Is It Time To Accept Things We Cannot Change?

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Another very dull week for the economy and its financial sector. The real economy continues a downward drift while finance floats ever so slightly higher on extremely low volume. What makes these times unique is that even those responsible for post slump economic policies sense that there is something wrong. Things are not right but they have run out of alternatives. Instituting policies that do nothing are now more dangerous than actually doing nothing. The ship is still afloat. Heads still have access to air. Don't rock it.

Krugman has now reach a state in which he has absorbed the malaise that he helped to create. In a recent column he notes that up to the late 1990's the potential GDP -- what the economy could produce at full employment -- averaged 3.5% annually. Now it is around 1.5%. We supposedly have full employment yet output and productivity have fallen. He admits that it can't be tied to baby boomers retiring because there has also been a "mysterious" decline in labor force participation by the prime age group. But Americans live reasonably well, and since we know of no way to makes things better (which to Krugman means there *is* no way to make things better), hadn't we better learn to accept things as they are? No. People will not accept a life that lacks the means for ones personal development. The burden of our excess of capitalism makes that impossible. Those tracking the mysterious disappearance of prime age folks from the labor force might might find them among the new crop of boutique capitalists. Capitalism needs the threshing out of the dross among its own kind. It has a become a burden to itself. But why change anything when you can get away with doing nothing?

– Eurozone first quarter growth adjusted to 0.3%. Europe as a whole 0.4%. GDP of the German power house 0.3% in the second quarter. A booming economy compared to 0% growth for France and Italy in the same quarter.

– The new UK government promised to replace all the EU financial supports that will be lost with the exit. That helped keep the FTSE 100 at a 15 month high despite the crumbling economy.

– The US is not the only country with such a “robust” economy that its stock indexes have hit new highs. Russia's exchange just did so this week.

– Here's an interesting tidbit from Birinyi Associates that reveals how reliable market strength is in evaluating the health of a real economy. The Bank of Japan owns 81 of the companies traded on the Nikkei 225 and is set to own 51 more by 2017. This all due to market pumping through its investments in Exchange Traded Funds.

– NY Fed bank president Dudley indicated that a Fed Funds rate hike in September is quite possible. Very significant – even though such a hike is never really impossible. Should that worry investors too much, Lockhart from another of the Fed banks said they are all still very concerned about the infamous headwinds.

US industrial production declined 0.5% in July year to year – not as much of a fall as earlier this year but still the 11^{th} month in a row of declines. US home ownership in the second quarter is the lowest since 1965 when gathering of this statistic began. First time home buyers are at a 30 year low. Both single family homes and multi-family units were down in July – 6% and 6.4% respectively. This is evidence of the weak financial condition of the average American household and does not reflect what a full employment economy should look like.

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