Global GDP Rebound Is Underway, But Who's The Buyer?

Many are cheering the "recovery". Unfortunately, the recovery is nothing more than unsustainable government spending, not just in the US but globally.

David Rosenberg talks about the GDP in Tuesday's Breakfast With Dave.

The reason why we remain skeptical over the sustainability — the operative word for investors — is because the U.S. economy (or the global economy for that matter) has yet to show any ability that it can stand on its own two feet without the constant use of government steroids. At a time when the U.S. government is running a 13% fiscal deficit-to-GDP ratio, it somehow has enough in the coffers to try and perpetuate a cycle of spending by inducing a populace in which 20% are already three-car families, to go out and buy a new car to support a shrinking industry at future taxpayer (or bondholder) expense.

Look at what happened in that first quarter GDP number — total GDP contracted around $30 billion at an annual rate, but when you strip out all the government activity, ranging from spending, to tax reductions, to benefit payouts, the decline exceeded $300 billion. In other words, without all the government intervention, the decline in GDP in 1Q would have been closer to an 8% annual rate, not 1%.

Motor vehicle sales surged to a 10-month high in July — an annualized 11.2 million units compared with 9.7 million in June. The results largely reflect the "Cash for Clunkers" $1 billion program that ran out of money in barely more than a week.

THIS IS SO REMINISCENT OF WHAT HAPPENED IN LATE 2001/EARLY 2002

In the aftermath of 9-11, the Big Three unveiled 0% financing to rejuvenate auto sales, which were moribund at the time. So what happened was that motor vehicle sales soared from 16.1 million annualized units in September 2001 to 21.7 million in October — a 3,643% surge at an annual rate! Retail sales skyrocketed 6.6% that month (+116% at an annual rate), a record that holds today. We never came close to seeing 20.0 million units on auto sales again.

But what all these gimmicks do is bring forward consumption — they don't "create" anything more than a brief spending splurge at the expense of future performance — the pattern gets distorted as opposed to there being any real permanent change in the trend.

Even as economists start to pen in 3.0%+ GDP growth for 3Q, we remain of the view that we could end up with something closer to 1.0% growth or a touch better.

As for 4Q, the key will be the consumer, and without more government support, either in the form of stepped-up spending incentives or extension of jobless benefits, the odds of a relapse towards 0% growth is non-trivial. This is beyond the limited time horizon of the equity market, but come Labour Day, attention will turn away from the recession ending (assuming it has — one quarter does not make the difference) towards the contours of the recovery (assuming we have one).

And in Japan, wages (wages, including overtime pay and bonuses) slid 7.1% from a year earlier in June, the 13th consecutive decline but the biggest since the data series started in 1990. The U.S. is suffering from a similar deflation in the labor market, with wages and salaries sliding at a record 4.3% over the year to Q2 (have a look at what is happening to boomers coming back into the workforce on the front page of today's NYT — Years After Layoffs, Many Still Struggle To

Match Old Salaries.

To think we have people concerned about inflation because of what the price of copper is doing.
Indeed, a crack up boom in China, driving commodity prices higher does not constitute inflation or a recovery everywhere else. China is on a solid path to overheat unless global consumption miraculously picks up, which it won't, at least sustainably.

Rosenberg also points out that the 46% rally in 101 days is unmatched dating back to 1933. I suppose the rally could continue given the 1933 rally lasted 249 days taking the stock market up 172%. However, I would not recommend playing for it.

Meanwhile aside from wasting another $2 billion on "cash for clunkers", bickering in Congress over throwing money at problems is starting to heat up. "Blue Dogs" scaled back the health care plan considerably and the fight in the senate is far from certain.

And with an all but certain rebound in GDP of some sort in the third quarter, Congress and the Fed will want to see if the stimulus takes hold. We know the answer already: It won't, because the jobs picture is bleak, consumers are too deep in debt, and boomers headed for retirement are scared to death over lack of savings.

Of course, many claim "jobs are a lagging indicator". In this case, expect jobs to lag, and lag and lag some more, limiting growth to a few quarters max of inventory replenishment for a "Recoverlyless Recovery" that won't get off the ground.

Mike "Mish" Shedlock
http://globaleconomicanalysis.blogspot.com