Smaller and Slower

07-01-16

The roller coaster American indexes are back to their pre-slide peak. The British FTSE 100 has regained all plus a bit more (by the end of the week at a 10 month high). It's rise was fed by BOE head Carney speaking of a summer stimulus. That would likely be a cut in the 0.5% interest rate and possibly a new QE program. The ECB is said to also be looking into to ways to expand its bond purchases. Bonds to buy are running short. They cannot purchase sovereign bonds that have negative yields lower than its own negative 0.40 deposit rate. Brexit has increased the total world negative yield debt to $11.7 trillion or 26% of the entire bundle. It's now been admitted by most of the mainstream that the world economy is tipping towards a recession. That moves speculators towards safe havens -- bonds being one of the best -- that pushes up the price while reducing yields. But since they know the ECB will continue to buy bonds, they know the price will continue to rise. It's like cashing in on equity during the last housing boom but with bonds it's not necessary to own anything. Borrow to buy and later sell at a profit to pay for the purchase.

The markets continued to do at least okay on Friday. In the US the ISM reported an improvement in manufacturing to 53.2. The economy peaked in 2010. Began a steady slide late 2011 which increased its pace in 2014 with the end of the last QE. At that point manufacturing was 58. It remains far from its own internal recovery. Meanwhile, the Austrian presidential election in which a non-nutter managed to barely beat out a full fledged right wing nutter has been thrown out by that country's constitutional court. Meaning -- Another chance for the far out nutter and possibly a call for an Ausraus vote.

The Bureau of Economic Analysis announced an adjustment of first quarter GDP from 0.8% to 1.1%. The entire change came from altering fixed asset investment from - 0.25 to - 0.06% and reallocating imports down and exports up. PCE growth was revised to 2% year over year. Personal Consumption Expenditure is an important economic indicator. It's something like the CPI that instead uses relative comparisons rather than the latter's fixed baseline. According to Alhambra Investment Partner's Jeffrey Snider in *Revisions Don't Change the Great Dislocation* (6/29/16) PCE growth in a healthy economy would be a consistent 8-10 percent, especially now that much growth has yet to be recovered followed the Great Slump. He makes an excellent point in that using negative terms to describe the current state of the economy makes no sense because it presumes a comparison with normalcy -- an impossibility while we are mired in the most abnormally skewed economic mess anyone can recall. In fact these conditions may be unique. What can be said about the economy is that it's shrinking and it's movement is slower. Thus nothing much changes whether a strong or a weak GDP is reported. It's like a claim of full employment and record low unemployment are reported -- But that should mean strong personal consumption. That anomaly can be explained by the exclusion of the shrinking Labor Force Participation Rate (which has fallen from approximately 67% in recent good years to about 62% now) from the calculations that generated the glowing reports. The frequently stated cause in URE articles is that the financial economy has become more or less completely detached from the real economy (the former only spits poison into into the latter where it does have points of connection). Snider then wonders what the next recession will be like:

> *Would it be like the Great Recession where the contraction is never materially addressed by its following "recovery"? In other words, the recovery after 2009 wasn't truly that, it was instead really just the absence of further contraction, an almost zombified state of the economy that shows up in statistics like GDP as unstable quarterly growth. If the Great Recession left the global economy smaller and slower, does the persistence of secular stagnation mean the next recession, of whatever potential depth and duration, leaves us all smaller and slower still?*
>
> *That is the possibility that should be most concerning and the one that should actually be addressed as a priority; the only priority. It won't be, of course, because the economy is still being viewed as if it were like its 2005 version, just stripped of its housing "boost."*

Some like Roubini expressed concern about bailouts because it might result in giant zombified entities. He moved away from his gloomy prognostications when he thought a genuine recovery had begun. Instead it now seems such concerns didn't go nearly far enough. Instead of zombified companies we have a dead monster of a world economy.

http://www.unrealeconomy.org