The Fiction of U.S. Economic Recovery. Can You Figure Out What This Chart Means?

Par Mike Whitney
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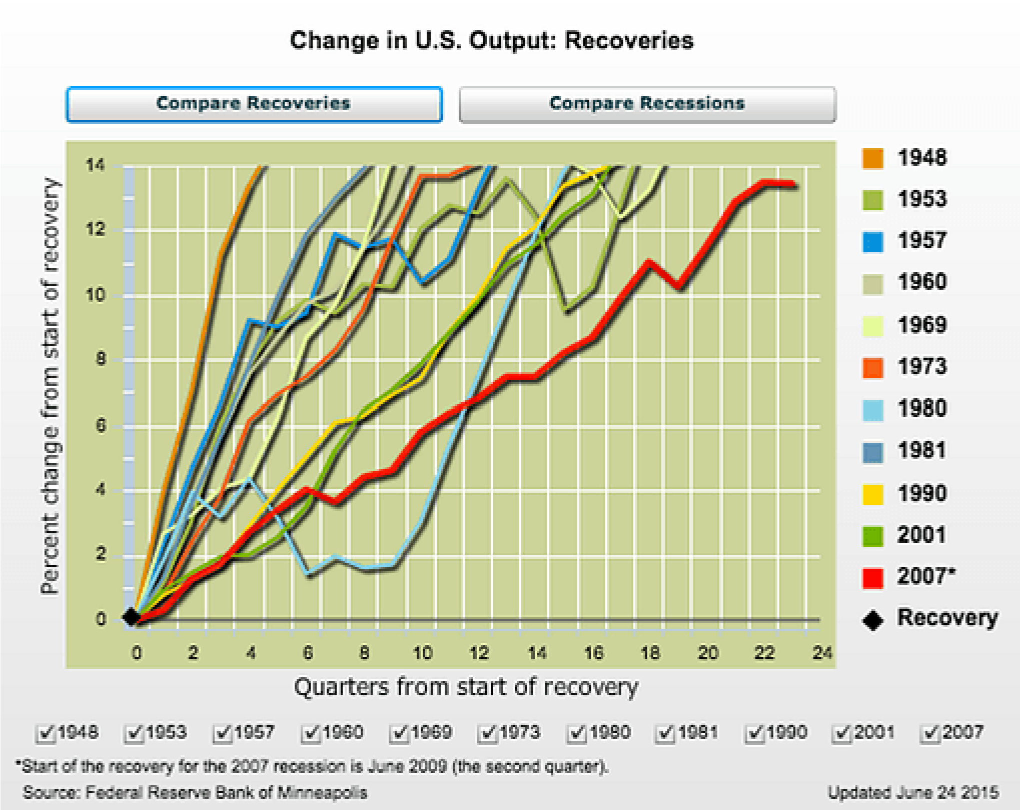
What do you think this chart means?

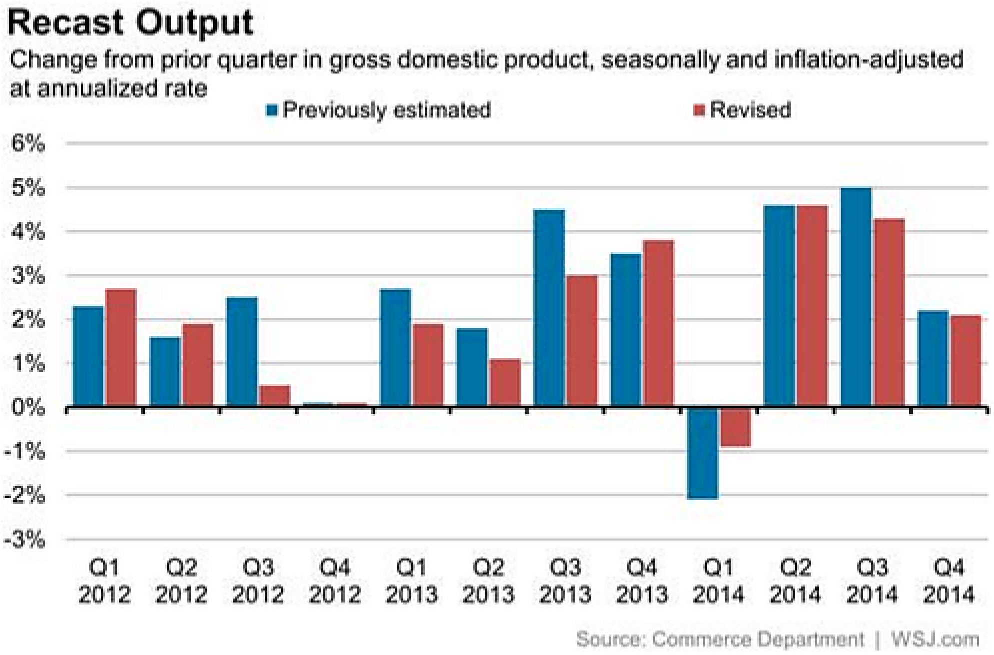


(The post-recession economy is worse than we thought, Fortune)

It means the U.S. economy is in the throes of the lousiest recovery since World War 2.

"But how can that be", you ask? "After all, hasn't the Fed kept interest rates at zero for seven years while hosing down the entire financial system with more than $4 trillion?

Yep, they sure have, but their so called monetary stimulus has failed to lift the economy out of the doldrums or produce the robust recovery that they promised. Instead, US gross domestic product, (GDP) has been plodding-along at an abysmal 2.2% since 2009, which is far below the 3.6% average of the prior 60 years. Bottom line: There's no chance the economy is going to break out of its long-term stagnation unless policymakers dramatically change their approach. Here's a snapshot of the Fed's handiwork from an article at Fortune Magazine. Take a look:



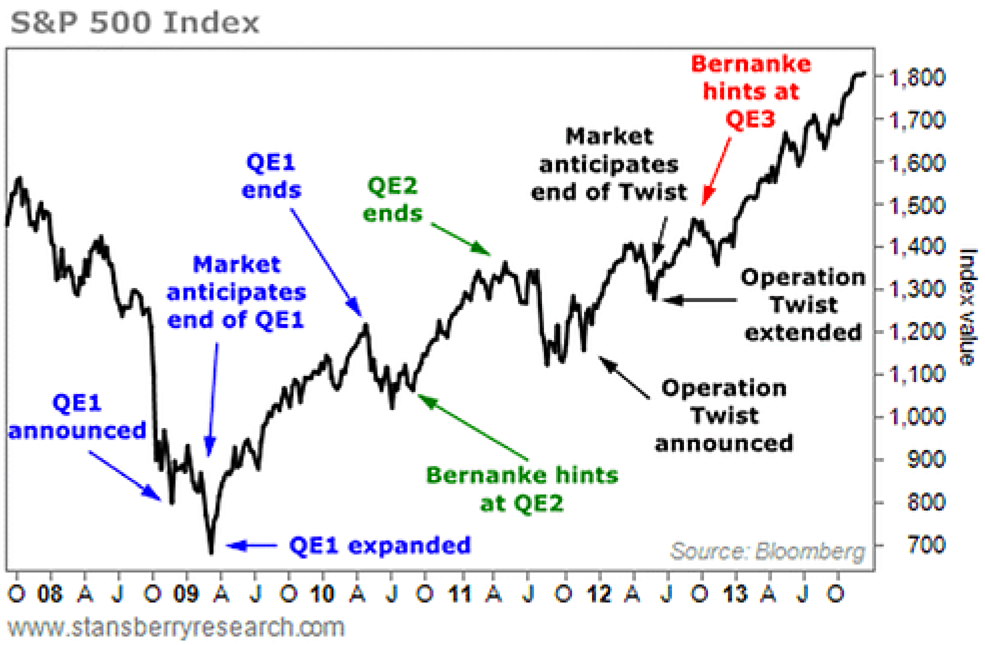
Fortune:

> "As you can see, the revisions generally show a more anemic record of post-recession growth than we thought. From 2011 through last year, the U.S. economy, on average, grew just 2% per year, well below its post-war average of roughly 3% growth." (The post-recession economy is worse than we thought, Fortune)

It's hard to believe, isn't it? It's hard to believe the Fed can dump more than $4 trillion into the financial system and not even hit their 2% inflation target? How is that possible? I thought more money meant more inflation? Was I wrong?

Yes and no. You see, the Fed's policies HAVE created inflation, just not the kind of inflation that revs up activity. What the Fed has created is asset inflation, soaring stock and bond prices that eventually lead to financial instability and painful periods of adjustment. The S&P has more than doubled since 2009, while the Dow Jones has actually tripled. Stock prices have skyrocketed while Wall Street speculators have made an absolute killing. It's only working slobs who haven't benefited from the Fed's policies because none of the money has trickled down to the real economy where it could do some good. Instead, it's all locked up in the financial system where its inflated one gigantic bubble after another.

Here's what the Fed's money pumping operation looks like on paper:



Source: [MarketOracle.co.uk]

See how the black line lurches skyward with every new round of QE? That's how the policy works. The rich get richer while working people try to muddle by on fewer hours, shittier wages, pricier health care, and zero retirement savings. Is it any wonder why Bernie Sanders has caught fire?

Now if you look closely at the chart, you'll see that the Fed stopped pumping money into the system in October 2014, about a year and a half ago. Since that time, stocks have gradually edged higher which suggests that current prices accurately reflect strong underlying fundamentals. But does anyone really believe that?

No, not really. Everyone thinks stocks are in a bubble. In fact, the Fed can't even mention "tightening" without sending the markets off a cliff. For example, in December–after months of telegraphing its intention to lift rates by a measly 25 basis points– the Fed raised rates to half a percent, a full percentage point below the current rate of inflation. (which means the Fed is actually subsidizing lending.) Even so, the markets had a major coronary which sent stocks tumbling for the worst beginning of a year in history.

Why?

Because everyone knows the prices are fake. It's all just froth from zero rates and QE, every bit of it. And there's no bottom either, that's why the Fed is so worried, because if the market does a sudden about-face and stocks start to nosedive, there's no telling where they'll wind up. We could see the Crash of the Century in matter of weeks. Nobody really knows for sure.

There was an excellent article on this topic a few weeks ago at Yahoo called "The Fed caused 93% of the entire stock market's move since 2008".

According to economist-analyst Brian Barnier, stocks have climbed to stratospheric levels because, "the Federal Reserve took to flooding the financial market with dollars by buying up bonds."

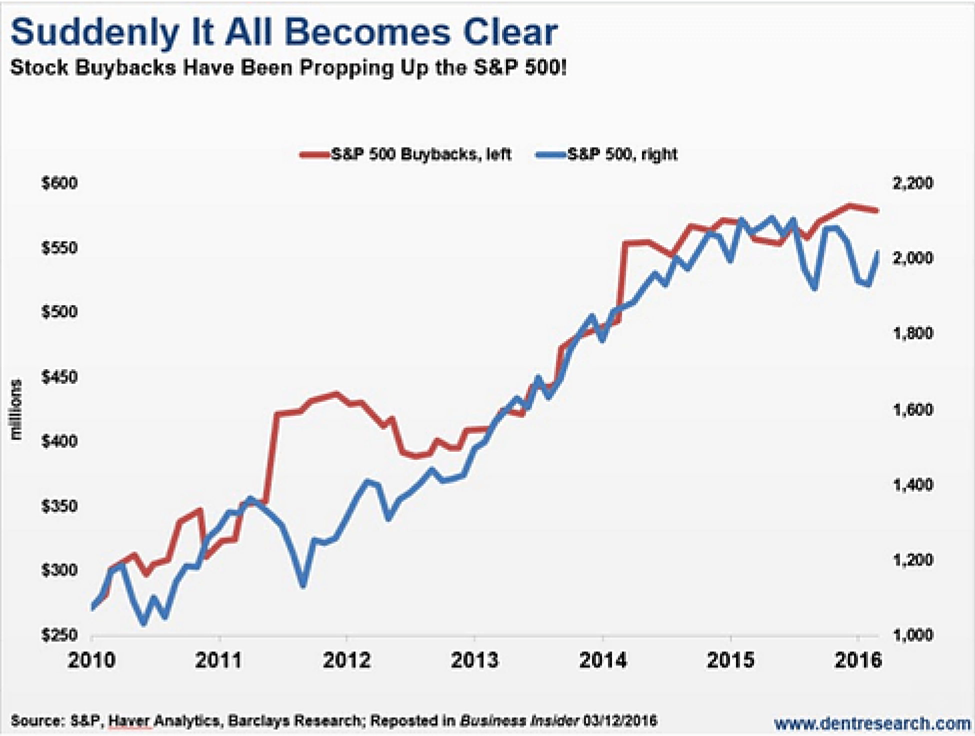
Okay, but if the Fed is responsible for 93 percent of the rally, then how far will stocks have to drop before prices reflect fundamentals?

A very long way indeed, longer than anyone even cares to imagine. This is why the Fed's HAS NOT and probably WILL NOT sell any of the $4.5 trillion assets currently on its balance sheet. They're too afraid that investors will see it as a sign that the Fed is ending its support for the markets, which will trigger a vicious round of panic selling. In other words, the Fed's going to be stuck with a bloated balance sheet until Judgment Day if not longer.

But let's get back to our original question: Why have stocks continued to edge higher when the Fed stopped its money-pumping operations back in 2014?

Answer: Stock buybacks.

Check out this chart I found at David Stockman's Contra Corner. It helps to illustrate how stocks are rising, not because of strong fundamentals, but because bigshot CEOs have borrowed heavily from the bond market to buyback their own shares. That's right, corporate bosses have been piling on the debt to goose their stock prices so they can cream hefty profits in the form of executive compensation. It's blatant manipulation, but it's all perfectly legal. Check it out:



(Chart Of The Day: The Perfect Correlation——Stock Buybacks And The S&P 500 Since 2010, Contra Corner)

This is what's driving the market higher. Not the fake jobs numbers, not the phony housing rebound, and certainly not confidence in Yellen's lousy recovery. It's all based on cheap money, financial engineering, and fraud. That's today's stock market in a nutshell.

Now take a look at this shocker from Bloomberg:

> "Standard and Poor's 500 Index constituents are poised to repurchase as much

> as $165 billion of stock this quarter, approaching a record reached in 2007." (There's Only One Buyer Keeping S&P 500's Bull Market Alive, Bloomberg)

$165 billion of stock this quarter, translates into $660 billion per year. That's a boatload of money and enough to drive the market higher unless retail investors call it a day and bail out. And retail investors are bailing out. According to a recent report by Bank of America (featured on Zero Hedge):

> "BofAML clients were net sellers of US stocks for the seventh consecutive week… Hedge funds and private clients were also net sellers…
>
> BofA's summary: "clients don't believe the rally, continue to sell US stocks" and they were selling specifically to corporations whose repurchasing activity is near all time highs: "buybacks by corporate clients accelerated for the third consecutive week to their highest level in six months, which is also above levels at this time last year." (Buyback Blackout Period Starts Monday: Is This The Catalyst That Ends The S&P Rally?, Zero Hedge)

SELL. SELL. SELL. It seems like the only one that isn't headed for the exits is the big corporate honchos who want one-last big payoff before the market goes Sayonara. Here's more from Bloomberg:

> "Corporate buybacks are the sole demand for corporate equities in this market," David Kostin, the chief U.S. equity strategist at Goldman Sachs Group Inc., said in a Feb. 23 Bloomberg Television interview." (Bloomberg)

"The sole demand"? You mean the only one buying these crappy stocks is the companies issuing the shares?

That's right, and you can blame it all on the friendly folks at the Fed. If it wasn't for the Fed's zero rates and $4 trillion in QE, this latest suicidal-wave of speculation never would have happened. Let's face it, if rates were normal, CEOs wouldn't be able to borrow money to buy their own shares. It would just be too expensive, so the problem wouldn't even exist. Cheap money creates bubbles, and the Number 1 producer of cheap money in the world today is, you-guessed-it, Janet Freaking Yellen.

So what's the ultimate objective here, what is the Fed really trying to achieve? Surely, after seven years of doing the same thing over and over again, the Fed isn't expecting a different result, is it?

No, of course not. After all, the Fed isn't insane, far from it. The Fed knows exactly what it's doing. They know that their monetary policy is "pushing on a string" and will have no impact on jobs, business investment or growth, just like they know that QE won't boost inflation as long as wages are kept in check. They know this, because they've seen the same outcome in every country where they've used this combo of easy money and austerity. Keep in mind, the Central Bank cabal has implemented this same program in the UK, the EU, Japan and the US. In every case, the political class has put a damper on growth (by cutting government spending) while the CBs have pumped trillions into the financial system. And the result has been exactly what you'd expect; the investor class has raked in billions while the economy languishes on life support. What more proof do you need?

Like we said, this phenomenon is not limited to America either. It's a global restructuring of the dominant western economies away from a democratic model where representative governments set policy. The new order represents basic changes in the political economy, an economy that now serves the exclusive interests of the top one percent. Welcome to the Fed's Brave New World.

The key here for the deep-state elites– who control the whole apparatus behind the central bank smokescreen– is inflation. As long as inflation stays low, central banks can continue to conveyor-belt more wealth to the tycoons on top. This is why the economy cannot be allowed to grow, because if the economy grows too fast and more people find work, then wage pressures continues to build which forces the CBs to raise rates.

Elites can't allow that, because higher rates threaten to sabotage their easy money gravy train. So the economy has to be strangled with austerity so the uber-rich can rake off more lucre for themselves. That's why the economy is going to remain mired in the doldrums for the foreseeable future. It's the policy.

This is the hidden motive behind austerity. It has nothing to do with the nagging concern about federal debt or bulging deficits. That's baloney. It's about curbing inflation so the oligarchs get a bigger piece of the pie. End of story.

Like we said earlier, the Fed knows exactly what it's doing, just like all the CBs know what they're doing. This isn't hard to understand. It's a fairly straightforward, but devious plan to restructure the economy so handful of obscenely-wealthy plutocrats end up controlling everything. That's the main objective. They want it all.

So how do we turn this thing around?

Unfortunately, that's where I'm stuck.

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