A Tricky Condition Gets Trickier

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The world financial authorities are in a fix. They have instituted policies that projected a steady increase in economic growth. It's been ten years since the slump and the GDP growth rate of the US and many other developed nations is barely positive. Yet at the same time the financial sector, particularly stocks, have repeatedly set new record highs. It's like the Fed put the economy on a diet intended to build new muscle tissue for its skeletal structure but instead merely added more fat to its ass. That's not a healthy situation. Financial obesity is a prime cause of economic heart attacks. But fat is tasty and satisfying. It makes the ruling class hopeful and content. How is the Fed and other central banks going to ease them into a healthy diet that will build a strong real economy when none of them have a clue as to what would constitute such a diet?

Investors cannot totally forget that the justification for incandescent stock valuations is the promise of future economic growth. But GDP immediately following the crisis began below 5% (should have been 8% or more considering the magnitude of the downturn) and have been steadily slipping lower. In 2012 growth barely skirted a recession. Then in late 2014 (just after the last QE was completed in October) it fell to a point where most quarters were below 2%. The last quarter of 2015 and the first of 2016 missed a recession the skin of its financial teeth. And the first two quarters of this year have been very week. The truth is becoming more difficult to ignore.

But making money is a truth in itself and investors/speculators aren't going to allow what might happen make them miss a profitable day. So the Fed has a problem, how to extricate themselves from they mess they've created (cheap credit) without blowing up the one positive sector of the economy. This week Yellen, realizing that the economy slipping near to a crisis state, reversed course on the desirability of rate rises. Meanwhile, Fed banker Williams announced to the world that the markets are running on fumes. On the one hand protecting the speculators, on the other suggesting they should be more cautious. That's what passes for policy when an organization is clueless about a solution.

The markets had another fine day with the S&P 500 hitting a new high. This despite a slew of negative economic reports. The minimum standard for expansion in retail sales is 6%. The economy hasn't managed that even once in the past 5 years. The point at which the recessionary alarms are triggered is 3%. Today's report came in at 3.24% year over year. Retail sales are 70% of GDP and

such low growth not only means a weak American economy, but also contributes to the weakness of economies dependent on American sales.

The Fed has set a target of 2% inflation. In the past 62 months it reach that number in 8 months, the last 5 were recent and were clearly due to high oil prices – Fed policy was no factor. Today core CPI came in at 0.1%. In the last 4 months it's had three 0.1% and one -0.1%. Just about the weakest 4 months in the 60 years of the index in its current form. Yellen tried to account for the weakness by blaming it on cheaper wireless packages – a minuscule portion of the overall CPI. Industrial production also came in at a very weak 2% year over year.

Lawrence Summers wrote an article for the Financial Times expressing his concern about the "aberrant" behavior of Trump at the G20 meeting. Instead of a common agreement released at its close in which all nations make a worthless pledge to work together for the common good, the most that could be managed was a weak communique. What would such a president as Donald Trump do in the face of a financial crisis? The ruling class is more than worried. Jamie Diamond of Chase/Morgan says, "It's almost an embarrassment being an American citizen travelling around the world and listening to the stupid [stuff] we have to deal with in this country." Imagine how we, who are not members of his class, must feel being ruled by such a stupid class.

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