The Bear Market Rally Recession

August 12, 2022

After a modest recovery from the major Covid downturn the previous year, expectations were for a strong showing in 2022. But the first half of this year brought the economy into a technical recession – down 1.3%. Normally that would invoke an easing policy – lowering interest rates, spending stimulus, etc. But that was impossible because of a rapid rise in prices and the highest inflation rate in 40 years. That brought the dreaded fear of a return to the stagflation of the 70's – a situation where the use of the two major tools for managing an economy – tightening to squeeze out inflationary growth, or easing, injecting liquidity as a stimulus for growth – seemed to cancel out each other.

Fed head Paul Volcker decided in the early 80's that inflation was the greatest risk and put in place a severe tightening to squelch it, which worked but also caused a brief but severe recession. The current head of the Fed, Jerome Powell, has taken the same approach even though our current inflationary dilemma may primarily be the aftermath of Covid, such as disruption of key industries and delivery system. The report for July was confusing in that it did show a decline in inflation, but it also an unexpected large increase in employment – 528,000, about twice what was predicted. So what happened?

Job figures are determined by a survey of business enterprises (The establishment survey) The employment rates by a direct survey of 10's of thousands members of the work force. It determined that through May and July there was an 181,000 decline in employment. So the establishment survey reported 528,000 new jobs while the household survey reported 181,000 jobs lost, and also determined that there was a decline of 294,000 full time jobs in May and June. In also appears that full time jobs decline by 71,000 in July. The gist of it is that with the US economy in contraction a large portion of the 528,000 new jobs are part time.

As for the transport and port issues, the Oxford U. S. supply strain index and Global Supply Chain Pressure Index – GSCPI – has declined the last three months, but others in the field point to specific issues causing major problems – like the lack of key electronic chips.

The state of world economies based on composite PMI's (Purchasing Manager Index – both for services and industry) with below 50 indicating contraction are: US 47.5, Germany 48, Eurozone 49.4, Japan 50.6, UK 52.8. The US contraction was particularly large: from 52.3 in June to 47.5 in July. Europe is in a difficult situation because of the Ukraine war with Germany and Italy showing the most stress.

Both Larry Summers (a lot), and Paul Krugman (not so much) are concerned that Powell will take the inflation decline and jobs rise as a good time for letting up on the pedal. No...no...no, they say, keep at it full bore. Powell has promised to keep on with his rate hikes well into 2023. With Summers, Krugman, Powell, and Yellen in agreement we can be certain that if they are wrong at least the ongoing decay will flourish, state power weaken, and with it a return of old time populism. Perhaps world wide. In the first 5½ months of this year, the MSCI World Index, a gauge of stocks in developed economies, plunged 23 per cent. However, since June 17, it has shot up 9.7 per cent. The same kettle of fish ready for gutting.

https://unrealeconomy.org/