Recession Watch

08-16-2019

One can never determine with certainty when and if the final straw has been added to a slipping mountain that will turn it into a streaming avalanche. From the perspective of a human created and managed structure, predicting a real avalanche is a piece of cake compared to knowing precisely when a recession or a revolution will suddenly shatter existing social reality.

Conditions have worsened to the extent that within the past six months mainstream reporting has gone from cheerleading world synchronized growth to calling for the leadership to take necessary measures for preventing another slump before they have even managed to recover from the previous one. If that doesn't excite you enough, then concentrate your attention on the fact that the world's ore-eminent capitalist nation in a capitalist world, the one all others look to for guidance and leadership, is governed by a transparent fool.

Trump is so fixated on the notion that booming markets mean a healthy economy that early in the week, having been so troubled by the sliding markets, he suddenly blurted out a temporary pause as to when the latest China tariffs would be instituted, knowing full well it would reverse the decline, which it did, for a day.

Wednesday brought forth the worst market day of the year. Trump was so frightened he arranged a conference call with the bedrock leadership of the American economy. Gone are the days these would be industrialists. Now they are JP Morgan Chase, Bank of America, and Citigroup -- the real economy now lives off the trimmings the financial sector scatters at their feet.

A higher than expected July report on retail sales was enough for one claw back day. The only thing that made it seem positive was leaving out that evidence that makes it a lie. Of the last 8 months, 4 of them reported an annual growth rate of less than a miserable 2%. Only 2 months were above 4%. And further, July certainly benefited by Amazon's two day Prime sale which sold 75 million more products than the previous year (100 million).

As for the real economy: Industrial production annualized and seasonally adjusted -- Oct. 2017 - April 2018 (7 months) 7%, May 2018-November 2018 (7 months) 3.6%, December 2018 - July 2018 (8 months) -1.8%. No need to squint in order to locate a trend.

The week ended with another good market day even though the all important report on new housing starts came in at - 4% for July (and well beneath expectations), and the Michigan consumer survey also was less than than forecast.

Meanwhile the other, and far larger, part of the financial sector, bonds and treasury notes, are saying that conditions may soon repeat 2008. Yields are falling because demand is so strong (which increases the price) with many entering negative territory. That means the purchaser will receive less at maturity than cost of purchase, in effect paying governments to keep their many safe for a period of time. Trillions are now invested in negative yield securities.

Yield inversions have been creeping up from the monthly bills, to the 1 year, and this week briefly to the 2 year, meaning that the most watched 10 year bond had yields less than those of shorter term. It's as if investors sense the threat of an explosion, and the closer in time, and more enormous the potential blast, the further they want to move away from it. Inversions in the past have always meant a coming recession, but an actual recessionary event depends on how long the inversion had been maintained and how far up the ladder it has climbed. A 10 month sustained inversion preceded the Great Slump. Currently only the monthly notes have maintained inversions for several months.

Economic Reports

– Consumer sentiment in German fell to – 44.1, the lowest since 2011 and second lowest since the Slump. Industrial production fell by more than 5% year-over-year, the most since the Slump. Both German and Japanese 10 year notes are deep into negative territory. Currency markets are now controlled by traders and investors leaving central banks outside of the loop when it comes to implementing a policy that actually stimulates the real economy.

– An election that served as an indicator of the upcoming presidential contest in Argentina went so badly for right-wing current president Macri that markets fell 48% in a day. It also caused turmoil abroad because that country had deliberately defaulted on loans in the past and may well do it again if Macri’s opponent wins the contest. Macri sold off the assets of the nation in order to receive from the IMF the biggest loan in its history. Much of the loan was used for paying off debts and defending the currency. Nothing for the benefit of the people of Argentina.

– In China industrial production in July grew 4.8% year-over-year. That means that except for two Golden Weeks (when the country shuts down for a holiday) the industrial section of the economy is worse than it was in November 2008.

– Real GDP for the 19 Euro nations grew by 0.193% in the second quarter from the prior quarter. Year-over-year just 1.1%.

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