Uncertain Financial Markets: The Global Systemic Economic Crisis 2013

The Huge Statistical Fog makes it necessary to change from instruments to visual navigation - Traps, benchmarks and templates

By Global Europe Anticipation Bulletin (GEAB)
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In the Up & Down trends published in the GEAB January issue, our team wrote the following in the Down section "Economic indicators":

> Between short-term economic indicators which describe only what occurred in the week, others which are manipulated by governments to reflect the message they want to give, and finally others which no longer have any relevance in today's world, economic reality is at the very least very badly portrayed, even disguised, by these figures followed however by businesses, banks, and even countries. As an example, only currency exchange rate variations make it no longer possible to say if it's Brazil or the United Kingdom which is the sixth largest world power. This statistical fog prevents dependable navigation which is paramount in these times of crisis.

Whether it be the fruit of intentional manipulation by the players in their efforts to survive or the result of the extreme volatility of the bases for calculation (such as currency values and the US dollar in particular), this trend is, in fact, confirmed.

Reliable and relevant indicators on the world economic, political and social situation are, however, essential in order to get through the crisis without mishap. But those used by governments or businesses are, at best, useless in the current period of major world restructuring and, at worst, harmful. This is why in this GEAB issue our team has decided to detail which indicators reflect the true situation and those which are window-dressing. This work also makes it possible to highlight that it's not always the indicators themselves which are skewed, but the way in which they are interpreted or the reasons studied which make them change.

In a world where so many "phantom assets" or doubtful debts, so many opaque or worthless derivative products circulate, finance is increasingly disconnected from reality. Financial indicators (particularly stock exchange prices) must therefore be interpreted with the greatest care as we will see further. In the same fashion the weekly soap opera of "economic life" keeps us on tenterhooks, sometimes with the publication of "confidence" or "sentiment" numbers, sometimes with central bank announcements… But fundamentals don't evolve at this pace and reality has no use for this Coué method consisting of holding onto psychological data. This short-term information has more of an effect of hiding the economy's profound ill health than to really influence reality as they claim, in particular during this time of major crisis.

As for the true statistics, the way these numbers are calculated sometimes doesn't reflect the true economic landscape at all: the same applies for example to the unemployment or inflation numbers, two criteria well anchored in reality however and rightly playing a significant role. But as the popular expression says, "in failing to stop the fever one broke the thermometer". And the question is then to decipher the statistics to have a clearer view, as we will do for the United States below.

As well as the statistics describing the real economy (employment, consumption, volume of international trade, energy consumption, etc) and the virtual share of the economy (de-industrialization, debt), it's also interesting to consider social and political reality through indicators reflecting poverty, demography, conflicts, political deadlock, etc...

Finally, certain general indicators like Gross Domestic Product (GDP) or rates of exchange should obviously be followed but whilst keeping in mind that the first can be artificially massaged by the "virtual" share of the economy (rotten bank assets for example, or central bank activity) and the second temporarily perturbed by speculation, although in the long run it still really reflects the relative state of various countries' economies.

In short, it's a question of keeping a critical eye on the daily statistics we are given. We will apply this precept, mainly to the United States, in the following part because the distortion is the most exaggerated there and as regards Europe it takes place in the Anglo-Saxon media each day.

It's all the more important to find good benchmarks and eliminate the deception that we are witnessing a real paradigm shift out of the system set up by the United States or, in other words, the collapse of the world that they created. For several decades, in fact, they have held their role only because they could put themselves above rules of the world game thanks to the pre-eminence and indispensable character of their currency: the dollar. The questioning of this advantage has forced them to become just one power like another. That requires a considerable adjustment which, for example, is reflected in the abysmal trade deficit, de-industrialization or the country's debt, with huge consequences on their ability to influence and standard of living.

The countries in the US sphere of influence, mainly the United Kingdom and Japan, totally aligned on the US economic model's principles and which have benefited from the aftermath of their patron's privileged situation, are also suffering. Europe, close to the US economic model, particularly since the fall of the Berlin Wall, but whose integration project is aimed at increasing independence as regards the United States, is partly involved in the maelstrom but has structural characteristics which provide it with the tools to be able to get clear. That said, in 2013, it's not only the western powers but the whole world which will reel, including those new powers represented by the BRICS in which the bubbles caused by the use of the Fed's easy money in the US and then the world economy are beginning to appear (1).

As regards the European situation for example, it's far from perfect with high unemployment, lifeless or negative growth and now a political crisis which is sapping the beginnings of confidence in the Euro markets. Nevertheless, the European countries don't have as painful an adjustment to make as the United States. In Euroland's case, the necessary change, far from being finished, has all the same begun to a great extent. Remember that according to our team, the EU doesn't have a future in its current form, constantly blocked by British procrastination, undermined by uncontrolled expansion mainly driven by Washington, paralysed by sclerotic Brussels institutions, and moreover suffering from a severe democratic deficit. A powerful Euroland, naturally integrated by a common currency, flexible and free of any dead weight, constitutes the new motor capable of breathing life into the dynamics needed to resolve its problems; in this sense, it's the only future-bearer solution on the continent. As we analyze later, these dynamics which, as LEAP anticipated, allowed it to conquer the storm which beat down on it in 2011-2012 will now, as the Euro crisis becomes a political crisis, allow it to overcome the major political challenge of European integration: its democratization (a democratization without which, despite all its assets, it wouldn't have a future).

Finally, before giving our recommendations and the GlobalEurometre, we give our analysis of the Korean geopolitical situation, the new proxy battlefield between China and the United States.

Financial markets: an indicator which should be read back to front

So fittingly, let's start with the symbol of the US recovery, the stock exchange, which posts incredible results: the Dow Jones, the S&P 500 or the Nasdaq indices have either broken their 2008 records, or are very close (2). The one and only reason for this rise is clear and is even officially recognized (3): the stock exchanges only owe their salvation to the Fed whose liquidity injections artificially inflate the stock exchanges. So, it's about an indicator which is massaged and certainly not reflecting the real economy, the objective being to give renewed confidence through the stock exchanges' rise and thus revive consumption. It's not so sure that this goal will be achieved one day whilst consumer confidence remains lower than the lows of the 1995-2007 period (not taking into account that the six month future confidence Index is even seven points lower (4)).

US consumer confidence Index, 1978-2013 – Source: Calculated Risk

Nevertheless, even this "bright spell", a priori unquestionable, must be put in perspective. Is it a record when the Dow Jones is compared to gold, in certain aspects a more credible measure than the US dollar?

Dow Jones Index versus the gold price, 2003-2013 – Source: ZeroHedge

Or how to be delighted by stock exchange performance when volumes are 40% to 50% weaker than before the crisis and so weak that only casino-like speculation moves prices?

NYSE volumes, 2004-2013 – Source: ZeroHedge

It's plain to see, stock exchange prices have completely disconnected from the real economy and thus isn't a relevant indicator any more. It's illustrative to see that the distortion is the largest in the United States, whereas in Europe the Euro Stoxx 50 Index has stagnated since 2009 like many other European national indices (the CAC40 for example) and that the SSE Composite Index has been falling for more than two years (!) in spite of

Chinese dynamism. This indicator's lack of relevance is further illustrated by the Nikkei's sudden rise (+40% in less than 4 months) at the time when Japan is at its worst with insupportable debts and a steep trade deficit these last two years. Stock exchange prices, if an indication of anything, is of the degree of the economy's virtualisation, the speculative phenomenon's extent, and the degree of a country's debt. The LEAP team has never attached anything other than very little importance to stock exchange price moves; however, in a certain manner, we could legitimately read their moves contrary to what they are supposed to say: the higher the stock markets, the more catastrophic the true economic situation, and conversely.The numbers thus dissected in the rest of the article are : unemployment, currencies, real estate, trade balance and consumption.

Notes:

(1) Source: Asia Times, 25/02/2013

(2) Which isn't necessarily good news when one knows what happened the last time stock exchanges reached these levels…

(3) Source: The Examiner, 21/02/2013.

(4) Source: Bloomberg, 01/03/2013.

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