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## **An Indication the Economy is Lagging**

by The Mogambo Guru

*"And, worse, the Lagging Indicator has been outdistancing both the Leading and Coincident indicators for months and months, too, indicating that costs are going up. And they were. And they are. And they will continue to do so."*

As is usual for me, I was dismayed by the report from Bloomberg.com concerning the Conference Board's latest release of their famous Leading, Coincident and Lagging Indicators. The Leading Indicator, they say, "points to the direction of the economy over the next three to six months."

They do not, as I do, say that it is also an indicator of future profits. Either way, "the index of U.S. leading economic indicators fell more than forecast in December, highlighting the risk of recession", as the index fell 0.2%. It was, even more ominously - as you can tell from the background soundtrack, which is the sound of ravenous wolves howling and people screaming as they are being eaten alive by their debts - the third decline in a row. The third straight decline in future profits!

This fall in the Leading Indicator seems intuitively obvious when Bloomberg explains, "The collapse in home construction, less hiring and a slowdown in consumer spending may spell the end of the expansion that started in 2001." I say, "Well, duh!"

Gratuitous snotty remark aside, the future looks dim, according to this indicator, but you feel compelled to say, "Hmmm! This is the perfect spot to say that you, Big Doofus Mogambo (BDM), like most people, underestimate the government's response to any and all economic crises!", and then point to Tuesday's "emergency rate cut" by the Federal Reserve, where they slashed the Fed Funds rate by a gargantuan 0.75%, taking the rate down 18%, dropping it to 3.5% from 4.25%! Wow! Talk about desperate!

Well, if interest rate cuts are all that is needed to cause problems and then solve them, then this brings up the philosophy of Homer Simpson, who famously said that, "Alcohol [is both] the cause of, and solution to, all of life's problems."

On the ho-hum side, the Conference Board's Coincident Indicator, a gauge of current economic activity, rose 0.1% in December, which is almost nothing. The coincident index "tracks payrolls, incomes, sales and production." Remember, this is current activity, and it isn't doing so hot, either.

The Bad, Bad News (BBN), as far as I am concerned, is the Conference Board's Lagging Indicator, which contains costs and inventory burdens, and thus can be thought of as an index of future inflation. So (substituting) inflation "increased 0.4 percent after rising 0.2 percent the prior month."

And, worse, the Lagging Indicator has been outdistancing both the Leading and Coincident indicators for months and months, too, indicating that costs are going up. And they were. And they are. And they will continue to do so.

And, in an odd coincidence, the Lagging Indicator started going up at about the same

time I started having nightmares about inflation, never getting any sleep, and then it got really, really weird both at home and, now everywhere else, too, as I gather from the way things are shooting up and down all over the place.

And just when we are looking at all of this volatility, here comes Jack Crooks at MoneyandMarkets.com, who writes that the charts of the last few decades show that, "Volatility in the currency markets follows a fairly predictable pattern. When crisis strikes or recession sets in, the currency markets turn erratic."

It turns out that this has a big effect on the "carry trade", where people borrow from places where interest rates are low, and then use the money to invest in places where interest rates are high, and then pocket the difference.

How it got to be so big was that in the last 18 years or so, Japan had the lowest interest rates in the world since their stupid economy collapsed in 1990 because their stupid central bank had stupidly created too much money and credit for too long, and instead of letting the stupid idiots and stupid crooks lose their stupid money, the stupid Japanese government forced interest rates to almost literally zero so that stupid bankrupt businesses could always borrow enough money to keep from having to declare bankruptcy! Hahaha! What racket!

Thus, the carry trade was born when everybody else piled in, too. I thought that this was so clever in saving the butts of stupid and corrupt people that I have used it several times myself, over the years, to try and save my own stupid butt and my own stupid job.

In case you were thinking of trying this at work, too, let me warn you that it is, in the real world, fraught with failure. The way it usually works is that I go into the CEO's office and inform him that Japan has proved that taking a corporate loss because of my bungling incompetence and complete lack of attention is wrong, and that bankruptcy could have been prevented if we, like Japanese businesses, had found somebody to loan us money at zero percent to make up for the losses! So it's HIS fault for not securing that financing!

I have found that CEOs are usually initially silent and immobile when informed of this, and kind of just stare at you with this odd look on their stupid CEO faces, like they don't understand a word you are saying until finally, in frustration, you shout out, "So it's YOUR fault for not securing interim financing at zero interest rates, bozo! And if you didn't foul up, then where is the money? There is no money because you didn't go and get any free money! That proves you screwed up! So, YOU'RE the incompetent loser moron around here, and not ME for one damned time in my whole damned life! Hahahaha! How do YOU like somebody yelling at you because YOU screwed up, moron?"

Well, Mr. Crooks is not interested in why my career has so many periods of sudden unemployment and inexplicably moving far, far away to start fresh in a new town with a new name, and merely says that there are crises erupting all over the place, and now all those carry trades that were so pleasurable when things were calm and stable are now unwinding because, "Investors and institutions inside and outside of Japan are pulling away from risk and repaying their yen loans" as the volatility increases losses and makes everyone really, really nervous.

All of this means that there is a reason to think that the yen would get really, really

strong, which would mean that the dollar would get really, really weak, which means that gold would really, really go up in price, at which point I usually stop and remind everyone to buy gold, and lots of it, and right now, which nobody does, and then I get frustrated and angry and end up getting really, really drunk and laughing at them in my hazy stupor and call them bad names. And loudly, too.