Federal Reserve "Tightening" and Crumbling Economic "Fundamentals" Expose the Recovery Lie

By Brandon Smith
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It is hard to say exactly when it started – in 2008 in the midst of the credit crisis, in the early 2000's when the Federal Reserve initiated artificially low interest rates which helped to create the vast US mortgage bubble, or maybe the root goes all the way back to 1913 when the Federal Reserve was founded, but somewhere along the line America entered severe economic decay. One certainty is that signals in the fundamentals become visible every time the Fed inflates a financial bubble to stall a crash and then tightens policy without waiting for the economy to show true alignment.

This pattern is, in my view, not about the Fed "bumbling in the dark". In fact, I see most Fed activities as quite deliberate, including the creation and deflation of large credit and equities bubbles. Sometimes these crashing bubbles are used as an excuse by the Fed to launch an even more invasive program of stimulus, and sometimes the bubbles are allowed to collapse, allowing international banks to vacuum up hard assets for pennies on the dollar. During the most widespread collapse events, the banking elites use the chaos and distraction to not only centralize assets, but shift entire geopolitical and fiscal dynamics in order to centralize power.

There is much debate in alternative economic analysis on which type of event we are facing today. There is not much debate, though, on the fact that the fundamentals are screaming bloody murder. The cycle has started over again.

I would point out that since the 2008 credit crash a true recovery has never materialized. We have heard about in endlessly in the mainstream financial media, and to this day we hear Fed officials declare the US economy "on course" and "strong", but the evidence has always been to the contrary. The Fed itself presents two primary factors as proof of recovery: GDP and Employment.

GDP is of course a fallacy, with a large portion of US "production" attributed to government spending, or government programs that tax the public in order to generate revenue. This is not true production as the government is not a producer. Rather, the government tends to misallocate and erase wealth instead of creating it.

Employment is another fraudulent statistic. The numbers released to the public are a gross misrepresentation of the economic picture, as they ignore the 95 million working age people no longer counted by the Bureau of Labor as unemployed because they have been removed from the rolls. The numbers also do not take into account the quality of jobs being created versus the quality of jobs that have been lost. Part time and low wage service sector jobs do not boost the economy, nor do they allow people to adequately support a family, but these are the kinds of jobs (U-6 Measurements) that make up the majority of the so-called economic recovery.

Other fundamentals have remained in poor condition for years but are rarely discussed in the mainstream media. The system has been kept barely afloat by one factor and one factor alone – Federal Reserve stimulus and low interest rate measures. It is important to note that multiple fundamentals began blaring recessionary alarms the moment the Fed began raising interest rates and cutting assets from its balance sheet. Without endless Fed stimulus, the illusion of recovery melts away.

For the past several months the housing market has been in steep decline, with sales cratering in December by 10.3%. Housing prices are falling in many areas of the country, but lag (as they tend to do) far behind the more immediate indicator of sales. The Fed's increasing interest rates have translated to higher mortgage rates across the board. Without low interest rates corporate buyers are leaving the market, resting the fate of housing on normal consumers who clearly do not have the capital or credit.

Auto sales have been comparatively dismal, posting declines through the end of 2018 into early 2019, with 2019 expected to be the worst year overall. Once again, with rising interest rates, major purchases have become less appealing to the average consumer.

Retail sales have now posted the worst December numbers since 2009. Retail sales are often presented by the mainstream media as the end all argument for economic recovery. Yet they fail to mention the problem of consumer credit, which has ballooned over the past several years to record highs. In our unstable economic environment, low interest rates fuel debt, debt fuels credit and credit (instead of savings) fuels consumer purchases. Without low interest rates, the entire house of cards comes tumbling down.

I also find it interesting that while retail sales are crumbling, consumer debt continues to rise. If consumers are taking on more debt, where is that money going if not into purchases? My suspicion is that new debt is being taken on in order to pay off old debts. If this terrible cycle is the underlying source of expanding personal credit, then retail sales indicate that we are close to the end of the game.

Credit and lending where it counts is now faltering. Small business loans have plunged the past few months, with a 9.7% drop in December. While consumer credit is inflating, lending on a broader scale to support the business sector is falling as interest rates rise.

US PMI manufacturing stats have been falling for most of the past year as well, recently posting the biggest drop in 17 months. The decline in manufacturing globally has translated to a sharp decline in the amount of freight shipped each month across the country as well as shipped overseas. It's beginning to look a lot like 2008 once again.

According to traditional thinking in essentially every concrete aspect of the US economy we are entering recession territory. I would amend this thinking and say that we were ALWAYS in a recession or depression; it was only the Fed's low interest rates and stimulus that allowed this fact to be hidden from the public. Now that the Fed has tightened policy, the lie of recovery has become obvious.

The question is what the Fed plan calls for next. Will they use the current downturn to reintroduce even more stimulus? This seems to be what the majority of analysts believe will happen, but I disagree. The ‘Everything Bubble’ was created by the Fed for a reason; it was not an accident. Such a bubble is a perfect weapon for triggering sweeping economic and political changes not just in the US but around the globe. Why would the Fed create such a weapon and then refuse to use it?

The mainstream narrative has been building for over two years now – a “populist uprising” has begun in the Western world, and it will cause great turmoil as it undermines the “stability” of globalism. With an acceptable scapegoat in place to take the blame for a crash, the Fed has pulled the plug on life support for the ailing economy. In order to cover their bases, they have now changed the vocabulary of their statements, using words like “accommodation”.

What amazes me, though, is how quickly the alternative media have bought into this rhetoric. The Fed changes a few words within their statements, and suddenly this means they have “capitulated” on interest rates and asset cuts? The Fed uses a few choice words and suddenly we are all talking about QE4? This is absurd.

The Fed has not stopped policy tightening so far. With a week left in the month of February, the central bank has already cut approximately $58 billion from its balance sheet. This is one of the largest asset dumps so far. Some economists have argued that the Fed would never actually dump the announced $50 billion, and would stay below $34 billion per month. Obviously they were wrong.

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What I see is more smoke and mirrors and magical thinking, more hints at promises that were never actually promised, and a host of dangerous assumptions permeating the economic world. It is certainly possible that the damage of Fed tightening has already been done. Perhaps there is no longer any need for them to tighten further to cause the crash they obviously desire. However, asset cuts have not stopped yet, and Fed dot plots still call for at least two more rate hikes in 2019.

I wonder what will happen if, in March, the Fed does not capitulate as the majority expect? Would it come as a shock if the Fed continues dumping its balance sheet? It will certainly send markets into a spiral if it hikes interest rates yet again (or indicates future interest rate hikes), given that almost everyone is factoring in rate cuts for 2019 rather than rate hikes.

Until we see an actual reversal of asset cuts and rate hikes, I’m not buying the rhetoric from the Fed.

And what will the Fed say if this shock occurs? Well, I expect they would continue to say that the US economy is “strong”, ignoring the fundamentals as they always have. I also expect that they would say that they never promised a reversal of tightening policy (which is true), though they will probably continue to add “dovish” words into their public statements as a psychological steam valve for the crash. In fact, the markets have made an array of assumptions that were not at all in line with Fed comments on the “strong” US economy. The blame will fall on over-zealous investors, the blame will fall on the media in part for encouraging false optimism, and the establishment will blame the “populist menace” and the trade war for any negative consequences.

This is why it is important to expose the direct relationship between Fed bubbles, Fed tightening and the collapse of the fundamentals. The central bank is deliberately creating economic crisis conditions. When chaos strikes, the Fed will attempt to obscure their dominant role in economic decline. It is our job to grab hold of their neck like pitbulls and never let them free.

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Articles by: Brandon Smith