First One Shoe, and then . . .

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The American economy is in decline for reasons everyone knows but the mainstream refuses to admit --- When you merely prop up a decrepit structure rather than rebuild it, one must expect that it will resume its fall when support is removed. But unlike Quantitative Easing and zero interest rates, it's rare that support for a physical structure causes an *increase* in damage.

Bloomberg reported that the companies constituting the S&P 500 are set to spend $914 billion on stock buy backs and dividend payments --- that's 95% of their earnings being gifted to shareholders rather than being used to improve company operations. Money dished out to shareholders actually *exceeded* profits in the first quarter and will probably do the same in the third. So much for what we have been taught, "That investment income is earned [and not the leechings of parasites] because it provides the capital a company needs to grow and expand." Fact is it's mostly used to maintain a company's participation in the financial cash cow rather than improve its position in the real economy; investors are closer to being criminal accessories rather than company benefactors.

Bloomberg went on to report that now with the bubble deflating companies will have to invest in capital improvements to keep the bull markets up and running. But that is the basis of the overall problem --- the real economy is satiated, thus the desperate need for the unreal, which has no boundaries and therefore can never be satisfied.

There are two components of consumer spending that give that economic category an appearance of sickly health --- The more than $1 trillion in outstanding student loans, much of which will never be repaid, and the boom in auto sales. Outstanding auto loans now exceed $924 billion - a record. 65 million people hold those loans - a record. Year-to-year as of June 31% of them are sub-prime. 28% of the total are sub-prime - an 8 year high. It's easy to see that many of the supposed positives for which our bosses today pat each other on the back will in the future be more deserving of slap in the face. The way it's supposed to work is to have people earn enough to pay for what they need. Now it's to put them into debt and then run with that asset as far as possible until it explodes.

There has been a strange and growing gap between the Establish Survey of new jobs and the Household Survey of the same. In the ES the Bureau of Labor Statistics polls a selected group of companies on their hiring. Apparently they do not send any of their people out to check the actual records of some of the companies even though it is clearly financially beneficial for them to collectively make things seem better than they really are. For the HHS the Census Bureau does send people out to interview the selected group face-to-face. Those numbers should be more reliable. Up to October 2012 those two reports were within narrow bounds which have since changed dramatically. From March to the present the ES reported 1.47 million new jobs while the HHS found only 858,000 --- 58% of the ES count and an average of 145,000 a month. Since the ES will report all jobs even if multiple jobs are held by one person while the HHS cares only to know if the person interviewed is employed, that may explain some of it. To add to the mystery, for the period the numbers were growing and moving in tandem, the labor force participation rate also slowly grew. But as the two numbers grew apart the LFPR fell to new 36 year lows. As the economy was reportedly growing the condition of the working class continued to worsen: the ratio of government benefits to wages increased from 29% to 33%; the percentage of those in desperate need has risen while the unemployment rate has declined. What has caused this is unclear, the last phase of easing (QE 3) began in September of 2012, perhaps that was some sort of tipping point. Or it could be something more fitting to the American way of life --- companies are putting out bogus numbers with BLS complicity. Given what's just happened in Australia --- it's BLS equivalent in its last report found that 272,000 were lost while the previous month it reported 121,000 jobs gained (a record for a month). It would take a natural disaster to cause such a sudden change. In their embarrassment the Aussies dumped the last figure (not the first one) and blamed it on governmental budget cuts.

The week ended with many wondering if this is finally "it." After the Tuesday slide the Fed released some of the minutes of their last FOMC meeting -- just the part stating they will keep interest rates low until they observe a definite positive turn in the economy. The markets boomed on Wednesday. But then all was forgotten on Thursday --- the week's biggest downturn. It's a telling seriousness of an illness when the drug used for treatment fails so miserably. Then on Friday the standard "buy on a dip" failed once again. Also noteworthy is that most markets closed on the downside.

As of the Friday close 8 major Wall Street Journal major market indexes had lost their year to date gain -- including the DJIA. Four also lost their 52 week gain, including the Russell 2000. Similar results in Europe: FTSE 100 lost 12 month gain as did the DAX, CAC 40 lowest in 2014. Brent crude lowest in 4 years. Ebola: Fever, vomiting, diarrhea, internal and external bleeding. Health scare merges with financial scare. Both need a cure. A least with Ebola there are competent people taking up the case.

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