

GROWTH CRACKS

Has Economic Growth Ended
In The Developed World?

| Edited by Gregor Macdonald

FEATURED CONTENT

Go Go Global Diesel.	5
60 Minute Ben	6
Chart of the Week.	6

ALSO INSIDE:

This week on StockTwits.TV:

Steven Place
of IWO Into The Close
On the Moment When Making
Money Gets Too Easy

CONTENTS

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Friday's pitiful jobs report was a real downer. To make the mood even more foul, many observers were on financial TV this week suggesting that prospects for growth were dim. David Stockman in particular delivered a stern dose of reality to CNBC Friday morning but by afternoon things brightened: 60 Minutes leaked that Ben Bernanke would appear to say QE could be stronger, for longer. Got a job? If not, got Gold?



FEATURES

Go Go Global Diesel 5

Somehow, coal pressure in China and cold temps elsewhere mean Diesel is leading the oil complex.

60 Minute Ben 6

Leaked news that the FED chairman would appear on 60 Minutes jacked futures and gold Friday afternoon.

Chart of the Week 6

US employment levels, crushed in the crisis, have barely recovered. Is this a surprise?

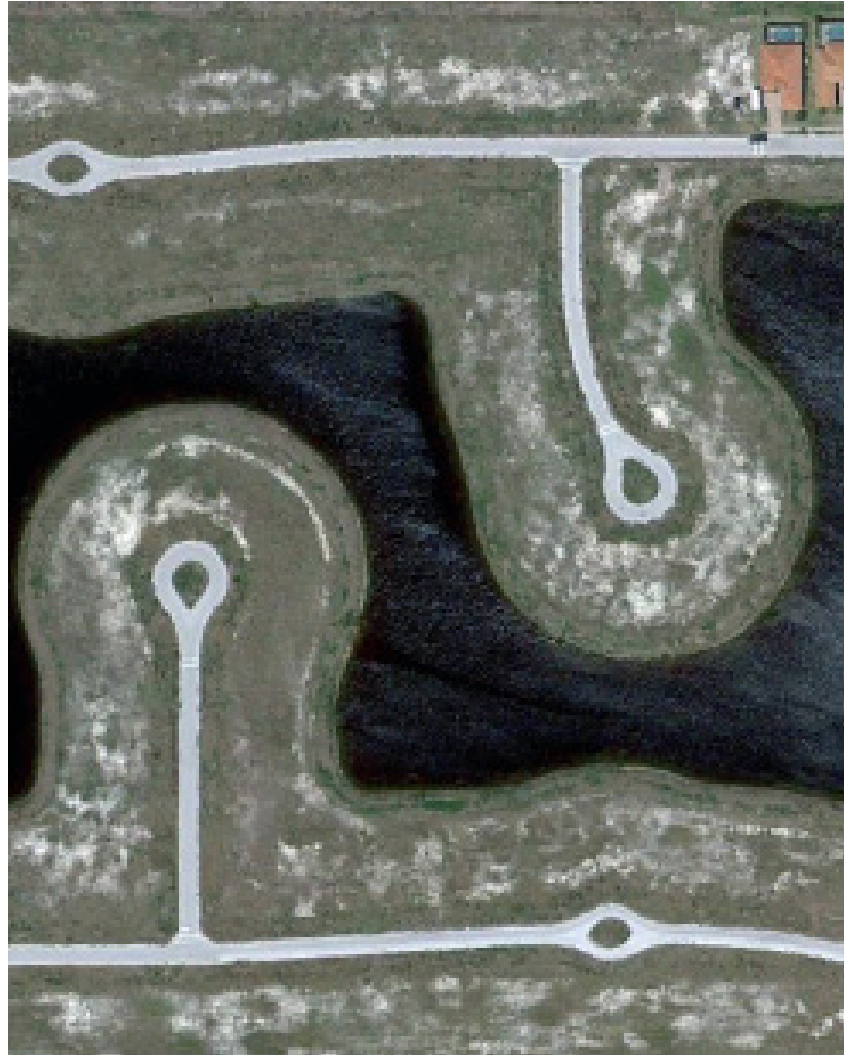
A NOTE FROM THE EDITOR

Welcome to StockTwits Macro Weekly, the weekly magazine of the StockTwits investment community. Each issue features a core essay, written by the Editor. Around this, we build in the key news events and observations, from the past week. [To have each issue sent to you, sign up here.](#)

You will also find StockTwits Macro Weekly functions as a live document, that is eminently clickable and is therefore a helpful launching pad to other relevant content. Feedback from readership is welcome, and we are always on the lookout for written contributions from the community: gregor@stocktwits.com

GROWTH CRACKS— David Stockman former Regan-era Budget director appeared on CNBC this week saying *a whole bunch of scary things* about the prospect for economic growth, over the next few years. Showing the breakdown in employment data, and wage growth over the past three years, Stockman's presentation was more factual than theoretical. In short, the United States is experiencing economy activity, but it's not experiencing economic growth. Much of the recent job additions in the United States have been either low wage jobs or part time jobs. This is a point made two weeks ago in the StockTwits MacroWeekly issue of 29 November, [The Slows](#). As the global economy started back up again in 2009 some Americans were indeed able to return to work for lower pay, in various weak-dollar related business. [But as Stockman pointed](#)

[out](#), the breadwinner salary ranges in America--the jobs that pay 60-80K--are seeing little to no growth. Overall, as we learned Friday from The Labor Department, the US has only been able to add back about a net, 900 thousand jobs after losing a net 8 million from the peak in 2007. Once you add population growth to the mixture, the job losses are magnified further by every month the US does not add a minimum 150 thousand jobs. Friday's pitiful 39K job addition was a rather poignant, and painful example.



Indexes

INDU 11382 TNX 3.02 GOLD 1414.50 VIX 18.01 SPX 1224.71 DXY 79.147

StockTwits.TV: IWO Into The Close w/ Steven Place



Steven Place runs [a very good weekly show on Saturdays, called StockTwits Brunch](#). Steve talks about the overall market in technical terms, makes keen observations about volatility and options pricing, and also takes questions about individual stocks. Must watch TV.

Steven also does a weekday shows called [IWO Into the Close](#) which is actually a very enjoyable way to spend the last half hour of the trading day, on Tuesdays and Thursdays.

Of particular note is Steven's observation that making money on the long side right now has become incredibly easy, and that makes him nervous. That said, Steven sees that the market has been brought back again very close to the near all time highs, without full participation. Accordingly, he's just looking for some healthy consolidation. [Watch the show here](#).

[StockTwits.TV](#) can also be taken as an iTunes subscription.

What's odd about the current macroeconomic conversation is that many are simply wasting column inches or TV airtime debating the end of the recession and the risk of a Double Dip. Both of these concepts are irrelevant in the current, post-collapse environment. By definition, when talking about recoveries and double dips, one is referring to the whole economy and not just new, marginal economic activity. Incredibly, one of the CNBC hosts actually felt compelled to ask David Stockman: *can we have economic growth without job growth?* Apparently, this is part of the same overall confusion about the nature of a large system like the US economy with its debt, liabilities, and running costs. This conflation, or confusion, of the stock market with the economy is very much an artifact of the 1982-2000 phase, with its echo-boom in the 2002-2007 period. At financial TV websites, for example, some version of the "[Forget the Economy and Buy Stocks](#)" article has been running for some months now. It's more surprising to see the theme echoed, however, at much higher grade sites in the econoblogosphere, as was the case at [The Big Picture](#) week before last. However, America is soon to find out that reflationary policy does not create jobs.

The revealing moment in the Stockman appearance on CNBC, however, came as David felt the need to apologize for the grim implications of his no-growth economy viewpoint. This was laughed off a little, and the idea was left to fall as a general uncertainty. But that's the problem these days with economic forecasting: good outcomes are generally greeted as likelihoods, while bad outcomes are treated as grand mysteries that no one could possibly foretell. That's just not true. The US housing market, ground zero for the economic crisis and which is now falling across again across the country, is a prime example. That market is still playing a key, symbiotic role as the locus of American debt saturation, lack of job growth, and now immobility. The invective "no

one can know the future” really doesn’t apply to the housing market, and, as Stockman’s eminently reasonable conclusion implies: there is no *surprise* coming in American jobs. Neo-classical economics, as pointed out by [a number of observers](#), has been able to successfully convince itself for 50 years that financial capital is what drives the economy. However, we are about to receive a grand test case of this theory as reflationary policy from the entire OECD enters its supercharged phase. This week, we saw Jean Claude Trichet capitulate totally in the face of another, potential sovereign bond meltdown in the EU periphery nations of Portugal and Spain. Not only did Trichet open up the pathway to American-style QE, but as the week begins we have no shortage of chatter from Europe about [increasing the size of all these bailout operations](#). It’s appropriate to now ask whether QE 3 has already begun. But, further to this, whether it will make any difference in jobs? At financial TV, the jobs question is clearly secondary. But for sustainable economic reality, it is almost absurd to have to argue for the primacy of employment.

If only all Americans who owned a mortgaged house, also owned about 25 ounces of gold, with say a basis of 700 dollars per ounce. That 17.5K of gold would now be worth 35K, with likely more appreciation to come. The problem with QE both here and in Europe is that the assets most affected by reflationary policy are *not widely distributed enough* throughout the population to repair household balance sheets, and trigger economic expansion. While reflation has helped out pension funds to be sure, that capital cannot be regarded as the fuel for growth and it’s revealing that professionals would delude themselves into thinking otherwise. The fantasy that stock market gains adds to the wealth effect of Americans or Europeans would be benign were it not being cited by the US Federal Reserve. In their hands, the idea is unwieldy to say the least. This brings us to

Go Go Global Diesel



Out of nowhere and in a time of relatively high inventories of crude oil in the OECD, there was suddenly a problem this week with heating oil, coal, and diesel—globally. We saw first hints of this in China earlier this Fall when, in an effort to clamp down on unregulated use of coal in power plants, many small businesses in China responded by turning to fuel-oil and diesel to power electricity for their machines. While this seasonal pressure is not unusual, what has happened at the same time is that very cold weather has hit many northern hemisphere regions hard. This has put more pressure on European Gasoil, a contract that gives a good read on the market and solid confirmation of real, live demand. This week, the European Gasoil contract “went crazy” and [rose to a two year high](#).

Talk of 100 dollar oil is now racing through the market. One of the better sites to get an up-to-the-moment, insidery view remains The Oil Drum, and [this weekend’s thread on gasoline and diesel](#) is particularly good reading. It’s always useful to be reminded: once oil reaches 90, reaching 100 is very easy.

60 Minute Ben



Just before the close on Friday the price of gold started surging. By 4:30pm the SP500 futures had also surged. Gold, which had been very strong on the day tacked on another 10 dollars to reach levels closer to 1414.00 in the after hours session. What was going on?

Apparently, the news leaked that Ben Bernanke would appear Sunday night on the venerable [CBS Go Minutes](#) program, and, that he would be bearish. Which is to say, his appearance would be bullish. Do you understand? Of course you do. Or perhaps you don't.

The detail which boosted gold and stock futures late Friday was that Bernanke would supposedly say to...Morely Safer?...that the FED was not limited to "just" 600 billion in bond purchases, and would do more if necessary. Whether that was intended as a continuation of QE2 or the start of QE3 we will leave to the tough interviewers at 60 Minutes. The real question, however, that Bernanke should have to answer is how, along with his European counterparts, more QE will create jobs. Morley Safer might in fact start by asking about [Friday's Jobs Report](#).

the problem of growth.

Japan, the EU, and the US are now all struggling under the weight of broad debt saturation either in the private sector, the public sector or both. Equally, global oil production has not risen in 6 years, and there's a good prospect that it may go into decline [starting in just 24-36 months](#). Combine these two forces together, and the prospect for economic growth in the OECD--the developed world--looks remote. Economic activity? Well, obviously, yes. But there's simply not enough job growth or industrial growth to both service debt, pay down debt, and start new consumption that would translate into a broad economic cycle. It's time to stop being surprised when the housing market "doesn't recover" or that job growth oscillates around levels first reached after the collapse. Settle in and relax. It's going to be a long decade.

--Gregor Macdonald, 5 December—Amherst, MA

