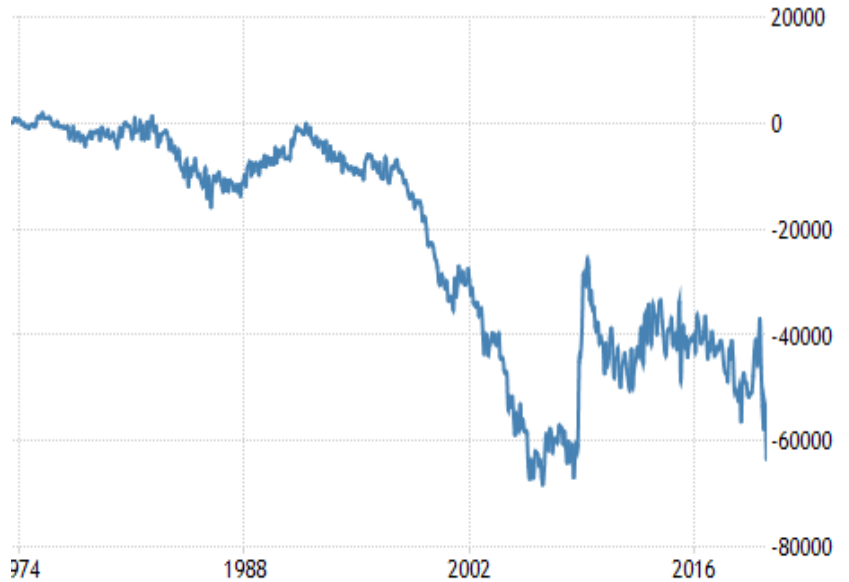




**Filled with gloom as we are, most of us expect South Africa's future to only grow worse and look to "winning nations" like the US and Britain as examples of how we should be running things.**

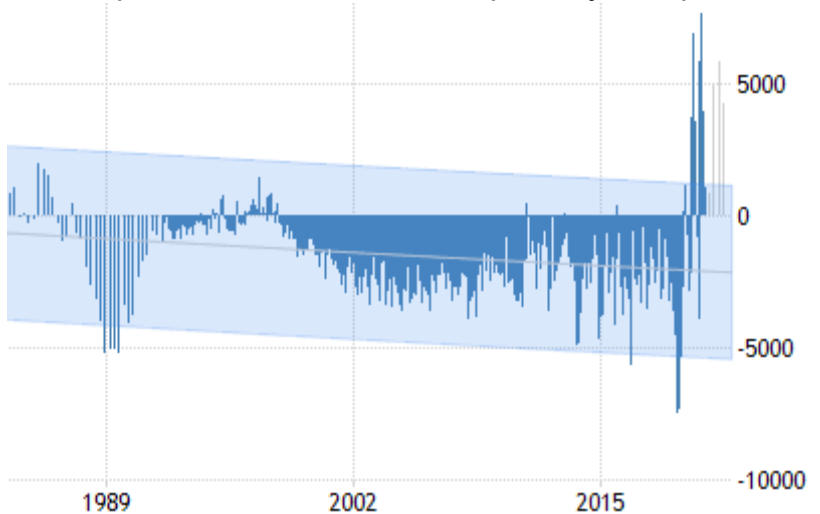
So, whenever I have such notions thrown at me almost daily, I usually turn to their foreign trade statistics to see how the 'winning nations' are really doing. So, for my first graph I offer you the US Trade Balance graph since 1974. Turns out they have been spending the family silver for the past half century.



SOURCE: TRADINGECONOMICS.COM | BUREAU OF ECONOMIC ANALYSIS (BEA)

So, what about Great Britain? Well it turns out that since Prime Minister Boris Johnson persuaded the British people by hook or by crook to break away from the EEC their trade balance has turned positive for the first time since the 1990s as my next graph illustrates. However, that was where the good news ended for Britain! UK economic output shrank by 20.4% in the second quarter of 2020, the worst quarterly slump on record, pushing the country into the deepest recession of any major global economy.

second quarter of 2020, the worst quarterly slump on record,

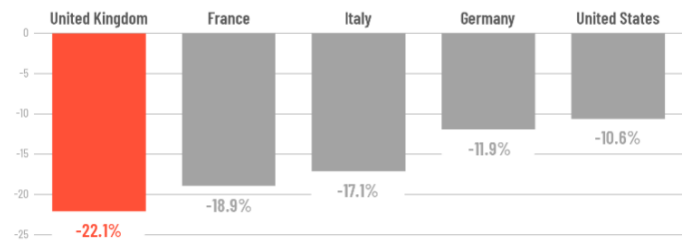


SOURCE: TRADINGECONOMICS.COM | OFFICE FOR NATIONAL STATISTICS

The crash in GDP in the April-June period was the worst since quarterly records began in 1955. "Today's figures confirm that hard times are here," UK finance minister Rishi Sunak said in a statement. "Hundreds of thousands of people have already lost their jobs, and sadly in the coming months many more will."

The following graph puts the British situation into perspective relative to other European countries and the US.

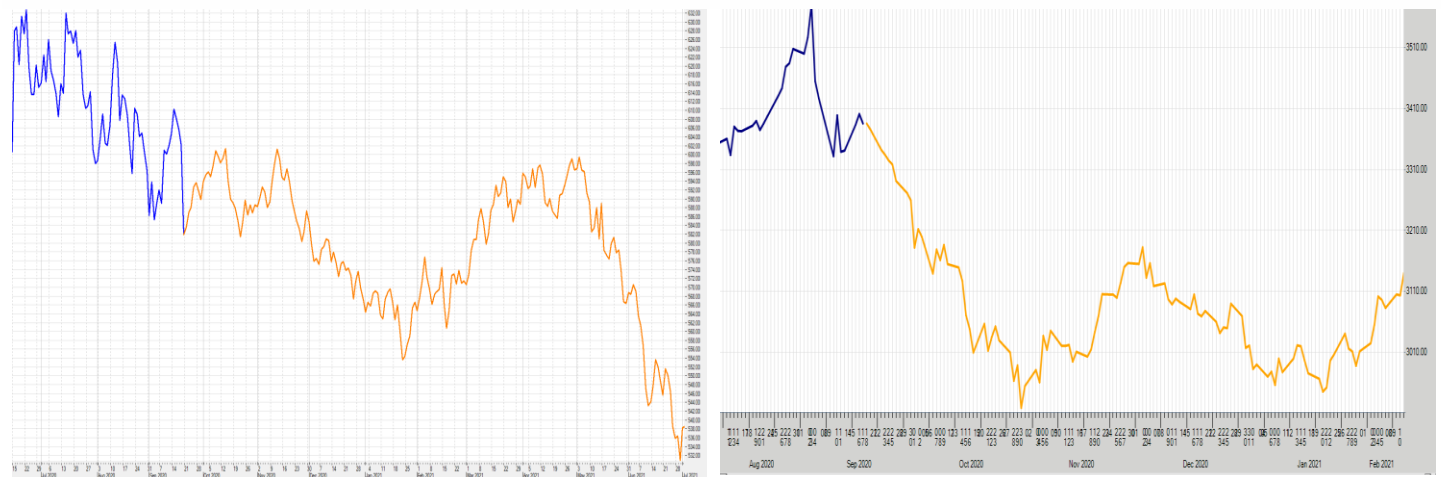
**UK suffers biggest plunge among major economies**  
 UK GDP fell 22.1% in the first half of 2020, more than other G7 economies\* and double the decline in the United States.



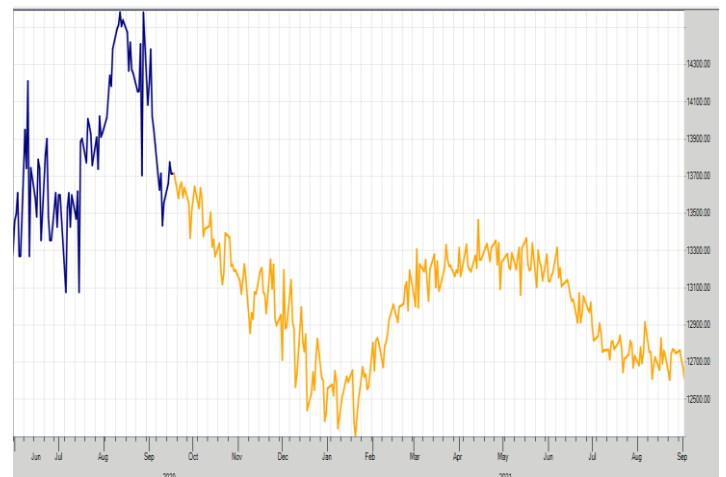
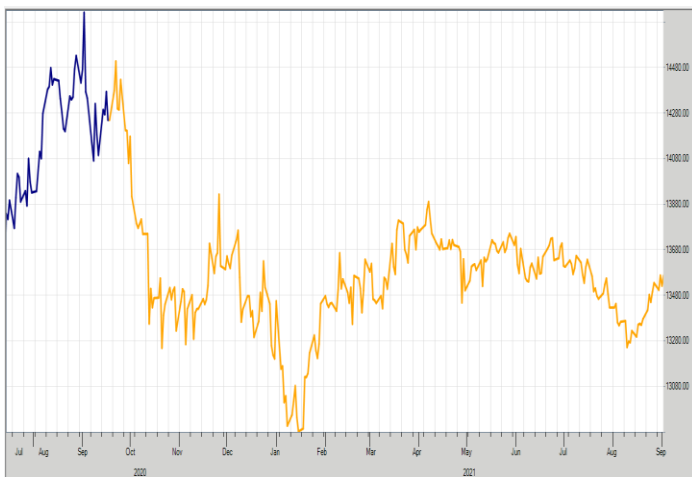
\*Data for Canada and Japan is not yet available.

Source: Office for National Statistics  
 Graphic: Gabrielle Smith, CNN

Meanwhile ShareFinder's projections for the New York and London Stock Exchanges is not that encouraging either. Immediately below on the left I have reproduced what ShareFinder expects to happen to London's widest indicator of stock exchange activity, the Financial Times 100 Index from the end of June this year to the end of next June, and on the right, New York's SP500 Index from August to the end of next February.



Concentrating on New York, there is an important point to take to heart there as here, that a few high-tech shares are actually making the running on US markets and they are in the main concentrated upon the Nasdaq exchange. To make a proper comparison of the two I thought it might be interesting to thus compare the ShareFinder-created Blue Chip Indices for the two markets. On the left below, I thus offer you the outlook for NYSE Blue chips and on the right the Nasdaq version. The NYSE Blue Chips are projected to bottom on January 18, make a modest recovery until April and then trend down again for the rest of the year. Popular market current theory suggests that the Nasdaq Blue Chips should accordingly brush off the "Old Economy" NYSE projection, but ShareFinder disagrees, projecting that the Nasdaq Blue Chips will also bottom in January on the 22, recover in the same fashion before peaking in mid-April before going negative once again until the end of the year:



It will be interesting to watch this contest, as much to test ShareFinder's uncanny ability to foretell the future as to compare with our own sorry trajectory. What is clear, however, is that political bickering by house Democrats who understandably do not want President Trump to benefit from any government actions right now, is currently blocking another round of temporary relief payment for unemployed US citizens. The result, as detailed in the column I have attached by US economist John Mauldin, is the US economy has suddenly stalled and Wall Street is starting to reflect that.

A 'depression' is defined as two years of declining economic growth and so we will have to live through another 18 months of investment pain before that label can be attached to the current situation, but all the signs are there that this is the greatest economic shock the world has had to endure since 1929!

## Reits

Finally, I offered the thought last Friday that property Reit Hyprop appeared to be breaking ranks with its peers and might have been tantalizing the market with the prospect of a more positive announcement this week. Sadly, all it offered on Monday was further vagueness and it was immediately punished with a further two-Rand price decline.

Now, however, the JSE has advised there can be no relaxation of the rule that Reits must pass on their profits to shareholders within six months of the financial year end which implies that Hyprop must make a dividend payment between now and the end of the year.

In the absence of clear guidance from the board ShareFinder consequently expects a continued price decline with rising trading volumes until the second week of October before Hyprop shares begin a brief recovery.

As I previously observed, whoever is buying in increasing volumes is either an optimist destined to lose a lot of money in the short-term or a realist who expects to gain massively in the long term.

It is thus interesting to note that the published consensus of analysts is that Hyprop is a long-term buy. It beggars belief that the market currently believes this Blue Chip is currently worth only one tenth of June 2016 value!

## Do enjoy your weekend!

## The months ahead:

**New York's SP500:** I correctly predicted that last week's shock decline was likely to be reversed in the short-term until around the 16th after which it would likely be down once more until mid-November. Now I see brief gains until the 29<sup>th</sup> before the down-trend continues likely lasting until October 28.

**London's Footsie:** I correctly predicted a brief recovery which I thought should last until mid-October ahead of a run-down until late January. Now the signs are in opposition to one another making it impossible to predict market direction in the short-term. However, the longer-term trend remains negative until late January.

**Germany's Dax:** I wrongly predicted that the Dax would continue recovering until the second week of October ahead of a slide down to December. This week's sharp decline has significantly changed the outlook which is now determinedly downwards until mid-December.

**France's Cac 40:** I correctly predicted the brief recovery would end this week and it is now down-hill to the end of November when a long recovery trend is likely to begin.

**Hong Kong's Hangsen:** I correctly predicted a continuation of the overall declining trend. Now I see a recovery until the end of December followed by a decline throughout January.

**Japan's Nikkei:** I correctly predicted the recovery would end this week ahead of a volatile declining trend until mid-December ahead of gains until mid-March.

**Australia's All Ordinaries:** I correctly predicted a recovery that lasted longer than I expected. But it is downhill from here until mid-October before an extremely volatile recovery phase sets in likely lasting until mid-February.

**JSE Industrial Index:** I correctly predicted a fortnight of gains towards the establishment of the second peak of a double-top formation around September 30 ahead of an extremely volatile declining phase until mid-January and I still hold to that view.

**JSE Top 40 Index:** I correctly predicted a recovery for most of the month ending around September 28 and I still hold to that along with the view that it will be followed by volatile declines until mid-November when another upsurge is likely until mid-December ahead of the next down-trend until early-January and another recovery to mid-February when a very volatile sideways trend is likely until the end of May when a sharp decline appears likely.

**ShareFinder JSE Blue Chip Index:** I correctly predicted very brief recovery followed by a continuation of the volatile decline which is likely to last until late January.

**JSE Gold shares:** I wrongly predicted a recovery lasting until late October before a long decline well into the new year. The decline is now under way and I see no bottom in the 12 months ahead.

**Gold Bullion:** I predicted the recovery would continue well into 2021 but failed to anticipate this week's sharp decline. It is, however, probably now over and I now see continued gains.

**The Rand/US Dollar:** The gains I predicted are over sooner than I anticipated and we have now entered the weakening phase I expected should last until early February.

**The Rand/Euro:** I correctly predicted the brief gains would be over mid-week and I now expect a volatile weakening trend until mid-December.

***The Predicts accuracy rate on a running average basis since January 2002 has been 85.93%. For the past 12 months it has been 94.64%.***

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# ***Stall Speed Economy***

By John Mauldin

**When Cornwallis surrendered to George Washington at Yorktown in 1781, tradition has it that the British band played an old English children's folk tune, "The World Turned Upside Down."**

*If buttercups buzz'd after the bee,*

*If boats were on land, churches on sea,*

*If ponies rode men and if grass ate the cows*

*And cats should be chased into holes by the mouse*

,  
*If the mamas sold their babies*

*To the gypsies for half a crown;*

*If summer were spring and the other way 'round,*

*Then all the world would be upside down.*

In this letter I find myself recommending policies that not that long ago would have been extraordinarily distasteful to me. Yet, unless we pursue them, our economy will truly be turned upside down. I fully recognize these things have a cost. But the cost of inaction is much higher.

Our economic prospects looked bleak back in March and April. Much of the economy was closed down, we didn't know how bad the virus would get, and it was hard to see a good outcome.

Now the outlook is *relatively* better. Unemployment, GDP, and other indicators aren't great but they've improved. Yet a "better" outlook isn't necessarily a *good* one. It's just "not as bad." Today's numbers would be considered terrible if we weren't comparing them to truly disastrous numbers from last spring. We avoided the worst because generous fiscal income replacement and business lifelines-maintained consumer spending, and in some cases increased it.

If you fly a lot as I do (or used to), you've heard the term "stall speed." An airplane needs to go a certain speed in order to stay aloft. The math behind that idea is pretty simple: **lift** from the wings must be equal to or greater than the plane's weight. Lift, in turn, comes from the engine creating forward motion relative to the air. No air flow over the wings means no lift and no flight.

In economic terms, we stayed above stall speed by forcing extra fuel into the engine. The resulting forward motion gave the economy the lift it needed. Now the fuel is running out.

If this plane stalls, as is a real possibility, we won't like the result. Today we'll talk about why that is and how to stop it.

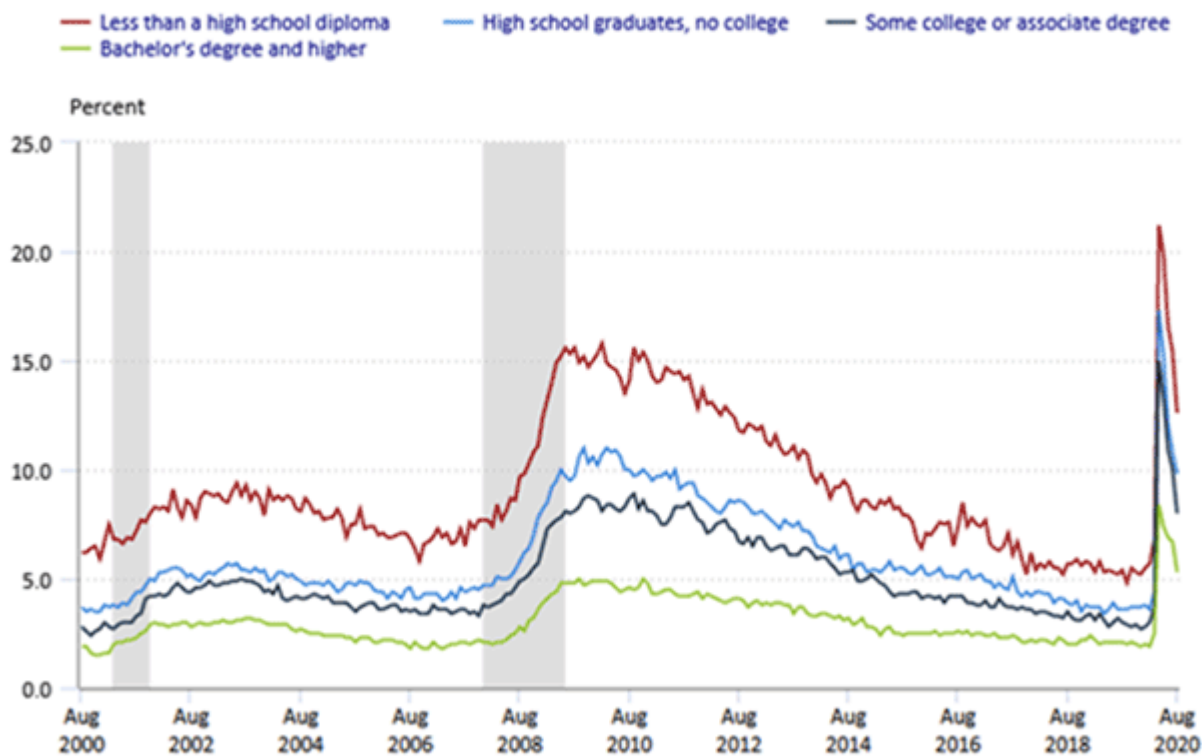
## **No Reserves**

The first point to observe: unlike airline passengers, we don't all share the same forward momentum. Some of us are even going backwards.

Income loss comes mainly from job loss. This year's job losses have been concentrated in lower-wage service jobs, often held by less-educated workers.

## Unemployment rates for persons 25 years and older by educational attainment, seasonally adjusted

Click and drag within the chart to zoom in on time periods



Hover over chart to view data.

Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics.

Source: [BLS](#)

Unemployment rose across the board but was much higher for those with less education. As of August, the headline unemployment rate was 8.4%, but it was 11.8% for non-high school graduates and only 5.6% for college graduates.

Continued unemployment claims from states suggest the monthly report undercounted the jobless workers. I assume there was some seasonal adjustment that made the difference, but seasonal adjustments are worthless during this crisis. "U-6" unemployment is a far better indicator of where we really are.



**HOUSEHOLD DATA**

**Table A-15. Alternative measures of labor underutilization**

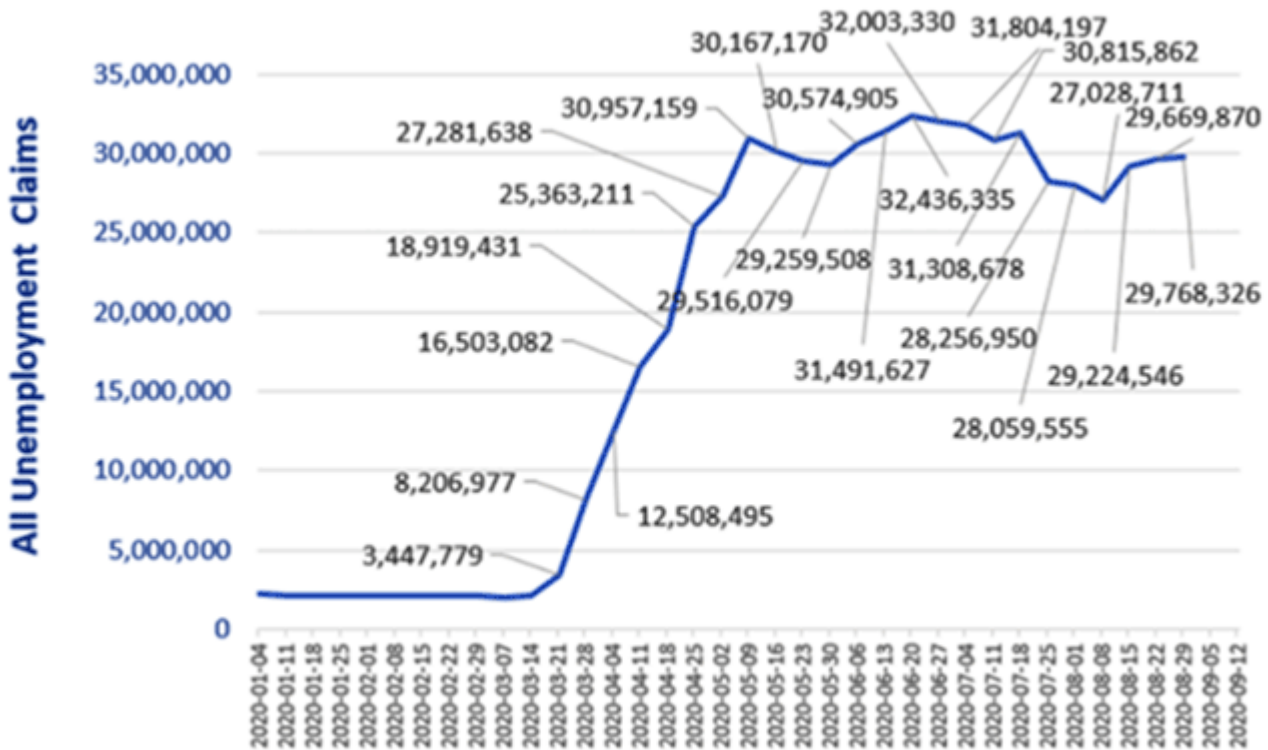
[Percent]

| Measure   | Not seasonally adjusted |           |           |
|---|-------------------------|-----------|-----------|
|   | Aug. 2019               | July 2020 | Aug. 2020 |
| U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force   | 1.2                     | 4.9       | 5.0       |
| U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force   | 1.8                     | 8.1       | 6.4       |
| U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)   | 3.8                     | 10.5      | 8.5       |
| U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers  | 4.1                     | 10.8      | 8.8       |
| U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force                     | 4.7                     | 11.6      | 9.7       |
| U-6 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force | 7.3                     | 16.8      | 14.3      |

Source: [BLS](#)

My good friend Mike Shedlock (Mish) does an extraordinarily good job tracking the vagaries of unemployment during this crisis. Including both state and federal benefits shows a far larger number. The chart below includes gig workers, the self-employed, people who have exhausted their state benefits, etc.

**All Continued Claims in 2020**



**MishTalk**

Source: [Mike Shedlock](#)

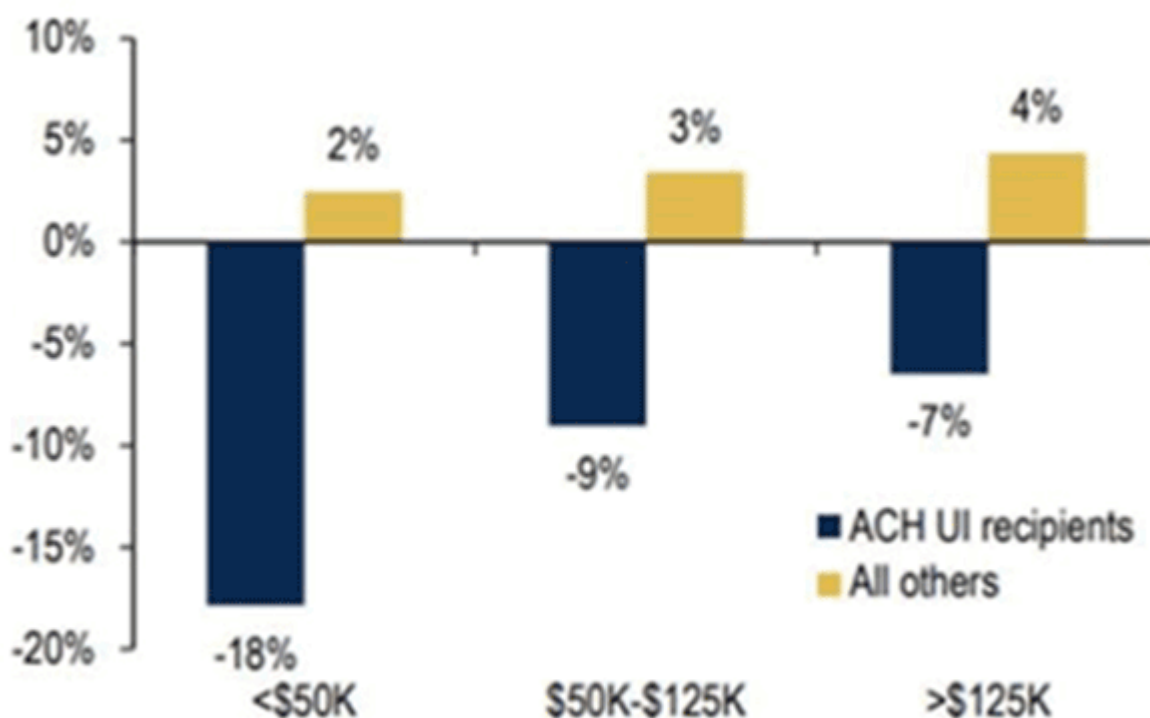
Anybody with any connection to the real economy knows people are still falling through the cracks. We just have no way to measure it.

As I mentioned, U-6 is 14.3%. I'll bet you a dollar to 47 doughnuts that real unemployment is closer to 16%. The rest of [Mike's post](#) points out that while things are improving, the rate of improvement is slowing down. But back to my main point.

For a while, "unemployment" didn't necessarily mean *income* loss because Congress temporarily increased jobless benefits by a flat \$600 weekly, while also sending out \$1,200 per person checks, actually raising some workers' incomes. That expired at the end of July. Trump's stopgap measures have replaced some of it, in some states, but the amounts are much smaller.

This is already showing up in consumer spending. Banks can track this because most of the benefits are delivered electronically. They can analyze spending patterns for unemployment benefit recipients vs. everyone else. Here is what happened at Bank of America in August.

**Chart 9: The change in total card spending growth for UI recipients vs. all others (change in the 7-day moving average for %yoy total card spending, August 29th relative to August 1<sup>st</sup>)**



Source: BAC internal data. UI recipients include all households that received unemp benefits through direct deposit. Some in the non UI recipients group could receive UI through other methods (incl checks or prepaid debit cards) which the BAC data does not track.

Source: [Ernie Tedeschi](#)

As benefits dropped, bank card spending growth fell for UI recipients while continuing to grow for everyone else. The drop was worse for lower-income consumers.

This shouldn't surprise us. Long before COVID-19, a large part of the population spent practically all its income. Those who lost their jobs in March/April and haven't been rehired have little choice but to cut spending. They have no reserves and little borrowing ability.



A few years ago, I wrote that 60% of America had less than \$500 in savings. I haven't seen recent data, but it is hard to imagine it's gotten any better. **The point back then was that Americans were living paycheck to paycheck. The point now is that many Americans are living unemployment check to unemployment check.**

It's easy to forget that the enhanced unemployment benefits helped more than the unemployed people. In many cases, the "recipients" were simply conduits. They received money from the government and immediately sent it on to their lenders and landlords. The fiscal stimulus kept those people afloat, too. And its ending will hurt them, too.

In fact, the income loss hits across the board. Bank of America also knows *where* unemployment recipients have been spending, since it processes their card transactions.

**Chart 1: The change in spending growth for UI recipients vs. all else by major sector (change in the 7-day moving average for %yoy spending, August 22nd relative to August 1st)**



Source: BAC internal data. UI recipients include all households that received unemp benefits through direct deposit. Some in the non UI recipients group could receive UI through other methods (incl checks or prepaid debit cards) which the BAC data does not track.

Source: [Ernie Tedeschi](#)

We see spending affected most in discretionary items like clothing, but also in grocery stores. And remember, this is only just beginning. Benefits payments come in arrears, so many people still got the higher amount in early August.

Quick math: If 20% of the adult population reduces spending 25%, the net effect is consumer spending falls 5%. That, alone, leads to an even deeper stall-speed recession. It will generate more layoffs and bankruptcies, meaning more unemployment, until *something* gives the economy the lift it needs.

## Pointing Fingers

Our gridlocked US political system initially reacted to this crisis with surprising speed, passing several relief bills in March and April. At that point, they expected it would be a few weeks of lockdown then everyone would go back to work. The goal was to "freeze" the economy in place, compensate those who couldn't work, and target aid to small businesses, airlines, and other affected sectors. The plan had flaws but, under the circumstances, was an impressive example of cooperation and compromise.

Less impressively, the Federal Reserve began throwing liquidity in all directions. This kept financial markets functional and banks open, but at the cost of blowing a market bubble that will, when it pops, negate most of the benefits. Fed officials knew this, I suspect, but also knew they had to do *something*. They don't have the tools to directly stimulate employment or capital spending. Jerome Powell has said many times that fiscal policymakers need to do their part.

The politicians, predictably, split on partisan lines. House Democrats passed a \$3+ trillion bill that would extend the pandemic unemployment programs, disburse aid to states and localities, give benefits to their favored groups, etc. It has gone nowhere in the Senate, where Republicans object to both the bill's size and some of the recipients. Pelosi had to know it was a nonstarter, just as Senate Republicans knew their \$650 billion bill was a nonstarter. But I admit that I am surprised that it has taken them this long to find a compromise. It's getting to the point where it is beyond serious.

***The economy is just barely at stall speed, coasting along on the previously generated momentum but unable to accelerate.*** It can only stay in the air so much longer, and our pilots are pointing fingers at each other instead of restarting the engines.

## **Blood Sport**

"Wait a second, Mauldin," you may be saying. "You're sounding mighty Keynesian here." You are correct. My track record for the last 40 years is pretty much in favor of smaller government and government spending, lower taxes, etc. But now the world is upside down. Quoting John Maynard Keynes, "When the facts change, I change my mind. What do you do, sir?"

We are in an unprecedented situation. Close to 30 million workers are on unemployment benefits, and that's *after* a partial recovery that is now tapering off. Those benefits are the only thing keeping us out of an outright depression that frankly could be worse than the Great Depression (and I don't think that's a hyperbolic statement), and they are about to disappear. I fully recognize my own philosophical flip-flop here. But I would rather be called a hypocrite than see millions suffering.

The fact is, we haven't seen anything like this before. It's not just another recession. The pandemic and our efforts to control it unleashed economic demons. We need an exorcist or at least some holy water. Instead we get boring sermons. I'm alarmed and you should be, too.

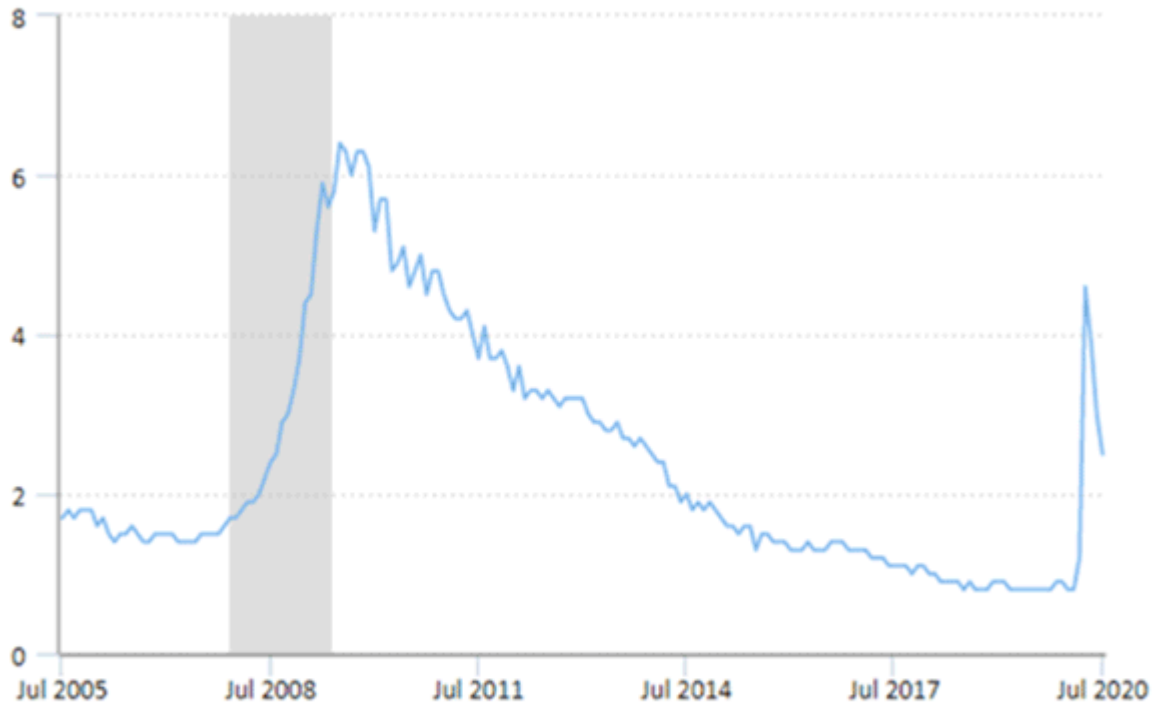
Philippa Dunne and Doug Henwood calculated this week the stopgap benefit payments, cash for which is coming from FEMA disaster relief funds, are almost exhausted (my emphasis):

FEMA is reporting that it's spent \$30 billion of the \$44 billion allocated by the executive order, though all that spending has not showed up in the Daily Treasury Statement yet. **In any case, the program will run out of money in a week or two.** In fact, a number of states have already run through their allowances. The program will be history before the month is over. And that \$44 billion is a bit more than half what the CARES Act program spent in its peak month, June—\$80.4 billion. **With nearly 28 million people drawing traditional and expanded pandemic benefits, a lot of people are suffering sharp cuts in income now and Congress doesn't seem to be motivated to address the problem.**

I think we have to give Trump at least an A in creativity, if not strict constitutionality, for his \$300 a week plan. Congress has "power of the purse" but refuses to use it. I'm sure administration lawyers are looking for other creative financing, but there are important limits as to what the president can do. The much better way would be for Congress to do its job, because so much more is needed.

One objection to the extra unemployment benefits is they give some recipients more than they made while working, thereby creating a disincentive to work. That is indeed a problem, though with the Labor Department reporting 2.5 unemployed workers for every job opening, it is far from the only challenge (see chart below). But it's easily solved if the right people want to solve it.

## Number of unemployed people per job opening, seasonally adjusted, July 2005–July 2020



Click legend items to change data display. Hover over chart to view data.  
Shaded area represents a recession as determined by the National Bureau of Economic Research.  
Source: U.S. Bureau of Labor Statistics.

Source: [BLS](#)

In fact, some in Congress are actually talking sense. A new bipartisan House Problem Solvers Caucus unveiled a [compromise proposal](#) last week that may break the stalemate. It would, among other things, resume the pandemic benefits at \$450 a week for two months, then cap the amount to not exceed \$600 or the worker's previous wage, whichever is less.

From my point of view, an even better compromise would be to **very slowly** reduce the unemployment benefits to provide incentive to go back to work. But that means jobs have to be available. Right now, we have already lost 100,000 businesses and it wouldn't surprise me if that number doubles, or at least significantly increases, over the next 6 to 12 months. That will be partially offset by new businesses being created, but there will be a lag time.

(Sidebar: Let's get real. Economists and analysts who use historical precedent to predict this recovery are committing mathematical economic malpractice. There is no historical analogy. This recovery is going to take longer, absent a vaccine which may be available later this year, but will take 6 to 9 months to actually deploy. And it may have to be an annual vaccine. There is just so much we don't know about this virus. Back to the letter...)

On the downside (from my perspective), the Problem Solvers compromise bill would give state and local governments \$500 billion. I think states and local governments should cover their own expenses with their own taxes. But that's the nature of a compromise: No one gets everything they want. You get a little, give a little, and move forward.

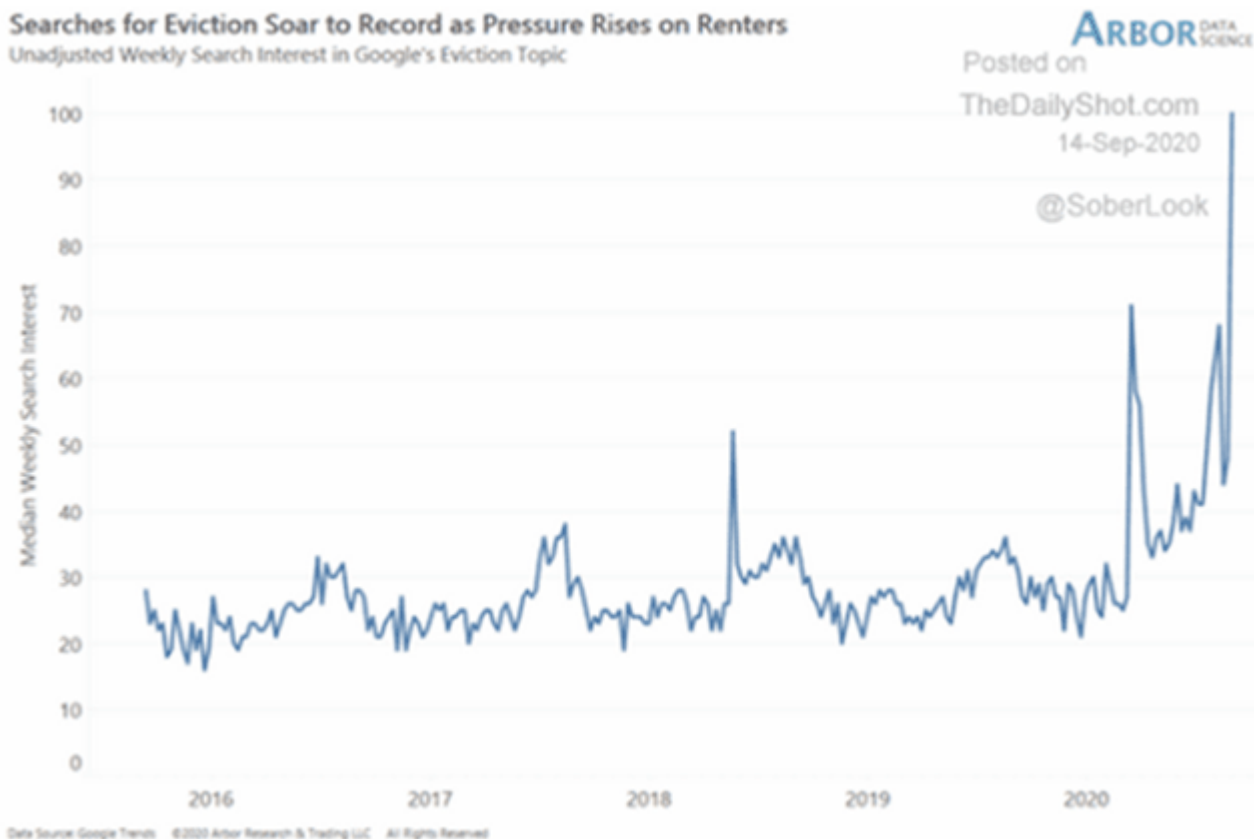
That last item is a major sticking point for Senate Republicans. Yet, even there may be a compromise. Limiting the grants to actual revenues lost should get enough Republicans to go along. It would work like this. Say under the current compromise proposal, state A would get \$4 billion.

But its revenue is actually only down \$2 billion, still a large sum. If you replace just the lost revenue, they would at least get something. Neither side will be happy, but that is the nature of a compromise.

I realize we are in a contentious election season. Feelings are running high. I wish more people would realize our economic challenges transcend politics. We will still be in deep trouble whether Trump or Biden is president next year, and regardless of which party controls the House and Senate. Neither side has all the answers. We need them to set aside the rhetoric and take care of *all* Americans.

My friend the late Pat Caddell, the famous Democratic pollster, used to say later in life (and on my stage to great applause) he wasn't a Democrat or a Republican, but an American. In these tough times, I'm trying to adopt that same attitude. Politics shouldn't be a winner-take-all blood sport. Making it one invites chaos because winners and losers still have to live together.

And living together becomes difficult if you don't even have a place to live. Eviction notices are on hold right now, but not for long. Look at this chart:



Source: Arbor Data via [The Daily Shot](#)

We feel sorry for the poor people who are evicted, especially those with children. But landlords are quite often small businesses too, with mortgages that banks expect to be paid. It's a vicious circle.

I plan to write another letter about the forces that brought us to this place. For now, I hope everyone understands **we are on the edge of a cliff**. Moves that would normally be harmless could spell disaster. We need leaders to represent *all* their constituents, not just those who voted for them. This necessarily means compromise. Yes, I'm using that word a lot. It's not profane. It is a way to get things done. And right now, compromise may be the only way to keep this plane in the air.

Keeping the plane in the air is more than just avoiding a crash. It's giving us the chance to bring it to a future runway safely.

It's not all bleak. Even if true unemployment is 15%, it means 85% of us are employed. A free market economy with 100,000 "unemployed" entrepreneurs will soon figure out how to create jobs for the rest.

I am not saying a recovery is years off or impossible. I am optimistic we will recover, but it is not going to be a typical 12-month cycle to see recovery begin. We have to buy ourselves and those entrepreneurs some time to figure out what a post-COVID-19 world looks like. The more time we can buy, the stronger the recovery will be.

I get that adding debt will be a drag on economic growth. That can't be helped. There's a hole in the boat and we have to plug it, and while doing so we have to bail and row.

The world is going to be repriced. Everything. We are going to have to find new uses for a lot of things now in surplus, like strip malls and office space, lots of equipment, and those new uses may require lower prices. All while technology is disrupting our world in ways we don't understand. No one ever said it would be easy.

The 85% of us who are working need to help those who aren't. Bigger tips. Donations to food banks (have you seen some of the lines for food banks? Depressing.). Look around your own community. Are there ways you can help the at-risk population? We are seeing an epidemic of depression and suicide. Reach out to your neighbors who are lonely. I am sure you can think of your own ways. Then just do it.

In the meantime, call your senators and representatives and tell them to do their @\$%# job. Don't yell at them for compromising. Support them when they do. We can resume yelling at them when unemployment is 6%.