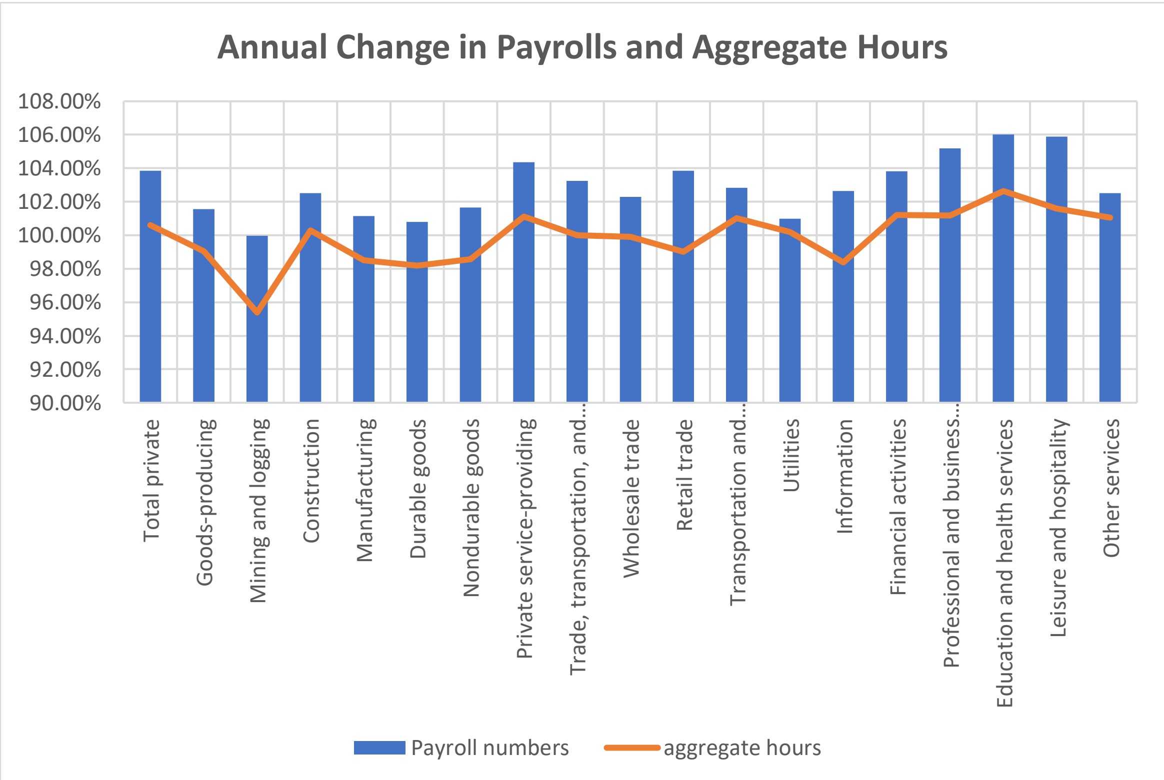
US EMPLOYMENT DATA. DIGGING BEHIND THE HEADLINE FIGURE.

The present trajectory of the US economy seems to defy the Marxian hypothesis that it is the rate of profit which is the conductor orchestrating economic activity. When the rate falls, the economic tempo slows down and when it rises the tempo speeds up, and by that we mean investment and through it, production. 2019 seems to contradict this hypothesis. Despite the sharp fall in the annual rate of profit, the economy continues to expand courtesy of the "capital gains" made in the share markets (+32% = $8 trillion) and the corporate bond markets (14% = $1.4 trillion) which collectively adds up to half of GDP.

While the fall in profitability has led to a decline in industrial investment and therefore production, it does not seem to have had the same effect on that part of investment which is directed at the employment of workers. Payrolls seem to be rising. This Friday, the 10th of January, the BLS released its estimate for December payrolls. The annual increase in payrolls for the year amounts to 2.1 million. (Source: https://www.bls.gov/news.release/pdf/empsit.pdf) While this is below the annual increase in 2018 of 2.8 million, it is still an increase of 1.4% in employment, some of which no doubt, is due to personal unproductive employment by the rich, i.e. servants including professional servants such as financial advisers, lawyers, accountants and the like, not to mention doctors and nurses.

In reality, the employment picture is much more nuanced upon investigation. When investigated a different picture begins to emerge which is much closer to the picture that would be painted by weak profitability. The key to this understanding is to focus on the metric of aggregate hours worked rather than an increase in payrolls. Thereafter, to contrast it to the payroll figures as I have been doing recently. In Graph 1 we note once again that payrolls have increased faster than aggregated hours.

Graph 1.

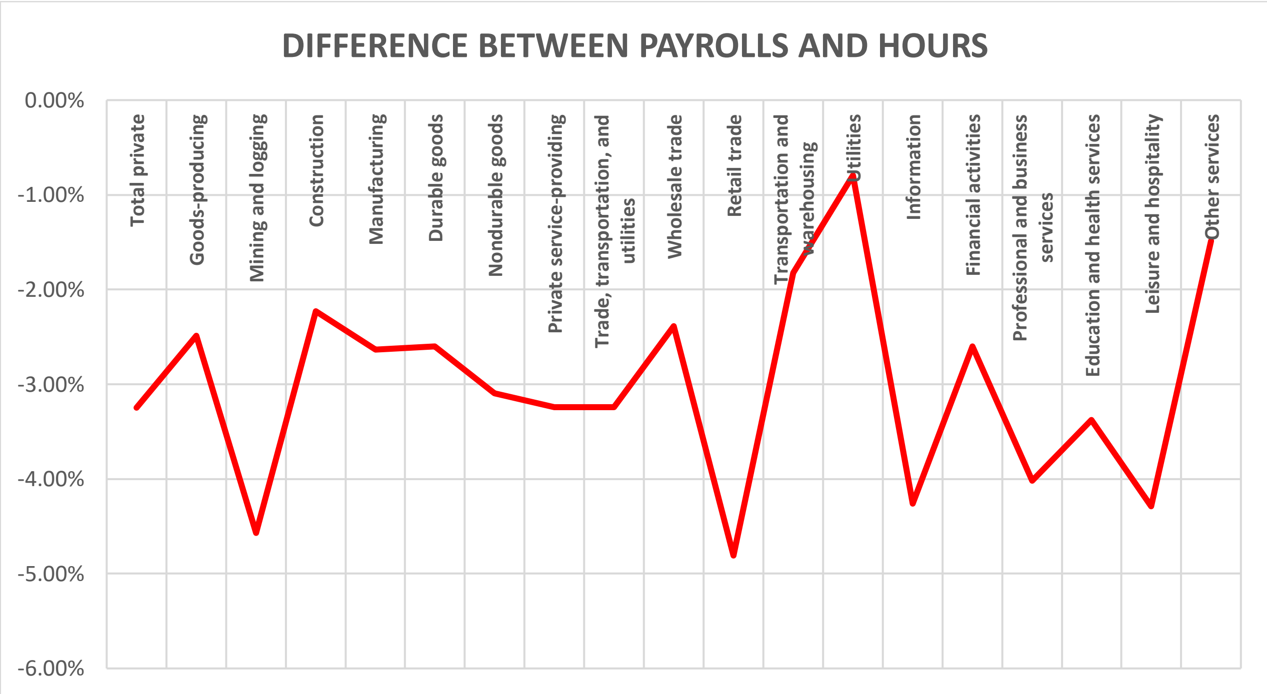


(Source: see attached worksheet "annual increase in employment USA 2019")

To bring the difference into relief, Graph 2 shows the percentage difference between the increase in payrolls and the hours worked. In previous postings an average difference of 3.25% was noted and this has been replicated for the year as a whole. Thus while payrolls increased by 3.8% the hours worked increased by only 0.6%. This discrepancy cannot be accounted for by changes to part-time work, which was stable, nor, to the average working week which declined by only 0.6%. The discrepancy is thus inexplicable.

If this discrepancy was eliminated then payrolls would have grown by only 330,000 during 2019 or under 30,000 a month, and, even when adjusted for the shorter working week, payrolls would only have grown by 663,000 over the year or around 50,000 a month. Certainly not enough to convince the stock market of the buoyancy of the labour market. In December payrolls would only have grown by around 23,000 rather than the headline figure of 145,000.

Graph 2.



(Source: see attached worksheet "annual increase in employment USA 2019")

There are more graphs on the spreadsheet. What is also inexplicable is why in some of the fastest growing sectors such as Leisure and Hospitality, Education and Healthcare, Professional Services all of which added over 300,000 jobs over the year, the gap between hours and jobs is at its greatest.

Wages

The same applies to wages. The headline figure for the annual increase in hourly wages was 2.86%, But this figure is misleading because as we have seen, workers are working fewer hours each week. Let us begin by adjusting for the shorter working week, which the BLS does in Table B3. Now the average increase falls to 2.27%. If we then multiply this figure of 2.27% by the increase in payrolls of 3.8% the total wage bill should rise by 6%. But if we multiply it by the number of hours worked or by 0.6%, then the figure is only 2.8% in nominal terms.

In real terms that is an increase of only 0.7% because the CPI (inflation figure) is 2.1%. (https://www.bls.gov/news.release/pdf/cpi.pdf) This 0.7% increase in the aggregate wage bill compares to the 2.1% growth in real GDP between Q3 2019 and Q3 2018 (NIPA Table 1.1.1) So clearly it is not the growth in wages which is driving GDP.

Nor is it investment given the 1% fall in fixed investment. This means that the driver of GDP, other than the burgeoning fiscal deficit, must be the consumption expenditures by those who benefit from and rely on capital gains. And indeed this is the case. Given the 3.2% increase in real personal consumption expenditures in Q3, the rise in the wage bill contributes less than one quarter to the total. (Note 1.)

One wonders why Wall Street is infatuated with the employment and earnings data when they only have a minor impact on the economy. Wall Street is being driven by Wall Street.

Conclusion.

The connection between profitability and investment is at the heart of a Marxist analysis of the dynamics which drives capitalism. It is why I defend Marxists such as Michael Roberts who has always promoted this insight. The current expansion is not abnormally long, it is abnormal. And for this reason confusing.

However, when we distil the figures as this article has, when we penetrate beneath the surface, we find that the connection is not broken. Yes, the economy is being driven by the consumption of the capitalist class funded by their capital gains rather than direct investment. (This over-consumption is a bit of a twist on the perennial theme of under-consumption.) And, as it is labour that provides the products and services for the rich we therefore can expect a slight increase in hours to provide these luxuries. The marginal increase of 0.6% is thus not unexpected. Much of this increase is precisely in those areas which are most labour intensive, indicated above in the three sectors where the annual growth in employment exceeded 300,000 in 2019.

The same applies to wages. If we take the 0.6% decline in the average working week, the average weekly wage has barely kept pace with inflation at 2.27% versus 2.1%. To be sure, it is likely that the inflation rate for workers is above 2.1%.

The economy remains in industrial recession. It remains incongruous that consumption, including retail sales, grows while production and imports fall, and inventories remain steady. This is the subject of a future article once retail sales and production data for the year are released in a few weeks.

In the meantime the FED is furiously pumping liquidity into the bubble to keep it inflated. A total of $414 billion was pumped into the markets via the REPO mechanism in December to prevent interest rates undermining the bubble. In January the FED expected it would be able to drain liquidity, only to find it had to pump in over $90 billion on Monday and Tuesday this week. Currently the FED is adding to its assets at an annual rate of $1.1 trillion. This is the second fastest increase in FED assets since 2008. In the three and a half months between 3rd Sept 08 and 17th December 08, assets increased by $1.33 trillion or annualised by $4.6 trillion. It increased by a further $600 billion up to Nov 2012 or an annualised rate of less than $200 billion. In 2013 and 2014 it averaged $600 billion each year. (Source: https://fred.stlouisfed.org/series/WALCL) So the current rate of $1.1 billion annualised is startling.

The rate at which the FED is pumping liquidity into the markets is doubly significant because it being done, not in response to a crash, but in its absence. 2019 was a year of trade wars, falling profitability, a global industrial recession, a dubious impeachment process, escalating tensions abroad, and yet the markets rose 32%. This is extra-ordinary. The only time this annual rate has been exceeded in recent memory, was the recovery from the depths of 2008.

It is of course unsustainable. The markets don't question this liquidity, they lap it up oblivious to the its contamination The fictitious multiple cannot reside permanently above the real multiple (the inverted rate of profit. (See: https://theplanningmotivedotcom.files.wordpress.com/2019/12/the-crash-of-2019-or-not-pdf.pdf) At some point, despite the Herculean efforts of the FED, the bubble will burst, and when it does it will be all the more catastrophic for the liquidity pumped into it. As long as the rate of profit keeps falling or remains stagnant, no real investment growth is possible. Ominously FactSet, which had been expecting a profit recovery in the final quarter of 2019 now sees profits per share contracting by 2%. How many more disappointments can the markets ignore?! (https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_011020.pdf)

I find the use of long term cycles to explain current events misleading. Every industrial cycle is concrete. Every cycle is unique. No cycle ever repeats itself. True they share common characteristics such as being governed by the accumulation process which ends in over-accumulation. Here Mr Robert's graph in his most recent posting is pertinent. Short cycles are characterised by rapid investment which accelerates the rise in the organic composition of capital while elongated cycles are characterised by tepid investment which decelerates the rise in the organic composition of capital and leads to an increase in the average age of the means of production. In fact it can be argued that economy wide, this cycle has not increased the organic composition of capital and may have even reduced it.

The most interesting character of any cycle is therefore its unique features which sets it apart from previous cycles and which explains its longevity or otherwise. And what is unique about this cycle is the role of interest rates, which by falling rather than rising, has preserved rather than purged excess capital.

I have discovered that is difficult if not impossible to predict when the bubble will burst because we are no longer dealing with economics but religion. A new man made god has risen above the skyscrapers, the FED. Investors believe in him and know their god will not abandon them. It is this belief which guides them, which allows them to ignore reality, and, which has turned their algorithms into scripture. This god which demands no penance but instead delivers a luxurious heaven on earth for the few, appears to be all-powerful, but like all other gods it shares the same vulnerability, it was created by man. To these investors, the economy moves in mysterious ways, but ultimately this mystery will triumph over their "infallible" god.

(Note 1.) I question the real increase in consumer spending. It is probably inflated because price increases are understated.

Brian Green, 11th January 2019