

The Sandpile

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The Danish physicist Per Bak developed the concept of self-organized criticality. A steady stream of sand falling onto a flat surface will develop into a pile that is completely self-formed. Furthermore, as the pile rises it reaches a critical state, with each additional falling particle of sand, a particle or particles in the pile may move anywhere. Movement in the pile is caused by the power law – the energy transferred from the falling particles to those that are stationary. That may cause movement or an increase in resistance between particles that maintain position only if pressure is equalized. Isolated pressure points may change the shape of portions of the pile, or trigger it's collapse.

So far the practical use of such theorizing has been in the area of market predictions. Software firms specializing in the creation of these applications played a major part in the derivative induced portion of the big collapse. But that was many levels away from the base cause. All those credit default swaps, etc., had to have at least a whiff of something real that was supposedly backing them up, and that was a booming housing market. Today the real economy is slack through-and-through, but that is still what is ultimately supporting record-setting equity markets. The last bust came about because of excessive trust in a real boom; the next one will be caused by excessive trust in the expectation of a real economy revival. Officially we are in a recovery that is well beyond the length of average recovery periods. In reality it is perceived as (optimistically) a movement toward a recovery. When positive movement seemed about to move into reverse it was revived with a liquidity chaser. Eventually some particle of truth will trigger the realization that excessive liquidity really is a trap that has sprung and destroyed any chance of a real recovery.

For what it's worth, the Caixin/Markit PMI for Chinese manufacturing fell to 47.8. That's a 2 year low and the fifth consecutive month of declines.

Much has been reported about very low rental vacancy rates. Too be sure, in certain cities it is very low. But nationally it is 7%. From the mid 80's to the present it's ranged from 7, to a high of 11, to the current 7 percent. From the late 60's into the early 80's it ranged between 5-6 percent.

The New York Times reported that almost half of the \$388 million raised by candidates in the 2016 election has come from 400 families. That's 0.01% of the American people. Hooray for democracy!

Japan has now gone through 24 consecutive months of falling or stationary real wages.

According to the Wall Street Examiner, unemployment compensation claims have been dropping steadily since September 2013 while the population and numbers employed have been growing. Last week unemployment claims were 1,576 per

million of nonfarm private employees, a record low. Yet, strangely, tax withholding sums have lately declined from a steady 5-6% growth to 1.9% year to year. This is a trend that should be watched.

Another weird thing is today's July jobs numbers. The Establishment Survey was a slightly lower than predicted 215,000 – with practically of the plus side being in the 55+ age group. This has been going on for many months and, if true, is something that cannot last. The Household Survey came up with 101,000 jobs after a 56,000 decline the previous month.

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