

Japanese real wages fell 2.6% in August, the 14th month in a row of real wage declines.

Bond funds have experienced a hefty withdrawal in recent days, apparently something like $2 trillion. Many reports blame it on Bill Gross leaving Pimco, but the losses are a product of QE ending and signs that interest rates will soon rise, together making bond speculation less attractive.

Speaking of bonds, Draghi has implemented a bond purchasing scheme, not of US size (expected to be about $200 billion), nor as yet for the purchase of government bonds. That is saved for his swan song (or dive).

The strength of the dollar has saddened our simple-minded monetarists who think that printing vast sums of money must lead to hyperinflation if there is not a corresponding improvement in the real economy. Of course, such a thing is possible but they fail to take into account factors preventing such an occurrence: many other countries also churning out paper; more weakness in other economies; lack of increased demand. The Euro is now down to 1.25 from a recent 1.40, a two year low. The yen is 110, a 6 year low, and many other currencies are much weaker.

Finally, on Friday, the jobs report. It came in at 248,000, 28,000 more than the average expectation. September is about the 7th out of 8 months with numbers above 200,000. This is what *must* happen if these figures are to be taken as a sign of real strength. The increased demand for workers *must* bring along with it a trending increase in pay. The demand for labor *must* cause the labor participation rate to increase. The share of the population in the prime age group (25-54) holding jobs *must* increase. ***None*** of this has happened. The average hourly pay rate actually fell in September. The annualized wage increase the last three months is 1.3%, not even enough to cover inflation. No doubt this is what caused the boom day -- no need to worry that Yellen will have to raise interest rates any time soon. The labor force participation rate fell to 62.7, expanding the depth of it's 36 year low. And the share of the population with a job remained at 59.0. That figure bottomed our at about 58.5 during the recession and has stayed near the bottom. But the unemployment rate dropped to 5.9% primarily because of the shrinking size of the labor force. The civilian labor force is 155.9, 1 million more than where it was 6 years ago. Over those years 14 million Americans entered the potential labor force. One million found jobs, the rest are on the sidelines expanding the 36 year old record.

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