

## When Mourning Comes December

10-30-15

Maersk, the world's biggest container shipping company cut its projected profits by another \$600 million. Unlike equities and securities, most of the stuff of the real economy has to be physically moved and about 90% of that is by sea shipping. Twenty foot containers are being shipped from Asia to Northern Europe for \$233 each. That below cost charge must be covered by profitable operations. The the long-term weakness in this industry is solid evidence of the same conditions existing in the economy as a whole.

In the UK there has been an 11% decline in homes selling for more than \$1 million. Even the rich see the need of cutting back.

The lowering of Yuan value and bank reserves in China indicates that it's efforts to assure a soft landing of its weakening economy is not working. What seems to be lost in all the "soft landing" talk is that it's the *depth* of an economic downturn that determines its severity. An economic collapse is a collapse soft or hard -- the former may give its victims more time to jump into a lifeboat -- but what world should one sail to?

The Bank of International Settlements reported that cross border bank lending fell \$910 billion in 2nd Quarter 2015, the most since Q4 2008. A powerful indicator of the strength of world trade and the health of the real economy.

September durable goods orders declined - 1.2%. The August figure was lowered to - 3.0%. The year over year drop is - 3.6%. This seriously negative report as to the condition of the real economy had no effect on the markets -- in fact, it was a boom day because the Fed in its October report announced no change in monetary policy. That the market should boom on a report that almost all knew what it would be in advance (poll of experts gave an interest rise only a 3% chance) and ignore real news adds to the tons of evidence that the markets are hooked on bubblemania.

VW reported its first quarterly loss in 15 years.

Cummings -- a company that makes heavy duty engines lowered its projected revenue -- it will now likely be lower than last year's. Cummings stock has declined 29% on the year. More signs of a slowing world economy. The company's solution -- lay off 2000 workers and buyback \$1 billion worth of its shares.

Hitachi Construction Machinery -- the second largest building material company in Asia (Komatsu is first) cut projected operating profits by 44% due to the slowing Chinese economy. That means profits will be less than half earned in the year ending March 2015.

The first 3rd Quarter report on US GDP came in at 1.5%, a major drop from the

3.9% growth of the last quarter. The reason -- much of the huge 2nd quarter growth was unsold goods, i.e., no real growth at all. Therefore the economy is now eating up the leftovers rather than producing more stuff. Consumer spending slowed to 3.2%. American markets were indifferent to the news only posting minor declines.

US exports fell 7.8% in the 3rd quarter compared to the same quarter 2014.

The Financial Times reported that world markets rose 7.8% in October -- the largest monthly increase in 4 years. Markets are now only 6.5% below their May peak. It's notable that the FT, not gold bugs and libertarian loonies that predict bubbles bursting daily, that flatly states the source of the buoyant markets to be central bank promises of liquidity and credit to bolster the steadily failing real economy. The markets have now gone through this same cycle many times because these measures have never generated any self-generating strength in the real economy. It's a sign of the intellectual strength of those running the world economy and those profiting because of its policies that they haven't developed a Plan B to replace the sustained failure of measures taken. Yellen once again went slightly against the stream by hinting an interest rise in December. But most experts feel the pressures caused by a worsening economy will still prevail. But I would expect that 25 basis rise in December because it's liable to offer the most favorable financial opportunity before the effectiveness of the low rate disappears leaving the economy without even the semblance of life.

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