Fed Acts To Dam(n) The Truth

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After much telegraphing of the next rate rise, and then after the 25 basis point increase much soothing of concerns that they are in any rush to vote up the next one, the initial effect amounted to less than nothing.

The reasons for the first three rate increases in the past ten years is that the economy is now supposedly on track, the primary goals of full employment and two percent inflation have been reached and now the concern is that the robust economy is in danger of overheating. Fed Funds rate increases are expected to result in a broad based rise in interest rates, but since our real economy is more bust than robust, real interest rates actually fell by 15 basis points following the Fed announcement.

Thus cheap 'fuel' continues to be readily available for the only sector of the economy that is really hot – the unreal financial economy. Robert Shiller of *Irrational Exuberance* fame fears that financial history may be about to repeat itself. In the run-up to the housing and dot com mania bust there was much talk of a new era based on technology. As interpreted by a financial speculator's mind it means – *forget about what happened in the past*. The recent massive increase in equity values is based on a Trump presidency and its plans to give American capitalism – both real and unreal – everything they want and to let them do whatever the hell they please with it.

But here's the problem that American tycoons should be keeping uppermost in their minds – there savior is the kind of guy who can easily fuck up a free lunch. It wouldn't be so bad if Trump was merely like the bull in a china shop; it's that this bull is also full of shit. It's one thing to be in in constant conflict with leaders at home and abroad, it's quite another when the cause is some trite, idiotic irruption from the pea brain of the man who is officially the *leader of the free world*.

Markets hate uncertainty. They've hitched their hopes for a wagon load of new wealth to a presidency that better at making ruts than roads. That has of yet no caused them any great concern.

Societe Generale SA has created something called the Global Economic Policy Uncertainty Index. Into 2016 it roughly conformed with the VIX, the volatility index that measures investor anxiety, with a numerical value in the low 20's. The GEPUI is currently about 40 and the VIX has fallen to about 10. What makes such hyper optimism even more incredible is that most new presidents start their terms in office with high favorable ratings. Trump began his as one of the most hated president in history, much of that includes those that voted him in only to be stabbed in the back before their candidate had even been sworn in.

If the Fed really wanted to cool what they describe has an over heating economy they merely have to call for the end of oil stockpiling and organized production cuts because the rise in energy costs is responsible for almost all of the recent inflation increases. The Fed, ECB and JCB brag about reaching their inflation targets when the cause of the increase is much like the literal equivalent of touching up the x-rays. The inflation is not the result of increased energy demand by a growing economy. The only growth area of manufacturing is of the data itself.

Then we have the claim of full employment which is the result of millions of Americans in the prime working age group pulling out of the labor force for want of finding a job.

A prime cause of the prolonged economic stagnation is the lack of growth in real wages. Average weekly real earnings were down 0.3% in February after a 0.5% decline the previous month (both year to year). That's the first two consecutive declines since 2012. The artificial inflation of oil costs in order to keep the companies involved in higher cost modes of production from going bust has the secondary effect of slowing or reversing real wages, which has the further effect of undermining consumer spending which is 70% of the GDP.

The Blue Chip consensus for first quarter 2017 GDP growth has slipped from about 2.3% to under 2%. The Atlanta Fed is the core predictor of GDP growth (or lack of it). About 6 months ago it peaked at 3.4%. It is now 0.9%. GDP is the best indicator of economic health. It reached an average of 2.5% in the six quarters leading up to the end of QE 3 (MBS) and QE 4 (Treasuries) in October 2014. In the next 9 quarters it has averaged 1.9%. The QE's and ZIRP and NIRP have diminishing returns in the long run because they are mere props. The core cause of the increasingly frequent economic crises is that capitalism is behind the times. Various sectors of human endeavor have made significant advances until they run into the archaic methods of the troglodytes still running the world. They are not only an impediment to human progress, they also endanger its very survival.

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