A Week of Whistling Past the Graveyard

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Since last Friday we've had, in round numbers, the Dow experiencing two 1000 point and one 600 point decline, and one 500 and one 300 point rise. The VIX has suddenly risen from record lows, and Treasury yields are at 4 year highs. And all the major economies mirrored the US markets. Proof of synchronicity, at least in decline.

Given that the market had risen 230% from 2009 lows – an annual average of 14% (about twice the long-term historical average) – with a rapid rise starting from the middle of December, and all this during consistently low growth of the real economy since the slump, some might suspect that this is it – it's time for a correction, bear market, or worse, with the cause being the discordance between the economic base and the financial superstructure.

But the financial babblers just won't have it. Sure S&P 500 companies are trading at 25 times 12 month earnings (historical average 16 times). And, yes, the Shiller price earnings ratio is at about 33. Since 1880 ratios at that extremity have only occurred in 1929 and 2000. That's not it according to the shills and touts – it's because of the beautiful jobs report and spike in earnings. That will surely mean an interest rise (which has been telegraphed a zillion times thus neutralizing any panic-like concern).

That wonderful 2.9% earnings increase largely affected supervisory and non-production employees (a fifth of the labor force). The rest had about the same wage increase as in December. As for the exquisite jobs report, buried in the numbers is that manufacturing jobs – well paid usually full time jobs – fell from 21,000 to 15,000 month-to-month.

Still, the urge for calmness is sound reasoning because most Americans own little if any stocks. 84% of all outstanding stocks in American hands are owned by the richest 10%. The push to get everyone into investing began in the 80's with the creation of Individual Retirement Accounts. If they were successful in getting a large part of Americans into that scam, and they had some luck with a long-rising market, then it would be easier to reduce or eliminate Social Security. But after being burned in 2001 and 2008 many left never to return. Even with today's rise both the Dow and the S&P are still in correction territory. Next week may settle which direction it will stick to.

A January 27 article in the New York Times announced the advent of world synchronized growth – concrete evidence that the destructive elements of the

Great Slump have been de-materialized and that we now have a basis for genuine optimism. What is ignored is that the official growth rates are very low and undoubtedly embellished because governments have a desperate political need to present positive evidence. If the current worldwide equity crunch doesn't soon end, synchronicity of a different sort may soon bring dreamers back to reality.

Historical analysis of financial data is carefully avoided by those charged with boosting a sham recovery. Thus much was made of Q3 GDP slightly breaching the 3%. When the Q4 first report came in at 2.6% it was reported as evidence of strength in the economy – no mention of its decline from a barely decent previous quarter. Q3 2014 GDP was above 4% and Q4 was 5%. This reported as solid evidence that the corner had been turned and the economy was in a solid growth cycle. It's worth noting that those two quarters were at the termination of the Fed's security purchases in October. But 2014 was followed by many quarters of low growth – a few above 2%, a few below, and 2 below 1% – until Q2 2017 when it neared 3%. Something similar happened in Q4 2011 when GDP rose above 4%. Two quarters after that the economy went through two quarters of near recession. Now with world equity markets tanking, and even mainstream economists like Krugman expecting low growth (1.5% in his case) whistling past the graveyard has become more like a dance of death into it.

The story of icy haired Little Wang informed the world of China's left alone children. Few of the 247 million people who have moved to the city for work can afford to bring their children along with them. Now it's been reported that the Chinese government has known that there are 61million left alone children with many of them living in dangerous conditions far from parental support. The government, with its heart as well as its mind set on capitalist growth deems the deems the children as economic collateral damage.

In its drive to place all Chinese industry on a capitalist foundation its State-Owned Assets Supervision and Administrative Commission has been rapidly consolidating like industries to improve efficiency. Of course, the main source of efficiency in such a process is making many workers redundant. The weakening Chinese (and world) economy has led to much overcapacity and materials stockpiles. The SASAC administered 170 companies in 2009. By 2012 it was down to 117, and it is now 98. China is also encouraging mixed ownership between private capital and the state. Private steelmaker Shagang has a controlling stake in state-owned Dongbei Special Steel following the latter's bankruptcy. In doing so he also got a controlling interest in a Fushun Special Steel, a division of Dongbei. It turned out that Fushun had grossly exaggerated its inventory and now Shagang is in limbo along with its purchases. China is gradually learning how to deal with the every day criminality of capitalism.

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