

The Insulted and the Injured

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Feeling like you must be doing something wrong? Business reports are being sung to 'Everything is Coming up Roses', But all you see are dandelions (at least much more nutritious than roses). Like today two of the three major markets hit new records on news that manufacturing grew at the fastest rate in two years. Translation = 'the lousy rate of manufacturing growth is now at least no worse than it was in that lousy year 2011'. Most such 'good news' stays within the bounds of the downturn that began exactly 6 years ago this August. The most important exceptions are the two markets which are booming due to a direct line of Fed dialysis money. (Also note that the NYSE frequently replaces badly performing stock with better one – take a look at how many real basic industrial companies make up the Dow Jones 30 *Industrials* – Coke, McDonalds, banks – just the sort of key industries that we will need to ramp up in case of war.)

Here is more good news. House prices increased 12.2% according to Case-Schiller. That gets reported. Scarcely mentioned is the 2.7% according to Zillow, which takes out distressed sales. Those are cheap bargains and therefore in great demand. The shortness in housing supply is rarely, or wrongly, explained because regular house prices are still lousy – one reason why home equity is still \$4 trillion off its peak. Regarding quarterly profits – first they report that things look bad. Then the reports come out and so far 73% beat expert consensus. Wow! Except that actual profits were only up 1.6%, and if that isn't adjusted for inflation and doctored accounting practices, the true figure would be zilch.

And then we have the very promising 'consumer confidence' reports. Who are these people? The vast majority of working Americans are wage earners or low income salaried. But the Conference Board asks a special group of 5000 people 5 questions – the first two ask how business is doing now, and how it will be doing in 6 months. If a worker got that telephone call they would answer it like a quiz – 'I guess the right answer is good'. Then there is the U. of Michigan report. They ask more questions (50) but to only 500 people. Imagine a busy low income person hanging on the phone for 50 questions! And who even answers the phone from unknown sources given all the telemarketing crap? Most likely shut-ins who are happy to talk to anyone and will express their thanks by giving the right answers, or specially prepared individuals who will answer as part of their class duty.

Here's an interesting off the radar stat. 37% of listed US shares traded privately in July. That is probably the highest figure ever. Clients made transactions directly with their bank or broker because with low market volume their trading might have cause big market moves and maybe harmed their other investments. Want to bet that most of these trades were sales rather than buys?

I hope it's clear to all that the boom is in the unreal economy, but we hoi polloi are stuck in the real one. Still, nobody likes a grouch, so be of good cheer and wait for that call from The Conference Board.

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