Fire from Smoke

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This week those in officially in charge of the world's real economy pulled out more stops in their heroic struggle to keep it on its feet by wrapping ever more rope around its neck. In the US there was daily give and take of the major indices to clear themselves above the summer bottoms. Thursday did it based on a rumor that Putin may have consulted with the Saudis about an interest in organizing production limits. That caused a slight rise in oil prices and enthused the markets even though it had nothing to do with increasing demand due to a stronger economy. It's true that increasing prices should mean fewer insolvencies of oil and gas service firms (28 according to the accounting firm Moore Stevens -- there were 19 in 2014 -- and 200 projects have been canceled), but lessening the worsening is not the same as improving, or even stabilizing, the 'recovery.' This week the US oil rig count fell below 500 from a peak of 1600 just about a year ago. Those numbers are a decent measure of the health of the real economy and a surprisingly accurate standard for where the unreal economy assets should be in order to touch sound ground. They no doubt will be trying to get it right in the coming weeks.

Apple announced that it will have its first annual sales decline this year -- the first since 2003. Sales of iPhones, it's last strong product, are easing.

The S&P 500 debt to earnings ratio is 3.0, passing the 2009 peak. There is a $29 trillion corporate debt overhang. According to FactSet the S&P 500 is on track for its 4th straight month of negative sales growth. Last time this happened was 2008-2009.

Japanese industrial production fell 1.4% in December from previous month and the second fall in a row. Exports fell 8%. Inflation was 0.5% for last year, far from the 2% goal despite the torrential liquidity output.

Mergers and Acquisitions totaled $4.6 trillion breaking the old record of $4.3 billion in 2007.

First reading of 4th quarter US GDP growth came in at 0.7% from same quarter last year. That's 1.3% below the previous month. Growth for the year was 2.4%.

The worldwide jolt occurred on Friday when Kuroda, head of Japanese state bank announced a - 0.1% negative interest rate for new deposits. That sent the markets rocketing upward. As a measure of the absurdity of the excitement, similar credit liquidity injections have been performed over the years, and have never done more than briefly halt the slide, yet just rumors of 'a major announcement' by the bank jacked up the Nikkei index by 1500 points in a week. American markets were thrilled because that action, plus similar moves around the world, practically guaranteed the Fed will not raise rates in March, and perhaps not for the rest of the year. Even the world's top economy cannot go completely in opposition to the rest of the world. The ECB, Switzerland, Denmark and Sweden have also implemented negative interest rates. The programs vary but it essentially means banks will have to pay to store funds beyond mandatory security deposit limits. In return they get a free gift from the bank when they borrow. A double barreled blast of funding that should satisfy the needs of the most insane speculator.

Of course, the real economy is much more sensible. It knows that because it's real it has to produce some thing that folks will buy. If they can invent 'the next big thing' they will be able get a real recovery underway. The radio, TV, automobile, internet have created economic surges all on their own. It seems they have settled on the driver-less auto as offering their best opportunity. I predict it will have at least as much effect as the introduction of the Segway. The fact is, individual transportation of that sort has reached its peak and is now in decline. In 1983 87% of 19 year old's had driver's licenses -- in 2010 it was 69.5%. Among the possible reasons -- younger people have online ways to socialize -- no more need to gather at night in a supermarket parking lot. There is also environmental concern and poverty, but the main reason is the increasing urbanization of the population. Not only is there public conveyance, but driving a car to get someplace in a city is often slower than walking. It should also be noted that the per capita ownership of autos has fallen from a peak of 1.24 in 2006.

There has been much concern and speculation in recent weeks about whether we are heading for another recession. One source that will definitely not be able to provide an accurate answer are the bankers and corporate economists. As Stockman noted, as of June 2008, not one of the Wall Street gang had predicted recession even though it was later officially discovered that the country *had been in one for six months*. But perhaps things will be different this time. This week Anna-Louise Jackson and Lu Wang produced and article for Bloomberg entitled - *'Worried About A U. S. Recession? You Shouldn't Be.'* Their evidence? - They quote hacks and shills from BlackRock and Ameriprise Financial saying, in the notorious words of Sen. McCain back in 2008 'the fundamentals are sound.' Then there is a reference to the one 'achievement' of the recovery -- the unemployment rate has been halved, while ignoring an even more amazing accomplishment -- that such an amazing increase in jobs produced no significant increase in wages or economic stimulus (the slackening of growth in the 4th quarter was primarily due to lack of consumer spending). Then there is a prediction that the GDP will grow 2.4% this year -- which means it certainly won't because those official figures on GDP growth happen to always be exaggerated. And then it quotes Goldman Sachs, that company that comforted its customers on the health of the economy in 2007-2008 so that it could clear out its investments in good profitable shape, that the country will ''reflate' this year. That might happen, but it will take a while. First, many of those companies that consume deflationary commodities will have to shut down. With much reduced production, there is likely to be some inflation. The S&P 500 just had its 42 correction since 1927 -- yet only 13 of them resulted in a 2 quarter recession. First -- It's an exaggeration to say that we've had a recovery. If we have another recession soon, it must be directly linked to the previous one. Furthermore, our Great Recession can only be compared to the Great Depression, all other downturns are mere hiccups. The two go back to quoting experts, including once again getting a few words of wisdom from BlackRock's Fink - as to the recent downturn - "I believe this is a capitulation, not a bear market." Which they hope to be true, because of the 13 bear markets since the big one, 10 have resulted in recessions. And so it goes, a few more paragraphs of experts blowing smoke hoping to stoke the fading embers of the markets until they've squeezed all that they can from investors that believed them.

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