Visions of Death

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According to Bloomberg, via Credit Suisse's analysis of Investment Company Institute data, American house holds had net withdrawals from both stock and bond mutual funds from July through most of August. That's the first time its happened since the last quarter of 2008. Typically, if they withdraw from stocks they add to bonds. 89% of holdings in the two mutual fund categories are retail – meaning, plain folks investors. As canaries sniffing out the economy, they may have detected something worthy of concern.

Major downturn of markets worldwide – about 3.0% in the US. The Cause? – The same deceptive refrain: China. This time manufacturing PMI declining to 49.7 – the lowest in three years. But that is the same figure that appeared in a preliminary report last week. Real cause? ISM manufacturing report for August came in at 51.1, well off the Bloomberg median of 52.7 and the lowest since May 2013. Furthermore, export orders were down to 46.5, the lowest since May 2012. And inventory buildup the last two quarters was the highest in back to back quarters ever. This brings up a curious comparison between the US and the UK. Both economies have followed almost precisely the same economic policies since the crash. The Bank of England is doing the same "sometime soon" act on when it will begin raising the interest rate. Many of the stats are the same – their manufacturing PMI for August was also down – to 51.5. But there was one giant difference in a recent report – the UK second quarter GDP was + 0.7% while in the US it was adjusted up to a ridiculously high + 3.7%. Makes you wonder if the Brits are better at projecting export demand. Maybe being in the EU helps in that regard. Or maybe the Brits just like to give the truth a sporting chance at survival.

One big plus in the US economy was July construction growth in July up 13.7% year to year. That growth was only topped in the first quarter of 2006. It should be noted that construction in this cycle is largely centered on multi-unit housing whereas in the last growth period much of it was single family homes. But there is one curiosity that is almost identical: as construction was peaking in the year or two before the last crash lumber prices was in major decline – the same is happening now. The typical explanation is lag time. Presumably the construction industry is finishing up what they've begun and have prepared for a stop and wait.

India reported 7% growth last quarter. Many expected 8%. China is often accused of inflating GDP growth. They haven't learned proper capitalist cheating techniques. India recently bloated its growth rate by inventing a new GDP calculating (double meaning intended) method. If China's 7% is really 6.3% as many claim, then India's 7% should be around 5.5%.

Canada officially entered recession. That's the place that is expected to absorb 19% of American exports.

Lots of Death Cross talk lately. That's when the 50 day moving average of a stock index crosses beneath the 200 day moving average. That usually means a small stock decline will become a large one. The Russell 2000, S&P 500, S&P 400 Midcap, the DJ total stock market index, DJ Transportation and DJ Utilities indexes have all had crosses and all had sudden falls. With Nasdaq the two gauges are moving closer and should cross in 2-3 weeks. Is this a significant indicator? Three months before the 2008 crash all 30 American stock indexes had visions of death.

Some recovery on Wednesday, possibly thanks to a two day holiday in China. South Korea did report a 14.7% decline in exports (against 5.9% expectations). The eighth straight month of declines.

European markets had major gains after Draghi announced that his “do anything” easing program has utterly failed. Inflation, which was expected to rise to 2% is back near zero and will likely go negative, and GDP growth has been cut once again and may very well end the year close to nil. But here's the good news – he is going to do even more of this stuff. It's got to work eventually – look how successful it's been in Japan. US markets bought into the rally but then closed mixed, reflecting the lasting value of rubbish. Then there is tomorrow's jobs report. Speaking of rubbish – if somehow it comes out bad after being subjected to the booster filtering system, then expect the invocation of Rule 48.

Edmunds.com via the WSJ had an interesting report on US auto sales – a higher percentage are being leased rather than sold. A projection of 28% for this year is a near record. Most leases run 3 years, and as manufacturer certified, it means 13.4 million good competitively priced cars will compete against new car sales. The total was 7 million in the 3 years ending 2011. It's another case of final sales not being taken into account. That's when the transaction gains full significance.

Bloomberg cited a new housing index developed by Allan Weiss, co-founder of the Case-Shiller index showing that 45% of single family home prices in the greater Washington and NY areas were down by at least 2%. Possibly a sign that the never developing housing market has finally aborted.

The Friday all important jobs number for August was disappointing at 173,000 – the projected number was 217,000. A mixed bag in some respects but a negative for the markets. The two previous months were raised by 44,000 and the House Hold survey was 196,000. Unemployment rate fell to 5.1% from 5.3% as 261,000 workers left the work force. Labor Force Participation rate now down to December 1977 stagnation years. With jobs being the most significant indicator of economic health, does anybody in their right mind think that the American economy (5.1% unemployment) is more than twice as robust as the EU economy (10.9% unemployment)? All it means is that American algorithmic garbage-in garbage-out chicanery beats the European when it comes to nerve.

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