

From Real to Surreal

01-11-2019

According to the Financial Times, in 1805 the Bank of England had a weather vane installed on its roof with a dial inside. If it indicated wind was coming from the east it meant ships were sailing up the Thames to unload in London and the bank must provide plenty of funds for traders to purchase wares. If the wind came from the west it was time to reabsorb excess cash. Without sufficient funds the provider of goods would have to sell at a discounted (deflationary) price that possibly would not cover the cost of goods and shipping. On the other hand, prices would soar (inflationary) if large sums were left out for purchases when there were insufficient commodities for available. Those were the good old days of real economy capitalism.

Now, if central banks do anything at all, it is to provide credit for financial institutional investing in financials in order to keep the ghost of capitalism seemingly alive while all pray that the real economy rises from its death bed.

With real economies announcing serious negatives worldwide American markets did very well until Friday when the push petered out. Germany, the global real economy avatar, reported a 4.3% decline in new manufacturing orders for November, by far the largest decline since the 2011-2012 recession. That was followed with a 1.9% decline in November industrial production, the largest monthly fall since 2008 and contradicting a small consensus gain. This is the third straight monthly decline in German industrial production.

Germany is leading the across the board decline of the European economy with Britain, confounded by Brexit a close second. China is doing the same in Asia with production and sales in decline; the latter signified by the first annual decline in 20 years of auto sales. S. Korea, Japan and Australia report slowing growth. Latin, especially South, America are not doing well.

In the US, except for the fictitious jobs report, the veracity of which will be proven if the Fed does not immediately raise rates since the report fully supports their hyper inflation fears, also is experiencing an economic weakening. Bloomberg reports that “a half-dozen corporate giants either [lowered](#) their profit forecast, announced massive job cuts or pulled plans in the face of market volatility.” American and Delta Airlines pared down their expectations for moving people, and FedEx for good. Ford in the US and Jaguar in the UK have announced layoffs and retrenching. Tiffany and Louis Vuitton report weaker than expected sales, especially in China which now is home for the wealthiest big-

spender capitalists. Macy's and Kohl's say that holiday buying by regular Americans was disappointing. In finance BlackRock, AQR Capital Management, and State Street Corp. have announced cutbacks. In industry United Technologies halted its attempt to sell its fire safety division because of concern about the economy, and in technology Apple's first sign of long term structural weakness in decades was the big news.

Yet for all of that the markets attempted to disguise reality with a good week of buying. Is the promise of a rate cut in the near term that important?

Who knows? Certainly not anyone from the Fed. Here is a quotation by Atlanta Fed Head Raphael Bostic from late October of last year:

The economy is in a good place. So good, in fact, that as I was sitting down to write this speech, I struggled to come up with sufficient variations on the word "strong." Strong has many definitions that can describe physical prowess, the intensity of an odor or flavor, and, in physics, a type of force between particles. But one definition stands out to me as particularly apt to describe the economy at this moment: strong—able to withstand great force or pressure.

And this is what he had to say this last week:

So grassroots intelligence from Main Street and messages from Wall Street indicate heightened uncertainty and concern about the economy. But the aggregate economic data continue to paint a robust picture. What is a policymaker to conclude from these mixed signals?

Of course the only thing that is mixed up is his reasoning process. When they have no idea how to fix something that is irrevocably broken they have nothing left but to imagine it repaired. Out of such a conundrum comes change. Hopefully it will be something exciting.

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