The Federal Reserve's "Financial Airplane". The Fed's Economic "Assumptions", "Falsified Data to Portray Growth"

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After last week's air tragedy, maybe a poor thought process but please stay with me.

Would you ever get on an airplane if there was no pilot?

Would you be confident of reaching your destination safely? Of course not.

Whether you know it or not, you are living in an economic and financial "airplane" with Chairwoman of the Federal Reserve Janet Yellen as the pilot. The sad thing is this, even she admits the airplane is broken, I'll explain why shortly.

Mrs. Yellen gave a speech Friday for the San Francisco Fed. The full text can be found here.

Before getting into the particulars, I must say it is "sad" to see our "pilot" go back and forth while not saying much of anything…and what was said was largely incorrect or misinformation. In short, I believe Mrs. Yellen was pandering to Wall Street with her continual line of "we will raise rates later but not yet, and when we do is will be gradual" (my paraphrase). As I have written many times before, the Fed cannot raise rates and if they did the markets will not even be open for trade within two weeks!

First and foremost, let's look at a few of the Fed's assumptions. They assume unemployment is 5.5%, the economy is growing and inflation is "too low" and well below 2%. Let's pull these assumptions apart and then put them back together. Unemployment is not 5.5%, this is total fallacy. The workforce participation rate is plumbing 40 year lows now and those "not looking for work" …because they cannot find any are just thrown in a heap and forgotten about. This has the effect of making the "potential" workforce smaller than it really is, a statistical gimmick for the ages. If unemployment was calculated as it once was back in 1980, the rate would be above 17% as calculated by John Williams Shadow Stats.

The 5.5% number is a hilarious fabrication Joseph Goebbels would be ashamed of!

Next, we have the economic growth rate. Friday's final 4th quarter report claimed 2.2% growth, if you look at the Fed's OWN MODEL, the first quarter is growing at .2% (NOT two percent, POINT two percent!). If we go one step further and look at "how" the growth rate is calculated, we see there is an "assumption" for inflation. The way it works is the inflation assumption is deducted from the nominal growth rate to arrive at a real growth rate. If inflation is low, it's only a small deduction to growth. If inflation is high, the deduction to growth will be greater. For example, if we have nominal growth of 3% and inflation at 1%, the real rate is 3%minus1% =2%. But what if the inflation rate is really 5%? Now we get 3%minus5%= a negative 2%, or contraction …otherwise known as recession…and herein lies the problem!

The Fed uses BLS statistics for their models and uses CPI and PPI numbers in their calculations. These are NOT true inflation numbers. Yes, they are massaged, twisted and just plain made up, but this is not the "fallacy". The definition of inflation or deflation has nothing to do with "prices", price movement is the result, not the cause. The growth of, or the contraction of the money supply is the definition of either inflation or deflation. Janet Yellen knows this, Bernanke and Greenspan knew this …they don't want YOU to know this. They don't want you to know this because if you did, then you would know we have not had a single quarter since 2007 with real growth!!!

Now that we have that out of the way, let's look at a few of her quotes and finish with a "Q+A" mindblower. Mrs. Yellen contends "With continued improvement in economic conditions, an increase in the target range for that rate may well be warranted later this year." She followed this by saying …the economy in an "underlying" sense remains quite weak by historical standards. So which is it? Strong or weak? Of course, all of this was prefaced by admitting to "extraordinary monetary ease" over the last six years and then later spoke about the timing of rates hikes being difficult because of the "long lag times". Does six years qualify as "long"? I can still remember studying money and banking in college, the "lag time" was generally considered six to nine months, has so much changed in the thirty years I've been out of school? (The answer of course is yes, it has).

Another quote, and an obvious case of "mental lag" on her part, she said,

> "An environment of prolonged low short-term rates could prompt an excessive buildup in leverage or cause underwriting standards to erode as investors take on risks they cannot measure or manage appropriately in a reach for yield".

Really? Ya think? Are you saying that abnormally low short term interest rates tend to blow bubbles faster than Lawrence Welk?

Before getting to the real fun, let's look at what I think was a first admission on the part of the Fed regarding their balance sheet. Mrs. Yellen said:

> "But if growth was to falter and inflation was to fall yet further, the effective lower bound on nominal interest rates could limit the Committee's ability to provide the needed degree of accommodation. With an already large balance sheet, for example, the FOMC might be concerned about potential costs and risks associated with further asset purchases."

Do you understand what she just said? In my own blunt words, she said "if the markets were to turn down and economy further down from here, since interest rates are already at zero …there is nothing we could do. We have already expanded our balance sheet to the limit and would risk bankrupting even ourselves with further bond purchases. We are out of ammo"! Sad, but very true, the Fed can only rely on falsified data to portray growth and can only threaten higher rates, but never deliver them.

Lastly, during the Q+A session Mrs. Yellen made the comment "cash is not a convenient store of value". After it was all said and done, CNBC's Rick Santelli went off on a rant and can be seen here:

If I may interpret for you, Mrs. Yellen is saying they not only "want" to debase the dollar and create inflation, they absolutely MUST debase and devalue the dollar in or to "reflate" and KEEP REFLATING! There is no other alternative but we already knew this. We knew she knew this, what was shocking is she actually said this! Let me finish with a three word translation for you, "Cash is trash" Janet Yellen, 3/27/14.

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.