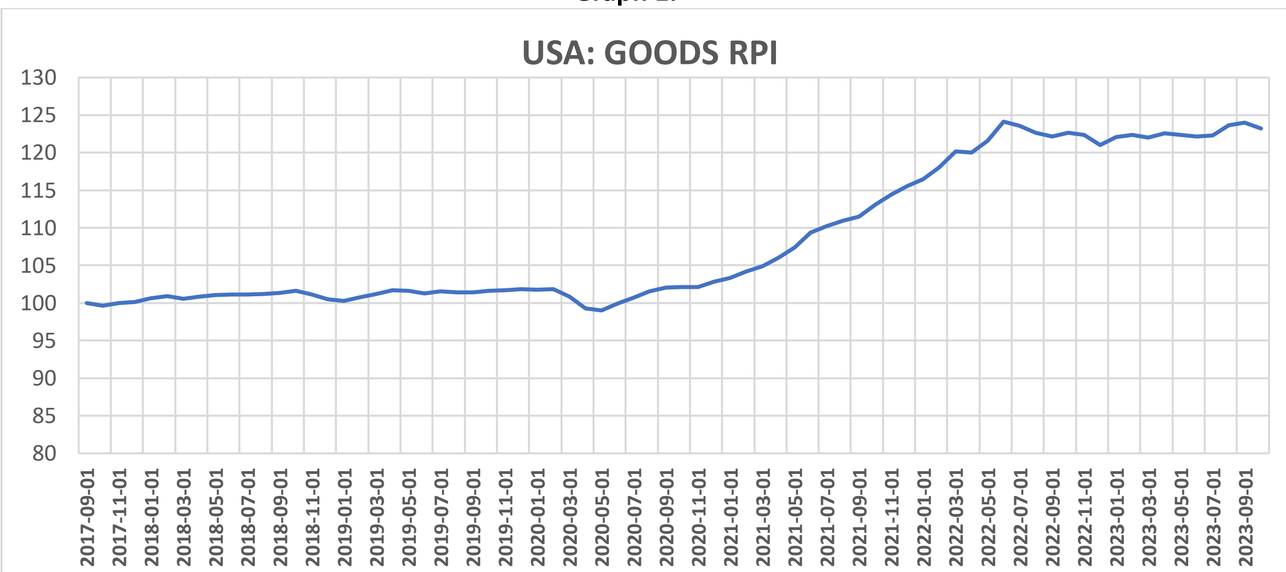
OCTOBER ECONOMIC DATA FOR THE USA AND CHINA & THE BIDEN XI SUMMIT ANALYSIS.

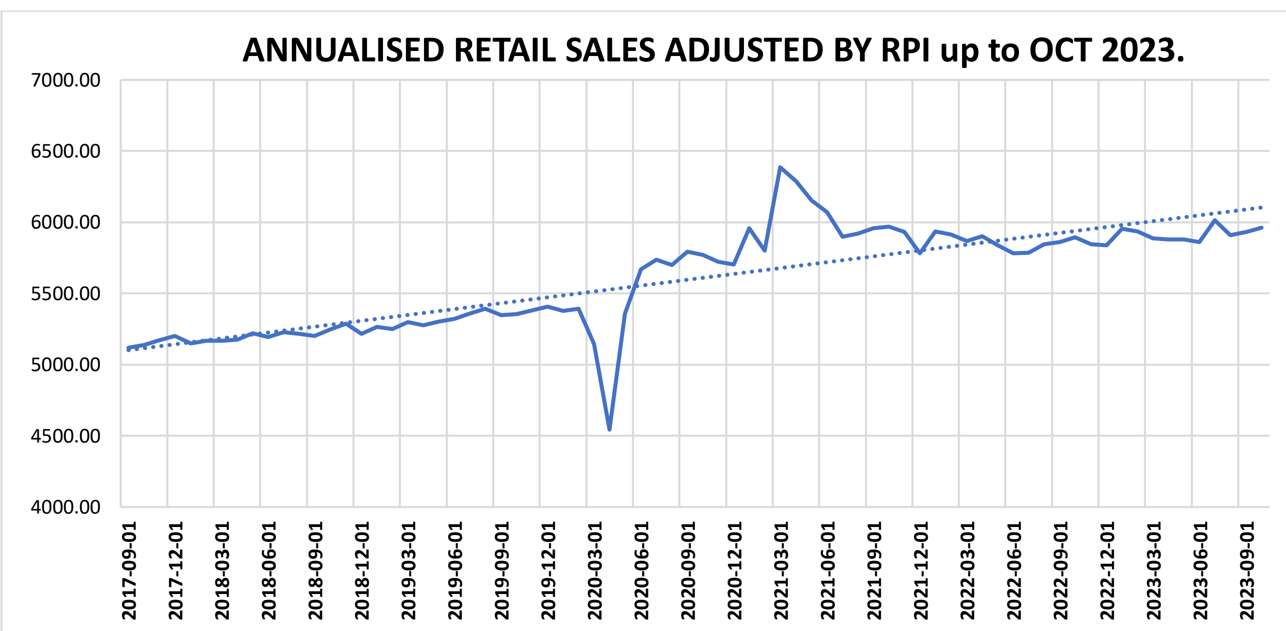
October was a pivotal month. For the first time this year the Chinese economy powered ahead because the US economy powered down. October represented a negative turning point for the US economy, but not a positive turning point for the Chinese economy, where economic conditions remain difficult.

In the USA inflation, sales and industrial production data became available. In terms of the CPI, when the influence of owner occupier rents is abstracted, inflation has been generally flat over the last 6 months. The same applies to the Retail Price Index. Both my Index and the BEA's Goods Personal Consumption deflator tally at last. In the case of the RPI it has been flat for 18 months.

Graph 1.

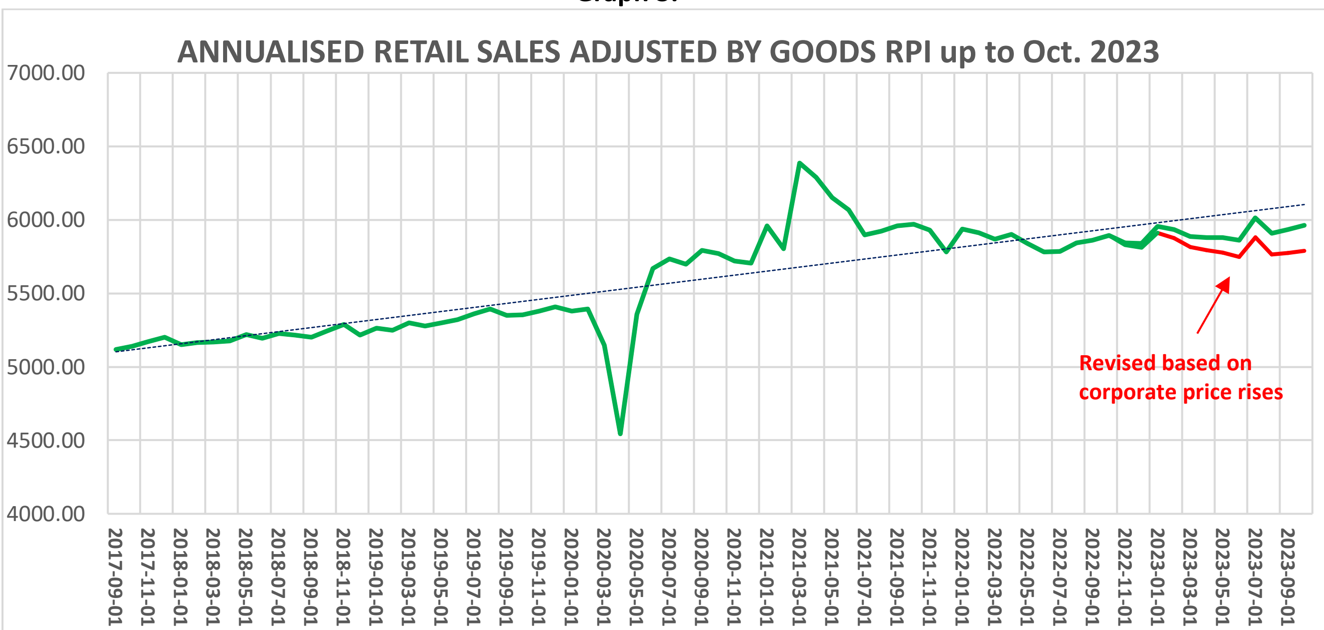


Graph 2.

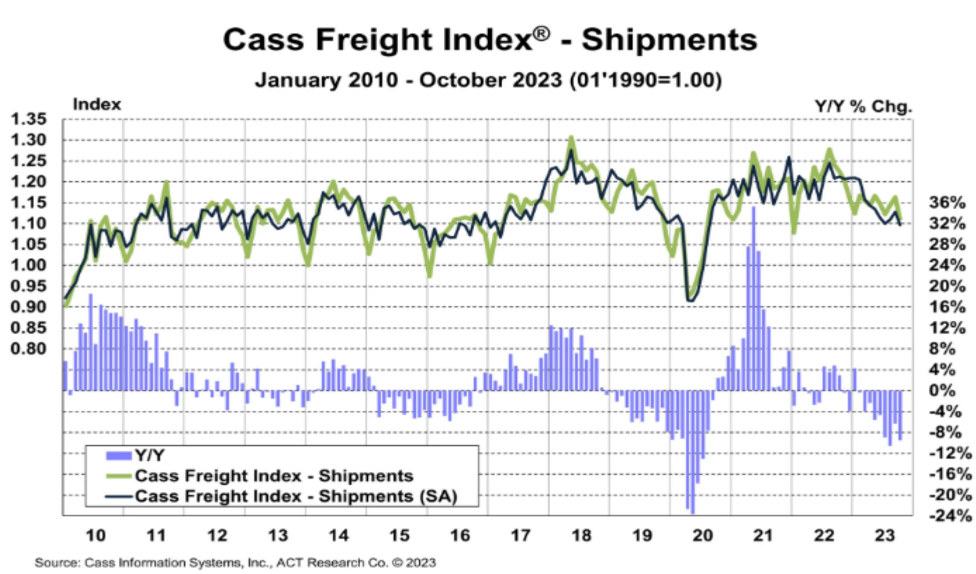


Nominal retail sales fell marginally during October, driven down mainly by the fall in the price of gasoline. Adjusted for price changes the volume rose marginally. In my previous article I noted that the majority of consumer facing corporations had raised their prices by around 6% in the 3rd Quarter 2023 compared to the 3rd Quarter of 2022. This compares to 3.7% for the CPI or 3% without owner occupier rents. Taking the higher inflation figure and adjusting for gasoline prices the red aspect of the graph below shows what the volume of retail sales would be were we to take the higher rate of inflation into account. In other words no growth in the volume of retail sales for three years except for three months in early 2021.

Graph 3.



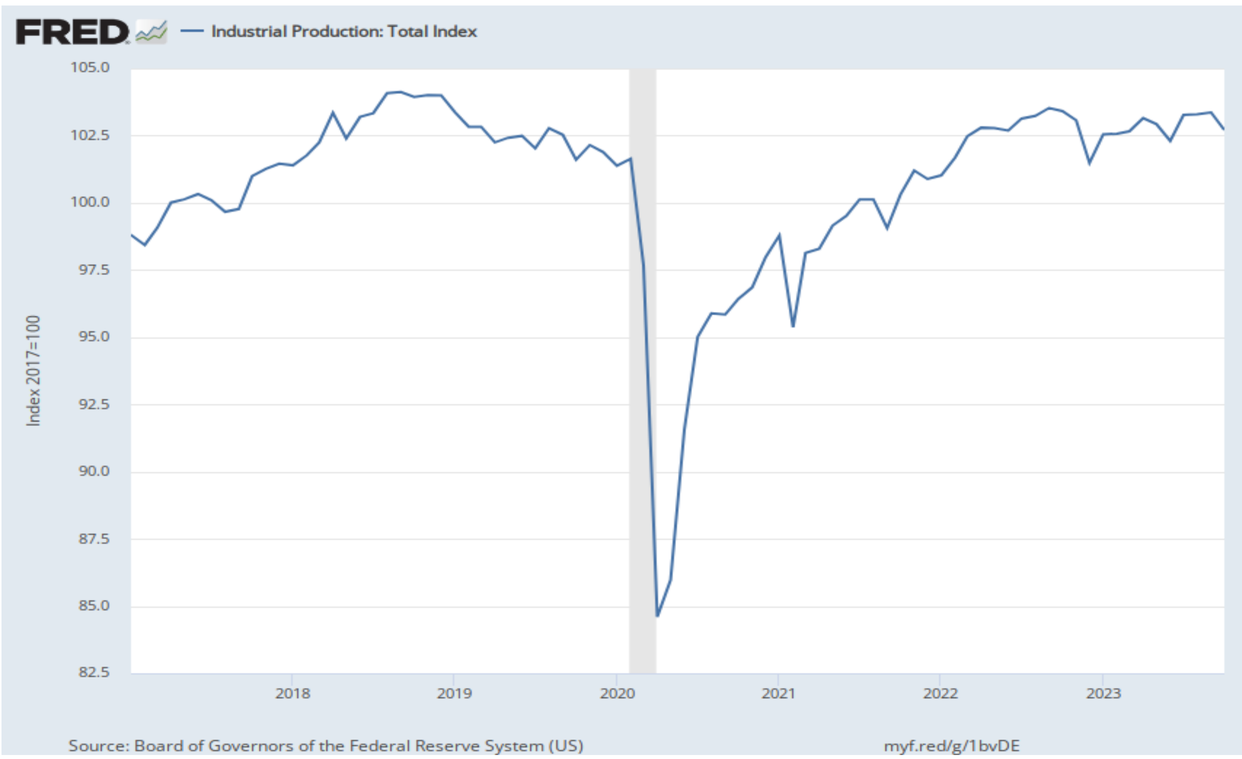
Graph 4.



This fall in the volume of retail sales is confirmed by the shipment of goods. As the CASS Freight Index above shows, the volume of shipments in the segment it analyses has fallen back to 2019 levels after consistently falling every month since February. And the fall is ongoing as this excerpt reveals. *Truckload carriers and 3PLs have seen little change in demand halfway through the fourth quarter, and some are pointing deeper into 2024 before the market corrects*. In the meantime there is real carnage amongst freight companies as they try and adapt to the freight recession. It was not only road freight that fell but in addition railway freight fell at a faster rate than in the Second Quarter.

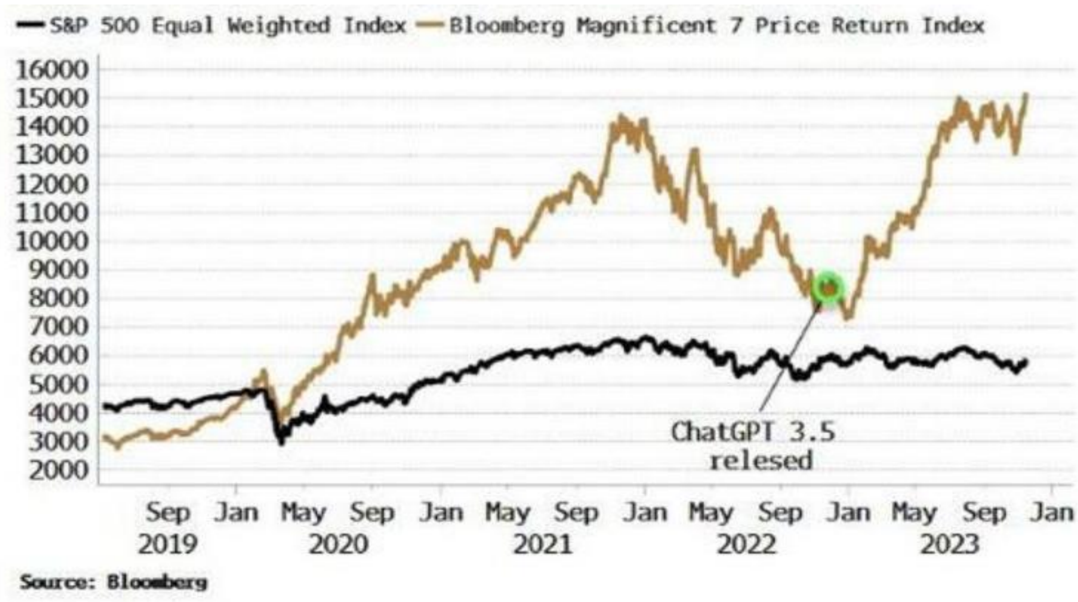
Of course what cannot be sold will not be produced. Total industrial production in volume terms today is no higher than the average for 2018-9 despite all the Biden/Congress Bills aimed at assisting and stimulating reshoring and green transitions. In addition over the past year not only has production stagnated but imports of goods and services is down by two and a quarter percent. (FRED Table IMPGSC1)

Graph 5.



And perhaps the most telling point is the stock market itself. Adjusted for inflation, the price of 493 stocks in the S&P has not gone anywhere since 2019. If the S&P 500 is up today this is due to what Bloomberg calls the *Magnificent Seven* or the big tech corporations. I would rather they were called the *Seven Brothers* after the *Seven Sisters*, the oil majors who in a previous period dominated the global economy and reshaped geo-politics as the Seven Brothers do today. Today due to the over-valuation of the Seven Brothers their market cap comprises around 30% of the total market cap of the S&P 500 or $11.3 trillion out of the $37.7 trillion total market cap or over 10% of the total market cap of all shares listed on the world's stock markets.

Graph 6.



And as we will see below it is not only the physical indicators but tax indicators which suggest a weaker economy than the one presented by the official GDP estimates.

Analysis of the fiscal deficit in the USA.

To begin with here is a broad overview based on the CBO annual report for the fiscal year ended September 2023. *Total Receipts: Down by 9 Percent in Fiscal Year 2023 Receipts totalled $4.4 trillion during fiscal year 2023, CBO estimates—$457 billion (or 9 percent) less than during fiscal year 2022. Receipts decreased from 19.3 percent of GDP in 2022 (which was the second-highest percentage of GDP in history) to 16.5 percent in 2023, below the average of 17.3 percent for the past 50 years. That drop is the largest on record and was driven mainly by declines in revenues from income taxes and smaller remittances from the Federal Reserve to the Treasury.* What this describes is the impact that Covid Funds had in 2022 which boosted taxation to its second highest share of GDP. This was followed by a fall in tax receipts below the historical average in 2023 and it is set to remain below that average.

While outlays fell by 2% in 2023, this was entirely due to the boost in Covid related support schemes in 2022 which therefore had no effect on outlays in 2023, as well as reversing the cancellation of student debt loan repayments. Remove the effect of cancelling student loan repayments which had transferred the burden of repayments from students to the government, and outlays would have risen by 11% rather than have fallen by 2%. This annual loss in support for ex-students will cost the economy an estimated $333 billion creating a drag on personal spending equal to one and a quarter percent of annual GDP.

Furthermore, by removing comparisons relating to Covid related Public Health spending in 2022 and the outlays would have risen by another 6% to 17%. This figure gives a better understanding of the stimulus provided to the economy from the government deficit. Driving the deficit on the side of outlays was an increase in mandatory spending on social security and health amounting to $253 billion (+11.1%), Interest on the government debt amounting to $176 billion and bailing out the banks amounting to $89 billion bringing the total to $518 billion, boosting total outlays by 8.5%. Ironic that this support would benefit those on either side of the income scale. Thus as things stand, despite the ending of student support, it is likely that the deficit in the current fiscal year will rise from 6.3% of GDP to 8%. Here then lies the reason behind the so-called resilient economy, deficit government spending which of course is unsustainable.

We are also better able to understand payroll taxes which come in two parts, those paid and those withheld by employers. In 2022 these two amounts totalled $4.554 trillion and in 2023 they totalled $4.798 trillion, a rise of 6.5%. But the CBO then goes on to say that $48 billion was transferred from income taxes onto payroll taxes so if we strip that out in 2023, it reduces the figure to $4.750 trillion yielding an increase of just 4.3% or below the average 4.5% rise in hourly pay for all private sector workers or the median rise of 5.95% which is more representative. (Sources FRED Table CES0500000003 for average pay and FRBATLWGT3MMAUMHWGO for median pay.)

In addition, using aggregate hours worked which smooths the difference between full-time and part-time payrolls, we find and increase of 2% in hours worked. (FRED Table AWHI) Thus all things being equal, payroll taxes should have risen by between 6.5% and 7.95% were they to correlate with BLS employment and pay data. Thus once again it is difficult to see where the growth in payrolls during the previous fiscal year came from, or in other words, the tax data does not support the narrative of a strong labour market. (Of course the confounding legacy from Covid deferments which are currently unquantifiable would have affected the comparison somewhat but not enough to sway the argument as we are now comparing full years.)

XI meets Biden first then meets the CEOs of corporate America.

Shades of Molotov. There are similarities and dissimilarities between what occurred in 1938 and 1939 and what happened this week. What was similar was that Germany realised it was dependent on Russian oil, iron ore, industrial minerals and even rubber which it accessed via the Soviet Union. These inputs would be vital to Germany when it attacked France and Britain in its drive West, and then would be solved once Germany drove East and captured Russian resources. Today the USA is much more dependent on China for a broader range of fundamental industrial inputs, and unlike the USSR, China is a significant markets for US goods. It was this economic interdependency inter alia that motivated the USA to go through the motions of inviting and hosting Xi followed by Xi's hosting a banquet for the cream of US CEOs in California.

Where the analogy falls down is in the balance of forces. Quantitatively China's industrial economy is three times bigger than the US's including the vital shipbuilding sector where China's shipyards are 232 times bigger than in the USA, and even where the US leads – aerospace - the Chinese are quickly catching up. Unlike Germany basking in its victory in Spain, the USA is reeling from its defeat in the Ukraine. And unlike the USSR, China's rearmament is more advanced. In short the balance of forces does not favour the US as once it did Germany.

But what does bind the analogy to today, is that the summit will not avert war. It is a question of political chess being played by opponents seated on ticking time-bomb. Xi came to the US in good faith, his hosts received him in bad faith. This popped out in Biden's press briefing following the summit when he once again branded Xi a dictator much to the consternation of his officials who quickly cleared the room of reporters less Biden go further and let more cats out of the bag.

It is in the interest of China that peace continues. China is ascending and the US is descending. China gains nothing from war, the US potentially gains everything; from preserving the dollar as world currency to colonising the Chinese economy. In his utterings, Xi is either being aspirational or simply naïve. The highlight of his opening remarks taken from the transcript contains these pearls: *Xi underscored his consistent view that major-country competition is not the prevailing trend of current times and cannot solve the problems facing China and the United States or the world at large. Planet Earth is big enough for the two countries to succeed, and one country's success is an opportunity for the other, he said.*

Here we have an idealistic vision of co-operation rather than the realistic vision of vicious competition which is the hallmark of capitalism. Let us take the relation between *Huawei* and *Apple* as a case study. By 2018 *Apple* was on the backfoot due to the inroads Huawei was making in the smartphone sector, particularly the high-end market: "*Samsung was worst hit by the slowdown of the big three, down 10% year-on-year selling 71.9m smartphones for a 20% share of the market. Huawei raced into the second spot selling 54.2m phones in the quarter, up 41%, for a 15% share of the market. Apple sold 41.3m iPhones, up 1%, for a 12% market share."* These figures relate to the second quarter of 2018, and after the third quarter sales also disappointed, Apple decided it would no longer reveal unit sales of its smartphones, such was the damage being done to its business by Huawei.

So what we had here was a Smartphone Earth which was shrinking in terms of unit sales, no longer able to accommodate this rampaging newcomer who also happened to dominate the smartphone ecosphere. It was this humbling of Apple - the US economic champion, its biggest profit earner and most valuable corporation - which forced Trump to act and seek to crush Huawei by non-competitive means, just as the USA had done to Japanese tech champions 30 years earlier via the *Paris Accords* which drove up the exchange rate of the Yen and the *US-Japan Semiconductor Agreement* which drove down the exports of Japanese electronic components.

While Biden was emptying the room of reporters, Xi was receiving a standing ovation by CEOs at his sumptuous banquet. Had he won them over to his *win, win world*? Clearly there are Marxists with their mechanical base-superstructure models who would insist that where capital leads the state follows in order to implement. Surely if the CEOs were endorsing Xi's vision of an open and mutually prosperous, not to mention stable world market, the Whitehouse would have to adapt. The problem with this simplistic view is that the US government represents the general interest of US capital, while these CEOs represent the specific interests of their corporation, many deeply involved in China, and whereas the US government takes the long view, these CEOs have been conditioned to take the short view.

Talking of Marxists was it not paradoxical that Xi was being feted by capitalists. His comrades were all capitalists. At no time did he seek to address the Californian Trade Unions. Perhaps it was better that he did not, because the Executive Officers of the US labour movement, the labour bureaucracy, is under the spell of the Democratic Party which as we know is a geriatric hive infested by neo-cons propagating animosity towards China.

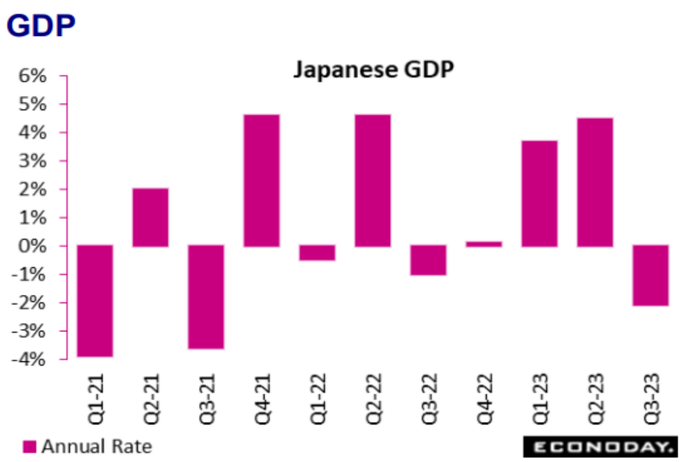
So in the end what purpose was served by this summit? China may be an '*autocratic communist country run by a dictator with a terrible human rights record'*, but dammit its message of a peaceful, united, and prosperous world is winning the propaganda war. On the other hand the US is seen as throwing its weight around causing havoc while disrupting the world. Even the countries roped into its economic war with China are now counting and smarting at the cost this is inflicting on their industries and economies. The message from this summit was the narrative that the US too was interested in world peace and progress. That it too could engage in '*jaw, jaw rather than war, war'*. Nothing could be further from the truth. This was a mere publicity stunt.

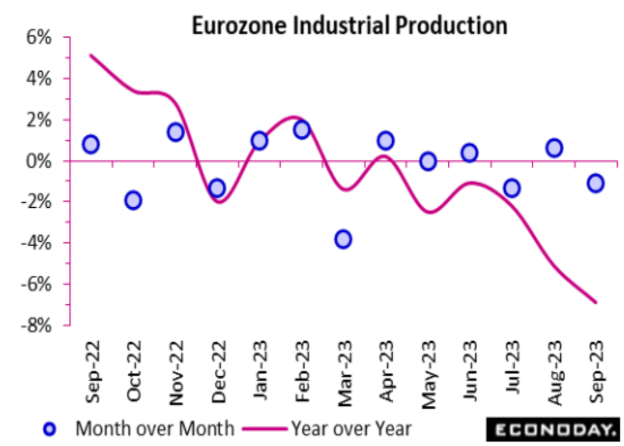
A brief look at the Chinese Economy.

Superficially the data looks more positive. Certainly the Chinese economy outperformed the US economy in October. "*Chinese industrial production rose 4.6 percent on the year in October after advancing 4.5 percent in September, just above the consensus forecast for an increase of 4.5 percent. Output rose 0.39 percent on the month after increasing 0.36 percent previously.*" "*Chinese fixed asset investment rose 2.9 percent year-to-date in October after growth of 3.1 percent in September. Manufacturing investment increased 6.2 percent as it did previously, while property investment remained very weak, dropping 9.3 percent year-to-date after a previous decline of 9.1 percent.*" It is clear that China's import substitution and war economy remains robust but that the rest of the economy is in the doldrums especially the property market. "*China's residential property prices fell 0.1 percent on the year in October, as they did in September. China's property market has been very weak for more than a year.*" Despite efforts by the government the property crisis is ongoing and while rejigging financial supervision as reported by Michael Roberts may mitigate future financial crises, it will not resolve the current one short of writing off hundreds of billions of capital invested in both residential and non-residential property.

In other major countries, Japan has entered into recession and the EU deeper into slump.

Graphs 7 & 8.





Conclusion.

After October the US will no longer buck the global trend, seeming to rise above the world economy. It will now become part of the growing global recession. Many commentators around the Californian Summit pointed to weaknesses in both the US and Chinese economies suggesting this made their interdependencies more important. But weakness in the capitalist world does not lead to co-operation. Instead it will lead to more destructive competition as capitalists seek to avoid losses.

I will shortly look at China in greater detail once the Bureau of National Statistics of China publishes a few more reports on the economy including profits for October. Unfortunately I can no longer publish quarterly rates of return for the US economy as the BEA has decided only to publish annual data.

Brian Green, 18th November 2019.