Nightmarish Financial Numbers

By The Mogambo Guru

06/22/09 Tampa Bay, Florida Minyanville.com had the headline, “Velocity of Money Comes to a Standstill.” The report starts off with the news that “Current consumption, which at $8.2 trillion is around 70% of GDP, has fallen $150 billion from last year,” and **that investment, which represents things like building factories, is $1.3 trillion or 11% of GDP, and down 23.3% from last year.”**

This is certainly bad news, although I am always leery of the concept of velocity, as it is just the plug number that makes Fisher’s famous equation (MV = PQ) work out, namely that the Money supply times the turnover of the money (Velocity) equals the Quantity of things sold times the Price of those things that were sold. Simple.

So since the Money supply (as measured by M2) is growing at almost 9%, Prices overall (as measured by the broad CPI) are not growing very much, and the Quantity of goods sold is way down as consumers stop consuming since they are out of money and credit, then **Velocity must, by arithmetical necessity, be going down.** Now do you know something that you didn’t already know?

But perhaps this seeming fascination with velocity has something to do with why Bloomberg.com reports that **“U.S. household wealth fell in the first quarter by $1.3 trillion, extending the biggest slump on record, as home and stock prices dropped.”** Yikes! And in just the first three months of the year!

You may be thinking to yourself, “Well, since the Worthless Mogambo Idiot (WMI) goes ballistic at the drop of a hat these days, probably as a result of his having such a tenuous and apparently transitory grasp of reality, maybe he is just over-reacting, and this is not so much.”

If you are one of those people who thinks such things, then I laugh – Hahaha! – in your face, and in response to the quizzical look on your face at my sudden rude arrogance, I hold up the rest of the article where it says, **“Net worth for households and non-profit groups” is a nice, tidy $50.4 trillion,** which seems like a lot of money, but which is actually the “lowest level since 2004,” and which was down from $51.7 trillion in the fourth quarter.

For some reason, they add, “The government began keeping quarterly records in 1952,” probably as a reassuring way of saying, “If you ignore the staggering loss of buying power of the dollar, which one experiences as a rise in prices, and you ignore the costs of all the taxes, fees and expenses of the cost of holding and accumulating all this net worth, and you only look at nominal prices then and now, then it looks like you are a lot better off than you were in 1952, and we have records to prove it, no matter what that Stupid Mogambo Loudmouth (SML) has to say about it!”

For homeowners, the bad news is that the report showed that "Owners' equity as a share of their total real-estate holdings decreased to 41.4 percent last quarter from 42.9 percent in the fourth quarter," which is bad news from the perspective of The Bad Old Days (TBOD) when Mortgage Equity Withdrawal (where homeowners were stupidly borrowing the increased "equity" that resulted from their houses going up in value so that they could spend it on sex, drug and rock & roll), was running in the hundreds of billions of dollars a year, fantastically super-charging the economy.

The ugly bottom line is that "The economy contracted at a 5.7 percent annual pace in the first quarter and consumer spending rose at a 1.5 percent pace."

Thus, the habit is engrained, as "Total borrowing by consumers, businesses and government agencies increased at an annual rate of 4.1 percent last quarter compared with a 6.2 percent gain the prior quarter. The gain was paced by a 23 percent surge in borrowing by the federal government, reflecting spending linked to the stimulus plan."

And this doesn't even count, of course, "Borrowing by state and local governments increased at a 4.9 percent rate", as they continue their habit of spending more than they can take in.

Bill Bonner here at *The Daily Reckoning* notes that, as we see, "some habits are hard to break. The habit of getting something for nothing is one of them," and at this rate, **"The official US debt is exploding. Bill Gross says it will be 100% of US GDP within 5 years."**

Instantly my mind goes into some kind of weird dream and all I can see is three numbers floating around, bumping into one another. One of them is $14 trillion (which is GDP), and the other two are the number $11.3 trillion (which is the current national debt), and the last one is the number $3 trillion (which is how much MORE national debt will accrue this year alone) because of the sheer staggering amount of irresponsible deficit-spending the federal government will almost certainly commit this year, including **the already-announced eye-popping $1.84 trillion in budget deficits and Another Freaking Trillion (AFT) or so in "surprise!" emergency supplemental appropriations as the year goes along,** as is Congress's habit, altogether an insane amount of new money that guarantees ruinous inflation in consumer prices, which is the outward manifestation of the purchasing power of the dollar going down due to unprecedented creations of more and more money diluting the money stock, a devastating process which leads to social upheavals, a prospect which scares me so much that statistical analysis shows I usually pee in my pants in fear.

That is why I usually wear an adult-sized diaper when reading economics news, a habit I suggest that you get into, too, if you are going to keep up with the economics stuff, because you are going to get some nasty shocks, such as Mr. Bonner saying that national debt exceeding GDP in 5 years is actually optimistic, and that his "guess is that it will reach that level even sooner" which is one of those dense oracular announcements that could mean anything, such as "We're all freaking doomed because the damned GDP may go down by a lousy 20%, making existing federal debt equal 100% of the economy Right Freaking There (RFT)!"

Or he could mean that “We’re all freaking doomed because the damned economy will remain at a standstill, at best, while the debt grows like a cancer, resulting in a debt-to-GDP exceeding 100%.”

Either way, the news is bad, except for those who have been buying gold, silver and oil, and for them the news will be good! Whee! This investing stuff is easy!