YES, THE GLOBAL ECONOMY EXPERIENCED AN INDUSTRIAL RECESSION IN THE FOURTH QUARTER, BUT WHAT ABOUT THE FUTURE?

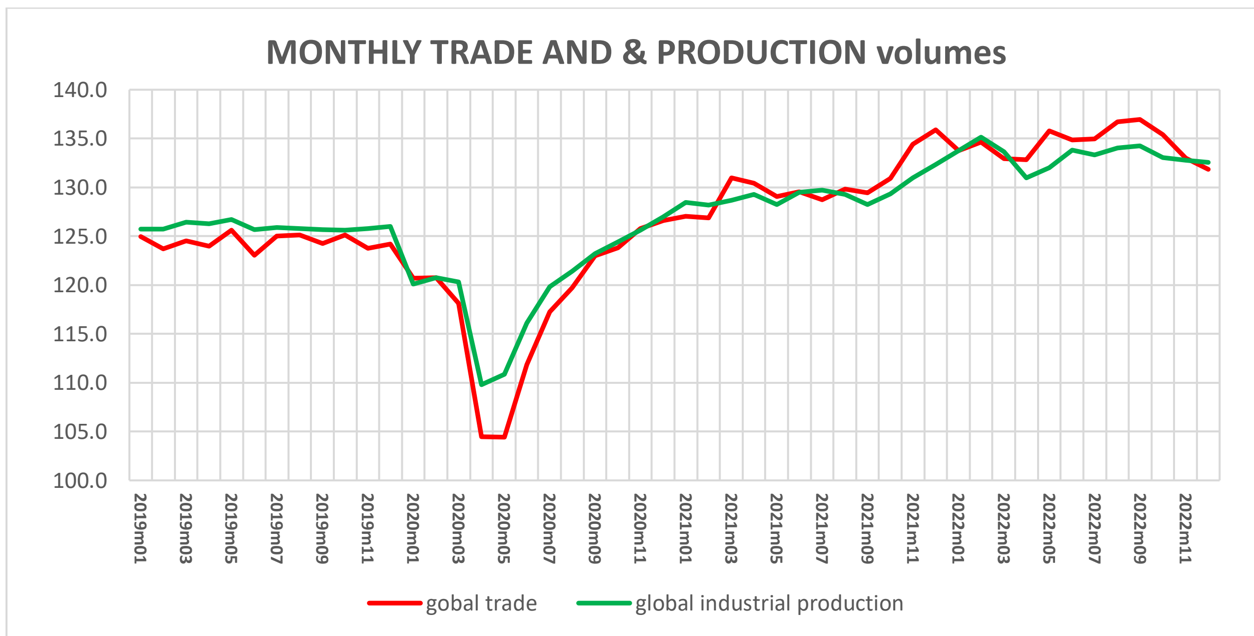
Here is the summary from the CPB World Trade Monitor covering 2022 including December which was published on the 24th February 2022.

- *World trade volume decreased 0.9% month-on-month (growth was -1.7% in November, initial estimate -2.5%) and growth was -2.1% in 2022Q4 (1.3% in 2022Q3).*
- *World trade momentum was **-2.1%** (non-annualised; -0.3% in November, initial estimate -0.8%).*
- *World industrial production decreased 0.1% month-on-month (having decreased 0.2% in November, unchanged from initial estimate) and growth was -0.8% in 2022Q4 (1.2% in 2022Q3).*
- *World industrial production momentum was **-0.8%** (non-annualised; -0.3% in November, initial estimate -0.1%).* (my emphasis)

To summarize: the down wave accelerated in December causing December 2022 to fall below December 2021 for both production and trade despite a robust first half of the year. The CPB's measure of momentum fell by -2.1% compared to November's -0.3%, while that of production fell by -0.8% in December compared to November's fall of -0.3%. (Much of this had to do with lockdowns in China in December which unwound in February.)

To get a better picture I have graphed global output and trade volumes.

Graph 1.



Comparing quarter on quarter figures, aka Q4 2021 To Q4 2022, trade is up by 0.6% and production is up by 1.4%. However in terms of the quarterly trend on which the CPB basis its momentum data, trade fell by 2.1% compared to Q3 2022 and by 0.8% in terms of production. Taking a longer view production and trade is still up 5% compared to 2019.

Time to take a closer look at the second estimate of Q4 US GDP released this week which can be found in this link US GDP DETAILED DATA. GDP was revised down from the first estimate. I have chosen to re-analyze the data by basing the estimates on the Implicit Price Deflator for final sales found in Table 4 in the link above. Here the BEA uses a 6.8% deflator for the year. The importance of the Implicit GDP Deflator is that it is the closest thing to the depreciation of the Dollar. In short at the end of Q4 the Dollar was only worth 93.2 cents. (Methodological note, this deflator excludes the effects of export prices.)

Taking the deflator at 6.8%, GDP which rose nominally by 7.3% is reduced to a real growth rate of only 0.5%. (Comparative BEA data is a 6.2% deflator yielding a 0.9% rise in real GDP. I cannot account for the discrepancy given that the BEA's deflator is 0.6% smaller. If the BEA used 6.8% as its deflator its real growth rate would be 0.3%) Non-residential investment is up nominally by 0.9% and consumer spending is up 8%, thus -5.9% and +1.2% respectively. However, if we take the PCE deflator at 6.2% then consumer spending was up 1.8%. Clearly this 1.8% increase in consumer spending has not come from an increase in worker's wages which in aggregate rose by 5.6%. This 5.6% increase included both the rise in hourly wages plus the rise in payrolls. Thus the increase in employment could not counter-act the real fall in hourly wage rates, negating any talk of robust employment supporting spending. In addition profits, rents and interest did not come to the rescue either. Total income which includes these revenues plus wages rose by 5.65%, again below the rate of inflation meaning that spending was difficult to reconcile. (See further on where this is discussed in the context of taxation.)

Thus all in all Q4 2022 was very little different to Q4 2021, despite GDP rising 3.2% in Q3 and 2.7% in Q4.

Looking forward.

I have been lambasting the data coming out of the USA as Ukrainian, meaning they should carry a health warning. In this I am not alone. The $250,000 p.a. hired brains on Wall Street are saying much the same. This includes economists from banks such as UBS, JPMorgan and Goldman Sachs who are querying the data and even challenging the BEA and the BLS to provide their reasoning. Unfortunately, it will not be until February 2024 (one year's time) that any of this data can be revised.

This unacceptable trend continued on Friday with the BEA's release of Personal Consumption data. The data was irreconcilable. In current dollars, personal income rose by 0.6% while personal consumption shot up 1.8%, and yet the savings rate also increased from 4.5% to 4.7% or double the level 6 months ago. How is all this possible, well according to the BEA the amount of tax paid in January which feeds into disposable income (see Table 1 linked above), fell from $3.224 trillion to $2.967 trillion in January a fall of $257 billion from December. This fall was the biggest January drop since records began, bigger even than the January 2009 drop in the depths of the financial crisis. And this oddity occurred in December as well.

In a recent article I used the tax data to refute the view that the US economy was improving. My premise was that given the scale of the fall in tax income in the first five months of this financial year (which began in October 2022), the US economy could not be growing. Now the BEA uses this same fall to prove the opposite, that the US economy is growing. We both can't be right. Is this how great empires fall, blinded by the optimism of false data, and its corollary, is this is how the FED stumbles as well?

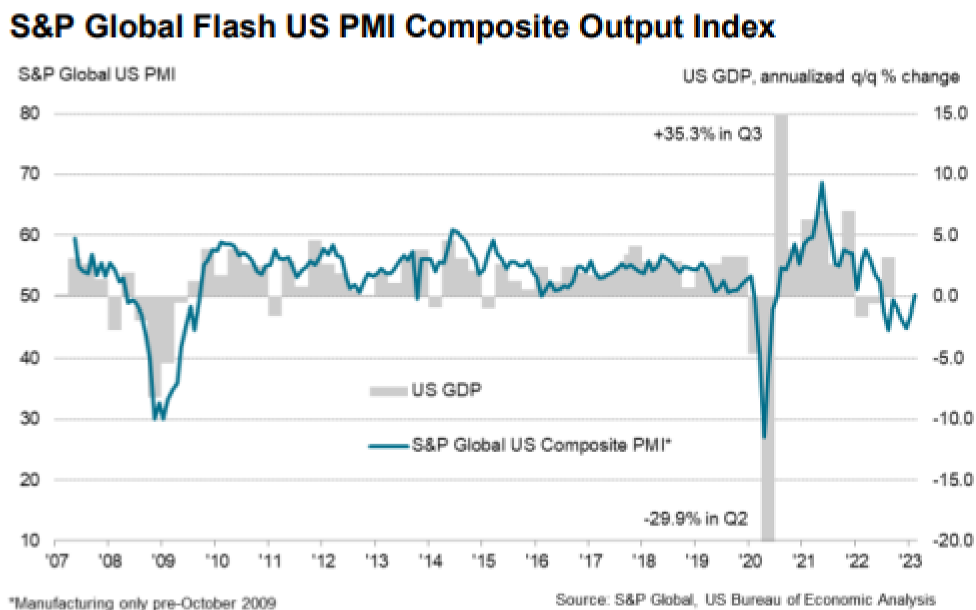
Turning to high frequency data. They both caused and reflected the change in the mood music on Wall Street and in Europe. Two months ago the view formed of a recession in the first half of 2023 which then would give way to a resumption of growth in the second half. It has changed. Winter proved to be milder

and kinder and so the view now is for growth in the first half of the year followed by a recession in the second half. The main reason for this inversion is the expectation of higher interest rates for longer. This is an example of how perfect markets work, or translated into worker speak, they don't have a clue.

The latest batch of high frequency PMIs in the form of the *S&P Global PMIs* has just been released. They surprised on the upside. One reason is that they contain both objective and subjective elements and as the subjective element is more positive so too is the index. But digging down into the components the picture changes. Essentially the most consequential component is the trend in new orders. Without exception, they were negative in every country.

S&P GLOBAL PMI FOR THE USA *"The decrease in service sector customer demand was only slight, but goods producers **recorded a further sharp downturn** in client orders. Finally, the level of business confidence was broadly in line with that seen in January and robust overall. The degree of optimism in the year-ahead outlook for output was also similar to the long-run series average and linked to hopes of an uptick in client demand."* (my emphasis)

Graph 2.



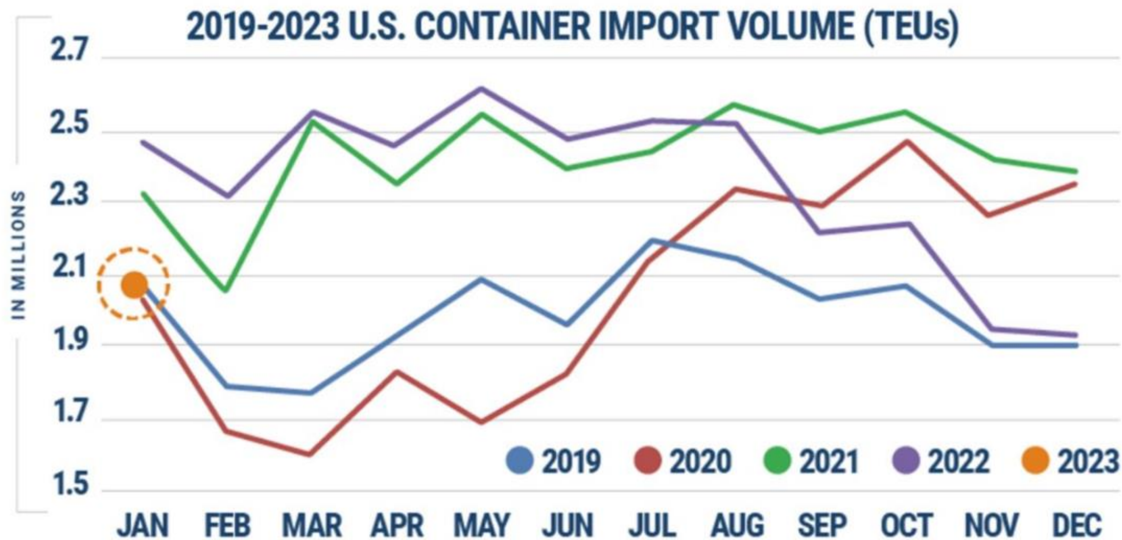
The fall in orders in the EU was less severe according to the PMI: "*it was the shallowest – though still marked – drop in new orders for goods over the same period".*

In Japan: "The picture was much less positive in the manufacturing sector, however, where new orders and production dropped to the greatest extents in just over two-and-a-half years."

This is confirmed in the next two graphs based in the USA. Graph 3 shows that total shipping containers currently imported into the USA has fallen back to 2019 levels. In turn, Graph 4 shows the ongoing slippage in container freight rates into February as volumes sink. Worse is yet to come. In their exuberance over the growth in shipping during the last two years together with sky high freight rates, shipping lines ordered a large number of new vessels which are being launched just as rates collapse and freight volumes shrink.

Once again the shipping industry personifies the boom & bust cycle of capitalism, because ships take two years to order and build thus overlapping the business cycles.

Graph 3.



(Chart: Descartes. Data source: Descartes Datamyne)

The worse news is that this month looks especially weak, according to Port Tracker, which covers 12 U.S. ports and is published by the National Retail Federation and Hackett Associates.

"[Port Tracker](#) just cut its projections for early 2023. On Tuesday, it reduced its outlook for January-May imports by 3.5% versus estimates released a month ago. Port Tracker now projects that the facilities it covers will handle 1.57 million TEUs in February, down 26% year on year "for the slowest month since 1.53 million TEUs in May 2020, when many factories in Asia and most U.S. stores were closed by the pandemic,"

Graph 4.

THE FREIGHTOS BALTIC INDEX (FBX) IS THE WORLD'S LEADING—AND MOST ACCURATE—INDEX OF MARKET RATES FOR 40' CONTAINERS (FEUS).

FRIEGHTOS BALTIC INDEX CHANNEL		12/16/22	01/03/23	01/17/23	02/02/23	02/16/23
.CNAE	(S.E. ASIA — U.S.A. EAST COAST)	$3155	$2805	$2633	$2617	$2672
.CNAW	(S.E. ASIA — U.S.A. WEST COAST)	$1448	$1405	$1318	$1248	$1213
.NAEE	(U.S.A. EAST COAST — EUROPE)	$578	$549	$568	$576	$543
.ENAE	(EUROPE — U.S.A. EAST COAST)	$5638	$4982	$4607	$4749	$4900
.GLBL	(GLOBAL INDEX)	$2110	$2153	$2160	$2019	$1994

The same outlook is seen with commodities especially the key industrial indicators, copper and oil. Copper which rose with the opening of China post-lockdowns has given up its gains. Copper is interesting as supply

is constrained, while demand, given the green transition is strong, which means the Chinese effect has yet to appear.

Graph 5. Copper Futures (source *TRADING ECONOMICS*)

Graph 6. Brent Oil Futures (Source: *TRADING ECONOMICS*)

The fall in oil prices has not been prevented by Russia reducing its production to prop up prices. It is likely that a collapse in oil prices and now gas prices is a bigger threat to the Russian economy than NATO shells and missiles.

Finally what about the bellwether sector of production, microchips. The semi-conductor industry grew by 3.2% in dollar terms in 2022 compared to 26% in 2021, that is below the rate of inflation according to SemiWiki. The fall in output accelerated into year end when revenues were down 25% compared to the fourth quarter in 2021. Revenues are expected to fall a further 10% this quarter. The authors own projection is for a 12% fall in 2023. They include a graph which shows analysts future estimates for 2023 revenues and which deteriorate the more up to date they are.

This is due to the fall in the volumes of key products such as smartphones and computers. The only positive is the growth in auto production particularly EVs. On a side note, China's exports of motor vehicles rose by 54% in 2022 to overtake Germany. At this rate it will also overtake Japanese car exports soon. BYD, China's largest EV car producer is also likely to overtake Tesla in the next few years. Does this answer the question why Germany and Japan are blocking with the USA to take down China technologically and why Germany is supporting the USA in attacking Russian in the Ukraine to get at China.

Conclusion.

The stock markets began with a bounce in January but this has been reversed in February due to a combination of poorer outlooks from companies reporting their earnings for the fourth quarter together with growing concerns over rising interest rates. The combination of falling profits and rising interest rates is always a lethal combination for both stock markets and corporate bond markets, and it is noteworthy that interest rate differentials between investment grade bonds and high yield bonds, which had narrowed in January, have opened up in February. Also noteworthy was the unseemly rush to market by *sub-prime* Private Equity when these differentials were at their narrowest.

The outlook for profits has deteriorated, at least for the USA. With 94% of S&P 500 corporations having reported, FactSet's 24th February estimate for yoy earnings per share is -4.8%. Given that the remaining reporting will be focused on retail chains, it is likely the quarter will end up closer to -5.0%. If energy is excluded the fall in earnings is 8.9%. In addition, corporations with over 50% of their sales abroad saw a bigger fall in earnings than corporations focused on the US market. Finally the outlook for profits in the first half of 2023 has also deteriorated. *"For Q1 2023, analysts are projecting an earnings decline of -5.7% and revenue growth of 1.8%. For Q2 2023, analysts are projecting an earnings decline of -3.7% and a revenue decline of -0.2%".* If those revenue figures materialise, each one below the rate of inflation, then contrary to the mood music on Wall Street, the US economy and much of the world will be in recession in the first half of the year.

However, despite the outlook from FactSet I will not give an outlook for the world economy because of the low visibility of what is happening in China since the end of lockdown. In a fortnight The Chinese Bureau of National Statistics will be issuing data for February which will begin to expose what is happening in the economy. We will then know better and be able to better assess the effects of the tech embargoes on the world's largest industrial economy.

But even then it will be impossible to predict beyond the first quarter because of the abnormal weather. The capitalists may have celebrated a mild winter but only to rue a scorching summer. So far the capitalists' response to a probable scorching summer is just as abysmal as it was to COVID. No resilience has been added despite umpteen warning about the arrival of El Nino and a raging Solar 25 which reaches its zenith in 2023 – 2025. Sun activity up to the end of 2022 is up 12% compared to the previous cycle. While irradiance only changes by around 0.15% that can mean a lot to a world overheating due to greenhouse gasses, with its cooling buffers depleted, and facing an approaching El Nino.

Workers have no choice but to turn scorching summers into a political scorcher for this useless capitalist class stupefied by greed. To the capitalists we must say: "*we who built this planet say, away with you, so we can rebuild this planet in the name of humanity"*.

Brian Green, 25th February 2023.