

## Seance Hands Still Holding

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The Treasury is buying back most of the T- Bills it issued since September. It will be a test of the stability of stock and bond markets when the process is completed on Thursday. If all goes well, that will probably ensure an interest rate increase in December.

Emerging Market credit rating downgrades have now exceeded all of 2014. 28% of companies in developing nations have a negative outlook or on watch for such a designation. The most since 2012.

Huge gain in world markets on Monday because Erdogan, the rightist religious fanatic leader of Turkey, won an outright majority in parliament.

According to Bloomberg, with almost all the S&P 500 earnings reports in, the share weighted decline from last quarter is 3.12%. That is the largest fall since 2009. The second quarter also was negative, and the first was barely positive from the year before while being much lower than the 4th quarter of 2014. Meaning -- earnings dropped for this most important index for almost the entire year while market value remained at record highs. Stockman reports, based on 75% of firms counted, that LTM share value was \$93.80, 7.4% below the peak of \$106. That makes the PE ratio 22.59. It was 22.19 in the 4th quarter of 2007 -- just before the crash.

The September manufacturing trade deficit was \$74.7 billion -- the most ever.

German factory orders fell for the third straight month in September - 1.7%, - 2.8% below previous quarter.

The Bank of England announced that it will maintain its 0.50% interest rate, and suggested it would remain static well into the next year. The usual cover story -- inflation is near zero -- we must avoid a deflationary spiral. Real reason -- Our sick economy can only survive if we maintain this prop.

Economists expected 185,000 jobs for October, but the Friday report came in at 271,000 -- a large jump from last month's 142,000. Wages were reported up 9 cents and the unemployment rate lowered to 5.0%. American markets were mixed and the dollar strengthened. Any Fed excuse for extending ZIRP beyond December now appears to be off the table. As usual, there is much that is negative, or at least questionable in the report. The percentage of the population over 16 that is working is 53%. Before the crisis it was 63%. Almost all of the increase came in the 55 plus age group (378,000 jobs). The prime 25-54 group lost 35,000 jobs. Since December 2007 the 55 plus age group has gained 7.5 million jobs while those below that age have lost 4.6 million. The Labor Participation Rate remained at 1977 level -- 62.4%.

Occasionally one must remind folks who think that the economy can be evaluated

as if it were a rational enemy that no such thing is possible when it comes to capitalism. Capitalism is a confused melange in which irrationality is re-branded as freedom. One can visualize a capitalist state of equilibrium as one in which, like the gang in *Reservoir Dogs*, every investor has another investor pointing a gun at him. Critics of Fed policy have for years been predicting a collapse to occur at any moment -- yet the bubble continues its miraculous expansion while simultaneously weakening. They don't understand that a uniform (worldwide) application of what otherwise would be bad policy can be extended indefinitely. When you are dealing with an endless supply of props that are essentially nothing, the only danger is that participants cease to accept them as something. As in a seance where all must sustain the mystical experience by never releasing their hands from one another, so the bubble/seance will continue until something forces a break.

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