

Unreal or Real -- It's Easy Profit

8-22-14

With the insane boom of the market this week the shape of the disaster to come has been better defined. Ostensibly the cause of the excitement was the bad economic news, at home and abroad, and the upcoming Jackson Hole conference where Yellen will once-again promise low interest rates, possibly in Draghi-like terms. The other seemingly positive development was the hope of talks between Russia, Ukraine, and the latter's underwriters. Of course, what is of interest is not the civil war which has no chance of being settled than any other conflagration caused by western meddling in the affairs of other states, rather it's the sanctions which are destroying any chance for the Eurozone to achieve the "escape velocity" it needs to leave behind 6 years of economic hell. The sanctions aren't a major issue for the U. S. in themselves, but by contributing to a Russia-China alliance that undermines the world dollar economy, it is a potential disaster in the making.

The question then is not will, or even when, the next economic collapse occurs, but what will be the new conditions under which its solution must be attempted. The current bubble differs in significant respects from the last two. The first was dot-com lunacy, and the one that produced the current effects was based on traditional housing inflation well-garnished with a plethora of garbage securities based on nothing but the name of something real. Given that the internet binge contained at least a few shades reality albeit at the periphery of what constitutes bedrock economic reality, the economic crisis caused by its collapse was quickly resolved by the tried and true juicing of a housing/construction boom. But we will have a very unique development in the coming collapse because, in a sense, it will have to be based on absolutely nothing.

During the six years of this alleged recovery we have seen no actual revival of any major real economy segment. The same has pretty much occurred the world over. Recovery of housing and retail sales once Americans were able to pay off some of their huge personal debt were supposed to be the drivers. Every mainstream economic report claimed to have seen signs that the corner had been turned and that consumers and new homeowners would soon kickstart the entire economy. This week there was a gushingly-pleased-with-itself report of a 15.7% rise in housing starts. Less reported were the last two surprising monthly declines which would tend to even out the large rise, but more importantly less than 1% of the rise was from the single family housing category. All the rest was multi-family -- rentals and condos; these two having much less impact on the economy.

The recent financial history of Caterpillar is illustrative of the world-wide failure of the construction industry to replace paper as an economic driver. During the official period of recession Caterpillar had 19 consecutive months of negative global retail sales. It then had a period of about 30 consecutive positive months. Since the company is famous for supplying the world with its line of construction equipment, all the flacks cited its healthy profit growth as proof of a recovery. But starting in December 2012 it moved into negative territory and has now stayed

there for 20 consecutive months.

An improvement in real industry brings along with it an increase in commodity demand and therefore prices. Demand is flat - iron is markedly weak. Export based economies like China's should experience a marked increase in exports. China has dumped huge amounts of wealth and credit into its domestic market in hopes of maintaining a decent growth rate until world demand improves. That hasn't happened. China is on the verge of having its own housing collapse and will probably not even be able to reach its goal of 7.5% growth - itself the lowest since 1990. Meanwhile, Abe has wrecked the Japanese economy without even being able reach his goal of 2% inflation so he can add 2 cents more to the sales tax and please holders of its 250% of GDP securities.

As for retail sales, they have shown a steady decline since March until they were dead flat in July. Not surprising when you consider that as of September of last year 35% (77 million) Americans were in active debt collection (based on TransUnion data). With the major increase in sub-prime loans for car purchases (practically the only thing doing well in manufacturing - and industry that now only constitutes 12% of GDP) one may expect that to increase.

One of the more steady sources of positive economic news has been the gradual decline in weekly unemployment claims. No one makes an attempt to tie that to the loss of 3.6 million full time jobs since the point of collapse. The jobs numbers are up, but not those that constitute good jobs. Many of them are temporary part-time and contract jobs. To qualify for unemployment compensation a worker has to work so many hours over a certain period, and since the employer must contribute to the fund, its quite likely many are shifting workers in and out to lessen expenses. As for contract workers, they don't qualify at all.

What must be done after this collapse has been discussed in earlier articles. Watching the real economy's withdrawal from its overdose of financial triglycerides thanks to the Fed and the failure of real economy demand to keep it from getting hooked on easy profits should be fun. Capital investment has gone nowhere. But stock buy-backs and dividend boosts (much on virtually interest-free loans thanks to Fed policy) are higher than ever. Worldwide mergers and acquisitions were up \$2.2 trillion so far this year -- 70% more than the same period last year. It's more profitable to merge and liquidate old investments than make new ones. Like the late-night ads that offer to sell the secret to getting rich by turning debt into wealth, the capitalists have made the scam a reality. They have turned a negative - a nothing - into a gigantic casino. When that craps out and they search for a solution they will discover the new base they have constructed for their system -- nothing.

<http://www.unrealeconomy.org>