Strange Things Are Happening

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Economic gloom pervades the earth with the deepest darkness in Britain. Brexit caused the Conservative government to fall. The pound is at $1.29, the lowest in 31 years. Immediate weaknesses have already struck the real economy, especially in construction. Only one area of the economy has responded positively -- the stock markets. The FTSE 100 not only recovered it's Brexit losses but is currently at a 10 month high. American markets recovered all initial losses, and most of the Eurozone markets have made a significant claw back. If cancer strikes a person threatening his life there is still something within him thriving as succumbs -- the spreading cancerous cells. The analogy makes a close fit to what is happening in the real economy. The financializing of the real economy is the deadly infection. The cure is the destruction of the enemy cells. But the solution according to the central banks is to strengthen the disease. The crisis of the Great Slump made for a pressing need to have some aspect of the economy grow -- in growth there is strength and financial firms, like viruses, are fast growers. As of now the effect of the infection is something like that of a tapeworm -- a weakening but not a killing. Fortunately for a decrepit capitalism, as in old bodies, diseases tend to take their time.

Italy's third largest bank, Monte dei Paschi di Siena, was given to October 3rd by the ECB to come up with a plan to reduce its bank debt by 30% in three years. Italy's non performing bank loans total $400 billion, a third of the Eurozone total. Much has been written about China's looming banking collapse due to a mountain of NPLs which is officially only $250 billion. Even if larger, given the relative sizes of the respective economies, it would have to be many trillions to be as bad at the Italian situation.

--- June Auto sales were down 4.6% year over year while the other major part of the non revolving credit market, student loans, were up significantly.

-- Gold hit a two year high of $1370.

-- The trade deficit rose 10% in May.

-- June manufacturing rose but in only 7 of 18 categories, and customer inventory expended for the first time in five months.

On Wednesday the Fed released its June minutes. They indicated much concern about the upcoming Brexit vote and the weak US labor market. Since the vote was to exit, that promised no rate rise for the year, and the American markets reversed a fall. Then on Friday the markets had a major rise, the S&P very near a new record high, based on a much higher than expected Establishment Survey for June Jobs -- 287,000 instead of a projected 180,000. The May figure was lowered to 11,000. Unemployment rate rose to 4.9% supposedly because more people entered the labor market. Curiously, while the consensus underestimated the jobs number it overestimated hourly wage earnings 0.2% rather than the actual 0.1%.

Doesn't make much sense to have such an apparent strong demand for labor while at the same time not having that reflected in wage growth. Then maybe the real numbers were quite different. The more accurate Household Survey only counted a 67,000 increase -- that's 273,000 less than March. But average trends reveal more of the real condition of employment. The first six months of 2014 the jobs growth averaged 2.2% annually. In 2015 over the same period it was 1.9%. And in 2016 it was 1.2%.

Here's the scorecard for super-stimulus Japan. Real and nominal disposable income down in May. The goal of 2% inflation still hasn't managed to boost the CPI into positive territory. Real household spending has declined in 24 of the last 28 months. Since 2013 real spending is down 6%. Real current income has declined 5%. The only solution -- more stimulus.

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