Politics or Economics - Which Will Lead us to Chaos?

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Though Sanders was the nominal loser in Iowa (by 0.29% thanks to Hillary winning all 6 dead-heat coin flips), Clinton, being the officially designated Democratic nominee by the mainstream, will be a non-factor if she suffers many more such 'victories.' Sanders rushed to New Hampshire where he called for a "political revolution" in a rousing speech. He currently has an 18% lead over Clinton. Meanwhile, Trump came in second to Cruz and was followed by Rubio. None of the presentable Republicans scored a decent sized vote. That leaves two Teaparty nuts (Cruz -- won by getting the evangelical vote), and an honorary gusano (Rubio's parents fled the Batista dictatorship in 1956, but he lied in his early campaigns by saying it was 1959 to get the worm vote) and a racist kook who at least has enough sense to criticize Wall Street even though he's lived off it. Those that voted for Sanders and the Republican 'twenty per-centers' do not like Wall Street and big banks. But speculators bolster their confidence that the economy still has a few good paydays in it by knowing their government has their back should all go bust. A few more victories by this gang should wipe that smirk from their faces.

China manufacturing fell last month to 49.4 -- the sixth month in a row. The government demonstrated some foresight by giving up on growth or stasis by confidently predicting a growth lower than last year -- 6.5% may actually come true.

The Shanghai Shipping Exchange indexes for container freight is down more than 40% since 2012. The Baltic Dry index of world shipping reached a recent peak of 4078 in May 2010. As of last week it was 337. U. S. air freight is 30% lower than its late 2010 peak.

According to Markit Economics, Euro area factories cut prices in January by the most in a year. This real economy deflationary impetus should be compared to the ECB's proud achievement of extricating the its part of the economy from monetary deflation (+ 0.4% 1% core). That doesn't mean a thing if manufacturers must cut prices in order to pay their bills and eke out a profit.

One would expect a significant decline in oil production after a year or more of very low prices, but the consultants Wood Mackenzie (in a Bloomberg article) found only a 0.1% decline in output. According to the International Energy Agency daily production is 96.9 million barrels a day -- 3.4 pumped at a loss. The reasons may be a combination of the high expense of shutting down wells; the weakened currency in oil producing countries making productions costs cheaper; the necessity of maintaining income to pay off debts -- and, of course, hope for a quick boost in prices.

Recent American market gains have largely been ascribed to the slow rise in oil prices from just below 30 all the way to 33. Today there was a sudden drop to 30. Bad day for the markets? No -- just mixed because Fischer of the Fed, merely by favorably citing recent softening by other central banks, made what is considered a 'dovish' statement.

Indonesia (southeast Asia's largest economy) reported a GDP growth of 4.6% last year -- that's the fifth consecutive yearly decline.

To help revive their sinking economy, in just 3 years China dropped a 6.5 Gigaton cement bomb in the form of new cities and other construction endeavors. To gauge the size -- the U. S. used 4.5 Gigatons of cement *in the whole 20th century*. That's means at solid victory for China in the cement war.

The latest corruption scandal in China concerned an operation conducted by the Yucheng Group in the form of peer-to-peer lending company Ezubao. It brought together private lenders and borrowers though it really amounted to lenders giving money to thieves. Nobody noticed something fishy about a company that borrowed money at 14% and ostensibly lent it at 6%. The Chinese online news magazine, Caixin, reported that much of the money went to Myanmar to support a Chinese army called United Wa State Army. At 20,000, they constitute the largest rebel army in that difficult to control nation. Caixin curiously left out important historical information. As Mao was gaining victory in 1949 large elements of the reactionary Kuomintang army fled across borders -- mostly to Myanmar (then called Burma). There, with large assistance from the CIA, they continued to threaten China, and as the decades passed, became diverted their interests to become one of the world's leaders in the drug trade. Thus the idiotically named Communist leadership had no qualms about letting supporters of their historical enemy not only do business under their leadership, but rob its citizens -- to the tune of an estimated $8 billion.

Markit reported that last month service sector growth slowed by the most in 27 months. The markets fell like a stone as well they should because this sector is the only one providing any support to the economy. Later in the session the markets rose to end mixed. The real reason was disguised once again by saying it was due oil rising to $32. Last week it rose to $33 only to promptly fall back below $30. What sense does it make to attach any significance to a number that has showed no sign of being sustained? None. The shills must provide an economic red herring to disguise the nothingness of the rise. Part of it may be some dovishness from Dudley of the Fed. But all the rises came immediately after four floors were penetrated in a downward direction: DJIA (1600), Nasdaq (4500), S&P (1870), Russell (1000). There have been a series of bottom-breaking dips that were then bought into. The consistency of the rises makes it a good cue to buy when everything else is bad news. But the markets become all the more dangerous should there be an unrecoverable breakthrough. Nerves are real -- basing buys on nothing real tends to weaken nerves.

With the service sector beginning to give way the truth of the other supposedly strong evidence of a recovery, jobs, is coming to the fore. The Labor Department on Thursday reported the unit cost of labor rose 2.4% last year (2014 rise was 2%). That's the highest rate in 8 years. Meanwhile employee output per hour only rose 0.5% annually over the past 5 years. That's the smallest increase over a similar period in over 30 years. High unit cost and less output means weaker productivity and should mean a decline in profits. Many have wondered why the big jobs numbers and much lower unemployment rate have not succeeded in improving economic conditions beyond stagnation. The guess is that many employers have stockpiled workers after swallowing the Fed Kool-Aid that the economy is about to "take off." For the real economy the chickens are returning to their roosts, and soon the take off may become lay off.

Markets were not pleased with the 151,000 jobs report on Friday. December's 292,000 was cut by 30,000 while November's was raised by that amount. Incredibly, the unemployment rate was lowered a notch to 4.9%. Alhambra Investment Partners had an interesting graphic illustrating a massive flaw in the "full employment" claim. At the peak before the last crash the unemployment rate was just about exactly where is now and the Civilian Labor Force Participation rate was 66. Now the rate is the same but the CLFP rate is about 62.6. In 2008 both graphed at the same level -- now there is a huge gap. A strong demand for labor should pull those millions of discouraged workers back into the labor market. Baby boomer retirement was offered as an excuse, but an unusually large portion of the those of retirement age remain in the workforce, plus, the population has increased by15 million since 2008. High demand for labor also means higher wages. Recently reported wage increases year to year have risen above 2.0% -- last month it was 2.5%, but that most likely has to do with governments and some companies accepting low income workers' demands for a $15 minimum wage. Low unemployment should also mean a stronger real economy, more capital investment, etc., none of which can be seen. A report this week had US factory output falling 2.92% in December -- for the 14th month in a row, and for all of those months is was also lower year to year.

Joe Weinberg's article in Bloomberg had a catchy title *Goldman Sachs Says it May be Forced to Fundamentally Question How Capitalism is Working.* The gist of it is how large American corporations (S&P500) can maintain high profit in weak economic conditions. High margins have supposedly expanded because of strong commodities, cheap labor countries where goods can be made and sold at ridiculously high prices in first world countries, and improved efficiency and use of new technology. Then Goldman escorts the elephant into the room -- corporations that engage in large stock buybacks, and mergers and acquisitions have higher margins than those that invest internally. Now, if high margins are maintained as the real economy continues to weaken, then Goldman says *"there are are broader questions to be asked about the efficacy of capitalism."* The way the system should work is that in downturns weaker companies fail allowing stronger firms to absorb what they left behind and grow. It's like in a downturn workers are let go -- but capitalists are largely exempt *because the capitalist system is obviously controlled by capitalists.* Goldman itself led the charge to keep all those junk companies (especially of the financial sort) going with huge taxpayer paid bailouts. When a company keeps large numbers of unneeded workers -- it fails. When a country spends huge sums to keep large numbers of worthless companies afloat -- it also fails. Americans are signaling that failure by rejecting mainstream (bailout) candidates. If Goldman's favorite candidate flames out it will largely be the result of their $650,000 gift to say a few words (and poor

Hillary accepted it only because it was offered). Goldman shooting itself in the foot is a good example of "the efficacy of capitalism."

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