Onward, Bad Times Boom

07-22-16

Jeffrey Snider of Alhambra Investment Partners presented an ingenious and convincing explanation for the blip "increase" of 2.4 million workers added to the labor force which led to a rare improvement in the Labor Force Participation Rate. Briefly, the lower unemployment rate undermined the ability of states to permit a work waiver for able bodied persons receiving SNAP benefits. Beginning October 1, 2015 those in that category had three months to find and report that they were working. Those months could be staggered over a six month period. Snider discovered a sudden rise in employment beginning in October, 2015, but only in the House Hold Survey. That survey is generated by direct interviews with a selection of real or potential workers. The Establishment Survey, a report by employers, showed no sign of an improvement. But did the work requirement mean an actual increase in the labor force? Such an event would have been reflected in an increase in aggregate income and expenditure. That did not happen, in fact, both categories weakened over that period. Did it mean that many untruthfully reported they were working in order to continue receiving SNAP benefits? Could be, and if so consistency is required to maintain the appearance of truthfulness -- in other words, they would report the same to those conducting the HHS. In March 2016 the USDA reported the largest drop in SNAP caseloads since 2005 when the benefit extended to Katrina victims was concluded. Meaning -- many on SNAP had not found a job by the time the 'find work or else' window closed, nor were they willing to lie about it. When Snider inquired to the BLS if they looked into this possibility, the reply was -- we're just statisticians, we don't look into policy change causalities.

Robert Shiller in a recent NYT piece exposed the notion that land and home purchases are necessarily good investments. Between 1915 and 2015 the real value of farmland purchases increased 3.1 times, or 1.1% per year. With the increase in population the per capita yield would be about nil. For home sales over the same period it was 1.8 times, or 0.6% annually. From 1929 when GDP was first calculated it has averaged 3.2% annually.

The UK Markit PMI fell to 47.7 -- lowest since April 2009. Exports were up a bit because of the weakened pound, but the most virile success story is the booming FTSE 100 passing 6700 on the high side -- The best reading in almost a year. It should be obvious to all that sectors of an economy that prosper when the real economy falters share in the causal relationship that is undermining that sector. But the terrified gang that runs the world economy prefer survival for a day because who knows if there will be a tomorrow should they remove their finger from the dike.

Lagarde, head of the IMF, may be prosecuted for the bank job she did as Sarkozy's economy chief. When a major owner of Adidas thought the sale of his share of the business conducted by his choice of a French state run bank was less than it should have been he blamed it on the incompetency of the bank officials he hired. Sarkozy wanted Tapie made richly satisfied because he was a huge contributor to his electoral campaigns. Lagarde served her master well. Instead of following legal precedence and allowing the court system to do its job, she seized control of the matter by creating a handpicked team to arbitrate the complaint. They generously determined that Tapie deserved $445 million of taxpayer funds to keep him out of the poor house. All involved committed a flagrant felony and if France had an independent system of justice they would be soon serving significant jail time.

Joe Carson of Alliance Bernstein LLC in NY determined that total household holdings in stocks and mutual funds have almost doubled since 2009 to $20.6 trillion. All but 6% of it came from asset appreciation. The problem with this is that the real economy has been sputtering along since 2009 at a meager growth rate. Such a massive discordance between the real and the fanciful immediately preceded the last two busts. To make matters worse, only a tiny percentage of the population have significant holdings of those assets.

An article by Renick and Lipschultz in Bloomberg Business showed the hazards of trying to make bubbles seem reasonable. The 11% downturn of the S&P 500 earlier this year was said to be caused by weakness of the China's yuan. Well, since March the yuan has retraced its decline, and the world real economy suffered a major blow with the Brexit vote, yet the S&P 500 is up 8.6%. Promised state intervention the world over has been the sole support for the financial bubble. Following every sign of a market correction they renew their vows. But in this instance repetition has ever weakening effect because the need to regularly make these promises reveals the seriousness of the underlying problem.

http://www.unrealeconomy.org