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Booms & Busts Report

The World is NOW in a global industrial recession.
The World is NOW in a global housing recession.
The World is NOW in a global commercial property recession.

It is only a matter of time before the World is in a global economic recession.
Is your investment/pension portfolio prepared?

Shares and Corporate Bonds are teetering on the edge of the cliff, hanging by their fingertips. That's probably 80% of your overall portfolio...

This is the July 2023 Booms & Busts Report. I publish these, free, every two months.

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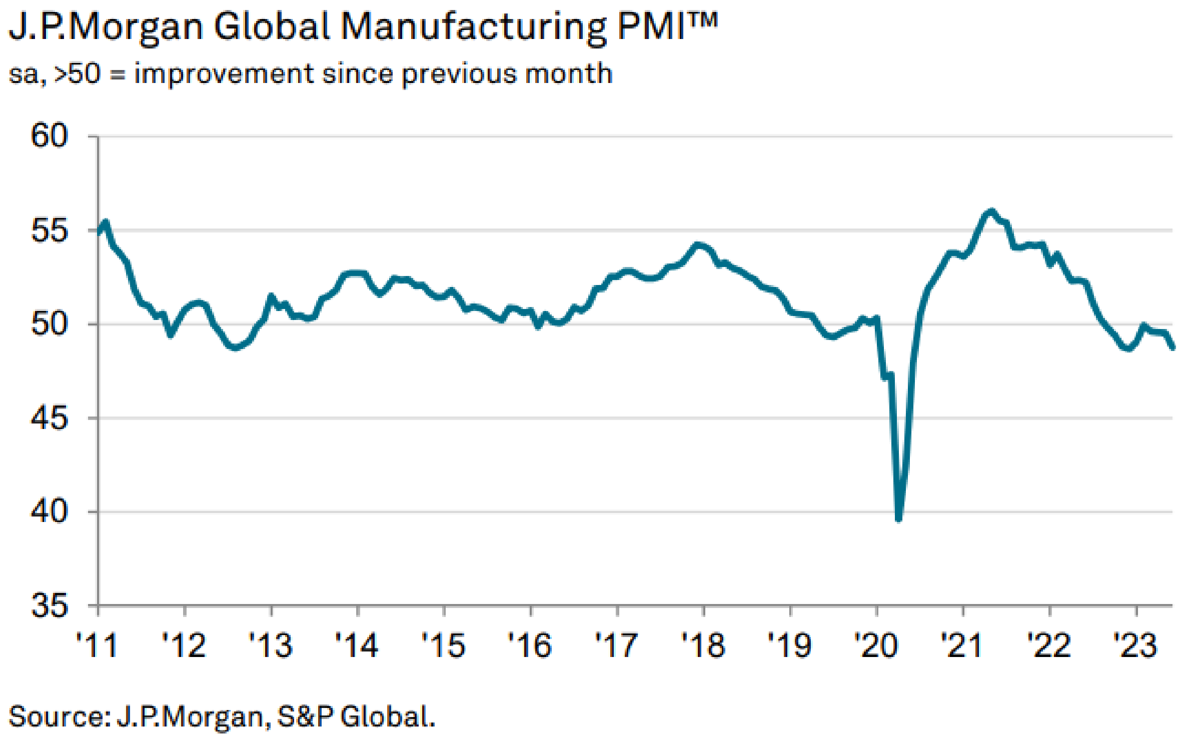
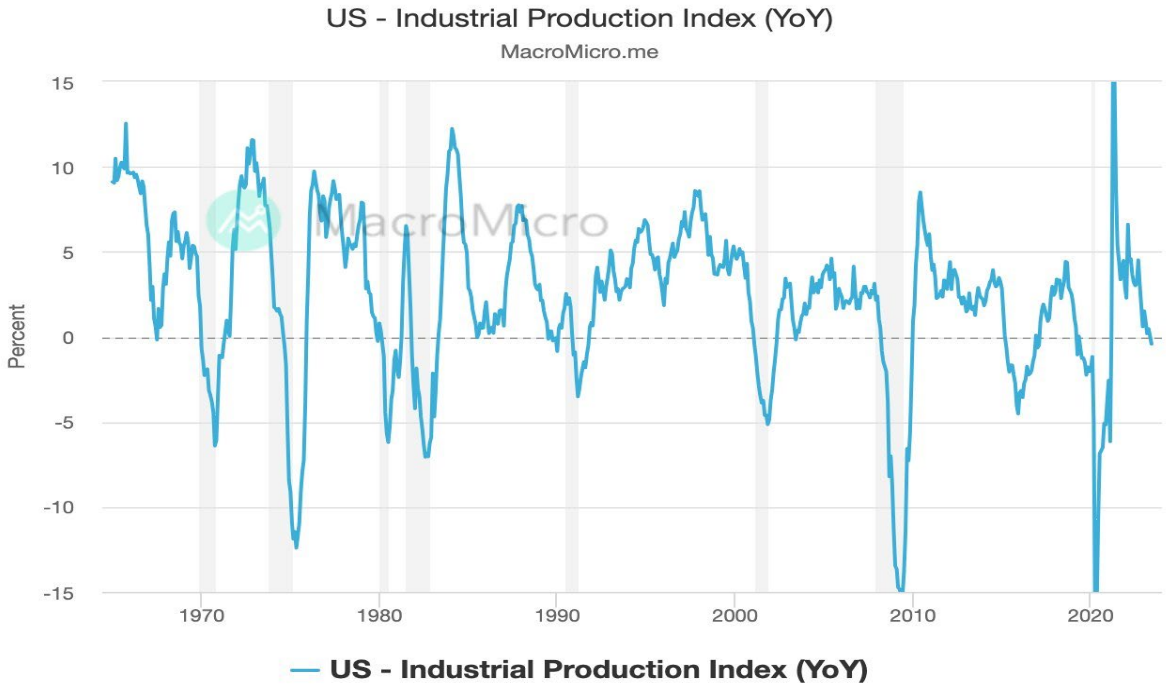
In this edition of The Booms & Busts Report:

- **Global Industrial Production recession**
- **Disinflation Watch**
- **Household debts**

- **Car lending**
- **Property - residential and commercial**
- **The Mother of all Bubbles**
- **De-banked**

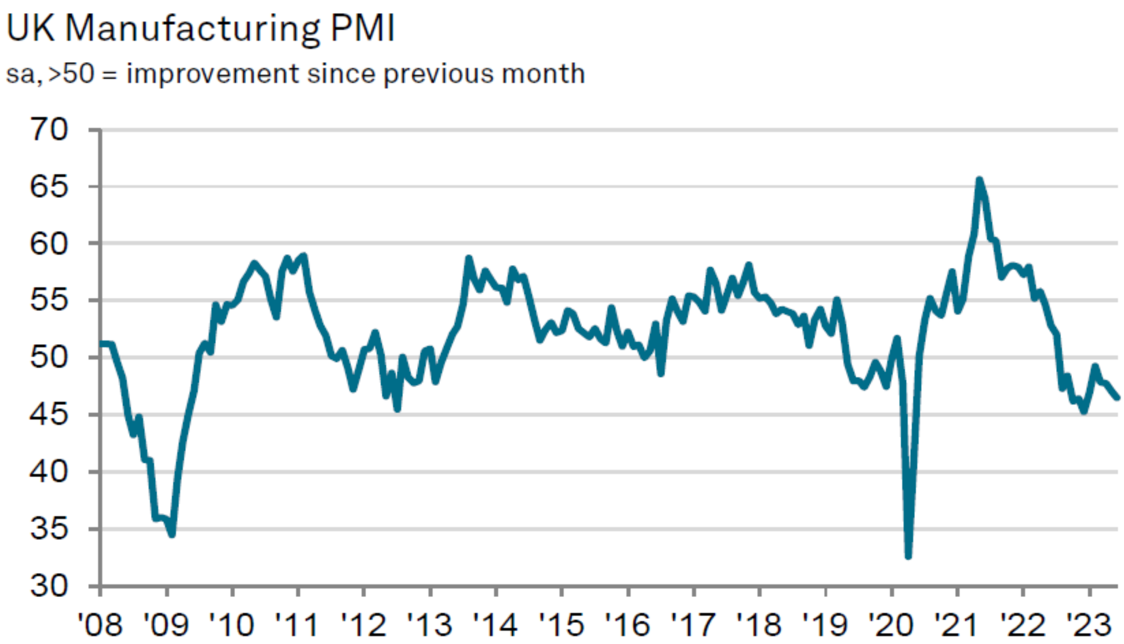


Global industrial production has been contracting (below 50 is contraction) for nearly a year, and nothing suggests expansion is returning, for now.



Since the 1960s, when US industrial production goes negative, year on year, the probability has been the economy goes into recession. This happened eight out of nine times.

Good odds.

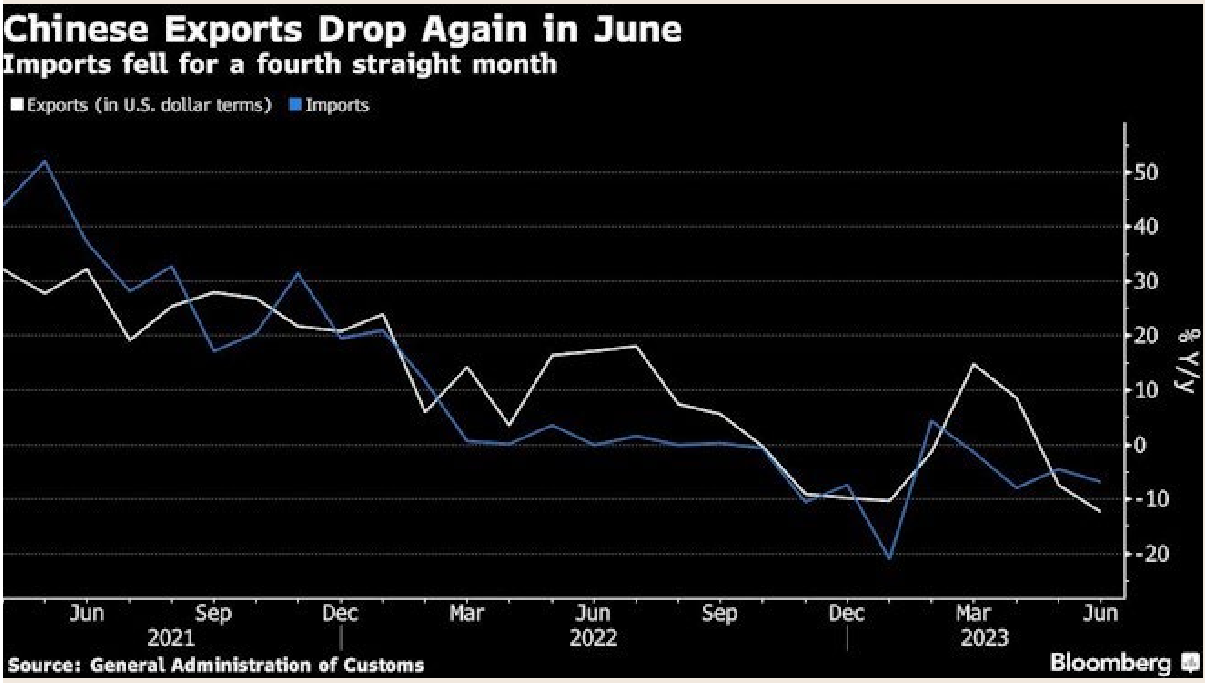


Source: S&P Global PMI.

Germany leads the EU economy, of course, at a breathtakingly low manufacturing index level of 41. Germany!

Sub 50 is contraction. 41 is shocking, is it not?

France manufacturing is at 45.5.
Most EU countries have contracting manufacturing.



China, the second largest economy, only two years ago, had imports and exports soaring 30% a year.

Now, they are falling around 10% year-on-year!

In the some 30 years since China entered the WTO, the current economic contraction is **unprecedented**.

It was China which, almost single-handedly, brought the World out of recession, post 2008. It is now contributing to a major global economic recession.

Do you know which country exports the most semiconductors on the planet?

Taiwan.

Taiwan's exports, for June, were reported as 23.4% less than June 2022. This is the biggest annual fall since 2009 - the trough of the 2007 to 2009 recession. Do you think this might affect the performance of global high tech companies' shares?

Taiwan Semi (the world's largest chipmaker - not French fries...) - the sole chip supplier to Invidia, and the main supplier to Apple, Qualcomm and AMD - reported its first sales revenue fall since 2019 and slashed its guidance for future sales and profits. It now expects full-year sales to decline 10%.

On 7 July, Samsung (of S Korea) reported company profits down ... **96% (!)** ... compared to the same period the year before. They said it was primarily due to a huge fall in global computer chip demand.

I remind you, manufacturers put chips in 'everything'. Well, only if they are manufacturing.

When you have a recession in manufacturing it is because businesses are not stocking up... because consumers are not buying ... and we will then head to a Services recession (by far the bigger side of the two sides to modern economies).

The composite of manufacturing and services will soon be contracting, in global economic recession.

If financial markets are forecasting mechanisms, what are they likely to do, before a recession is confirmed? **To your pensions and investments.**

Why does inflation fall?
Prices fall.
Why do prices fall?
Lots of reasons. The main one is less demand. So sellers have to reduce to encourage to buy.

It's not rocket science.

US Consumer Price Inflation

From a peak, in the inflationary upcycle (2021 to 2022), of 9.1% in June 2022, US CPI is now 3.0%.

Notice how the disinflation (falling inflation) has been steeper than the rising inflation, prior.

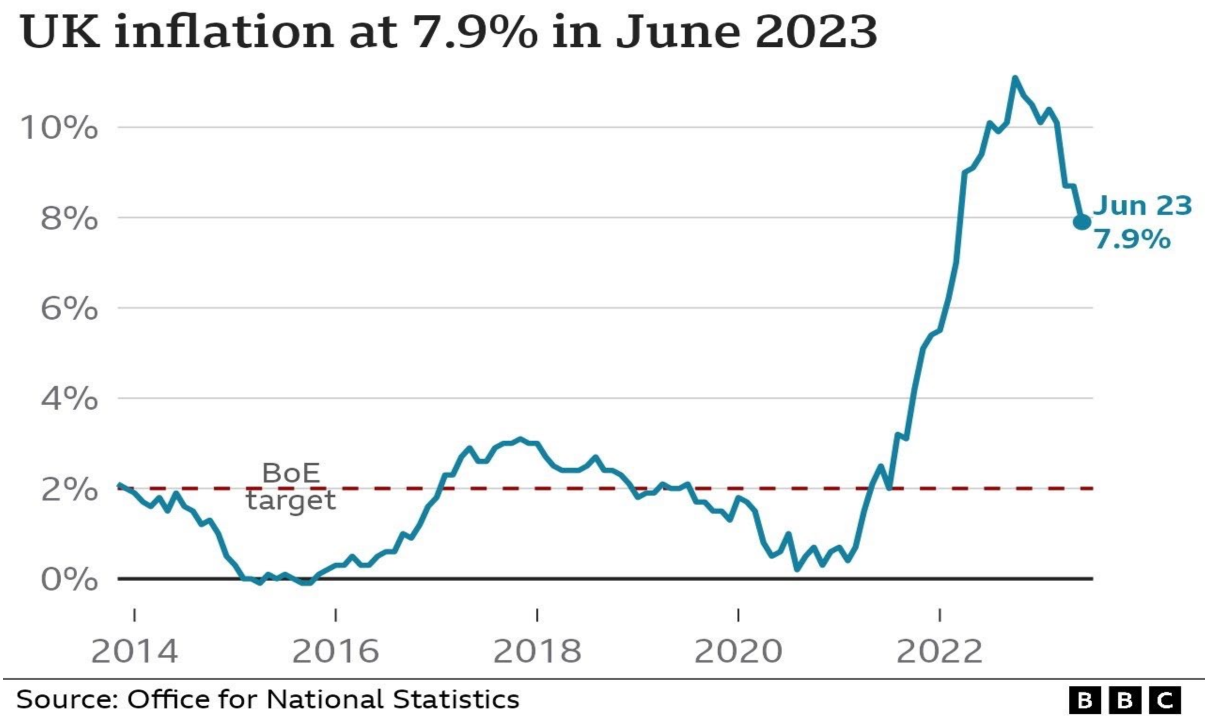
UK inflation is even finally falling more.

The June 2023 CPI was 7.9%. The peak in October 2022 was 11.1%.
(The higher index - that we base our analysis on, as it is closer to reality - RPI, is now 9.6%. It peaked at 14.2% in October. I said, months ago, it should fall to around 7% this year. That appears now to be happening.)

Remember, the Bank of England's (illegal) targets are 2.0% and 2.5%, respectively.

So, we are still WAY above their target. The Base Rate will not fall, as I see it, till next year. ...In case you hoped you would be bailed out, from your home or Buy-To-Let mortgage/s.

UK CPI



I might point out that we had extremely low inflation for several years, to 2021. Then we moved, from the ERA (45 years) of falling / low / extremely low inflation, to an ERA of high annual inflation (probably a generation).

By the way, your 60/40 or 80/20 portfolio worked in the era of disinflation. What makes you believe it will work also in an era of high inflation? I believe it will not.

Also, remember how much more spending power you had when inflation was low. The people love low inflation / deflation.

Mainstream politicians - the ones you vote for - love high inflation.

Anyone have a calculator, as that doesn't add up to me?

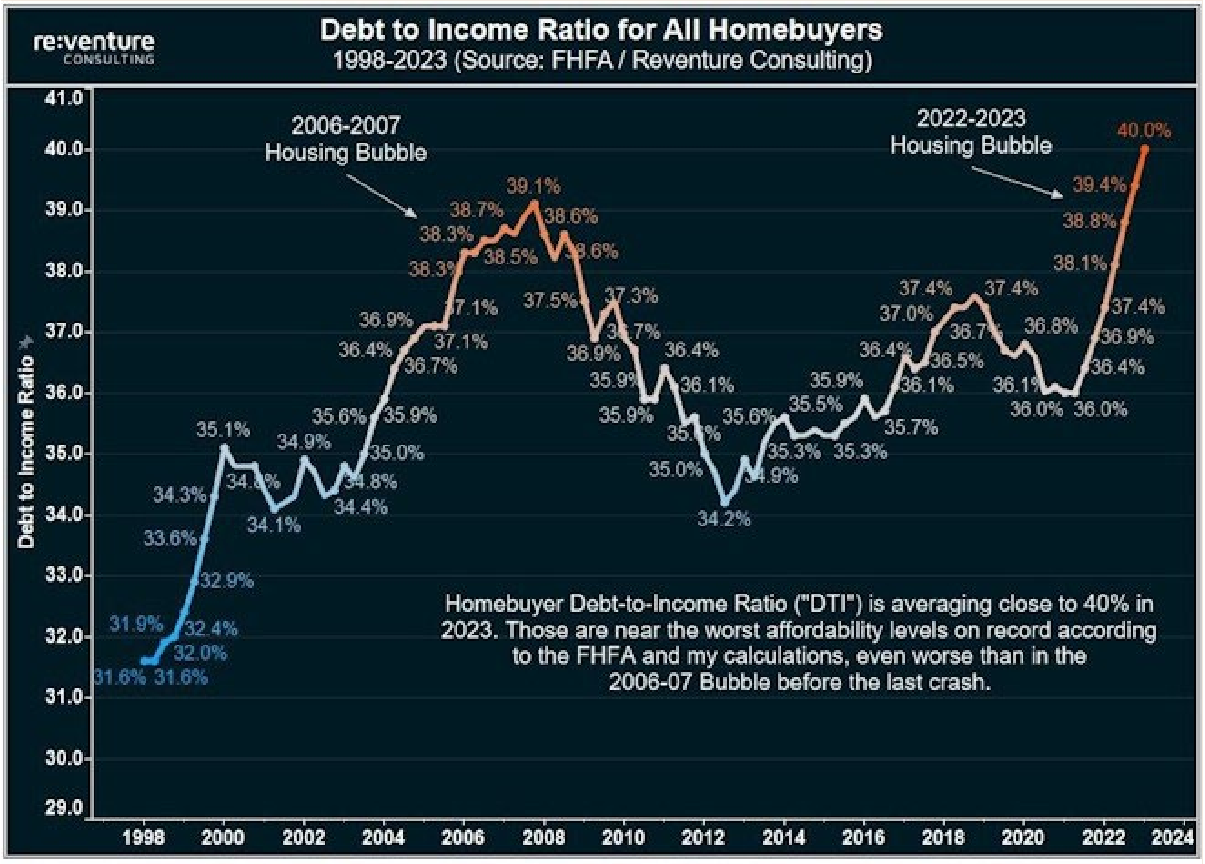
Clearly, the effects of the global slowdown are starting to show up in economic statistics.

You also ought to know that effects of changes to Base Rates usually start MONTHS after the change to the rates. Rates have been rising since early 2022 and still are rising. We are only now seeing the effects of last Summer's rises. We will see the effects of the last year of rate rises FROM the Spring of next year, and they can be expected to continue affecting for months after that. ...until the politicians step in, which they likely will.

0% Base Rate to 5% in just 15 months, with the highest amount of debt in history - household, corporate and government.

The recession is only just starting. There is a long way to go.

US Household Debt to Household Incomes



*DTI ratios through Q3 2022 reported by the FHFA. Q4 2022 and Q1 2023 DTIs estimated by Reventure Consulting based on changes in Mortgage Rates, Loan Amounts, and Incomes.

US (UK, et al) households are in at least as bad a position as the 2008 recession.

Approaching the housing bust in 2008 (after which home prices collapsed 50% in the US, and led to the global economic recession and markets crash), US aggregate household debts reached 39% of aggregate household income. The weight of the debt brought the whole thing down.

The US household debt to income is now 40%...

Within weeks, 90% of Student Loans' repayments will need to be restarted. Biden's administration stopped the payments for years. That will be an average of $300 per month per debt holder. On top of current debts and repayments. Treat it as an income cut to 10s of millions of Americans. Automatically, the above 40% will rise even higher.

And this is with the lowest mortgage rates in history.

The US is unique in that most can access 30 year fixed rate mortgages. So they remortgaged the rate down, down, down, for decades... taking on higher and higher and higher levels of debt. So, debt to income actually rose, while mortgage rates plummeted.

By the way, in 2019, the average new mortgage rate was 3%.
The average new mortgage rate is now 6%... And the average house price is 30% higher than 2019.

May I have that calculator again please because, to me, it adds up to house prices being unsustainable?

In the UK, households, with mortgages, will see mortgage debt costs rise to above 25% of incomes. And rising.

Then, add on car financing / credit card debts et al.

And higher taxes, falling house prices, rising unemployment.

Roost coming to chickens home ... or something like that.

There is great stress in the system.

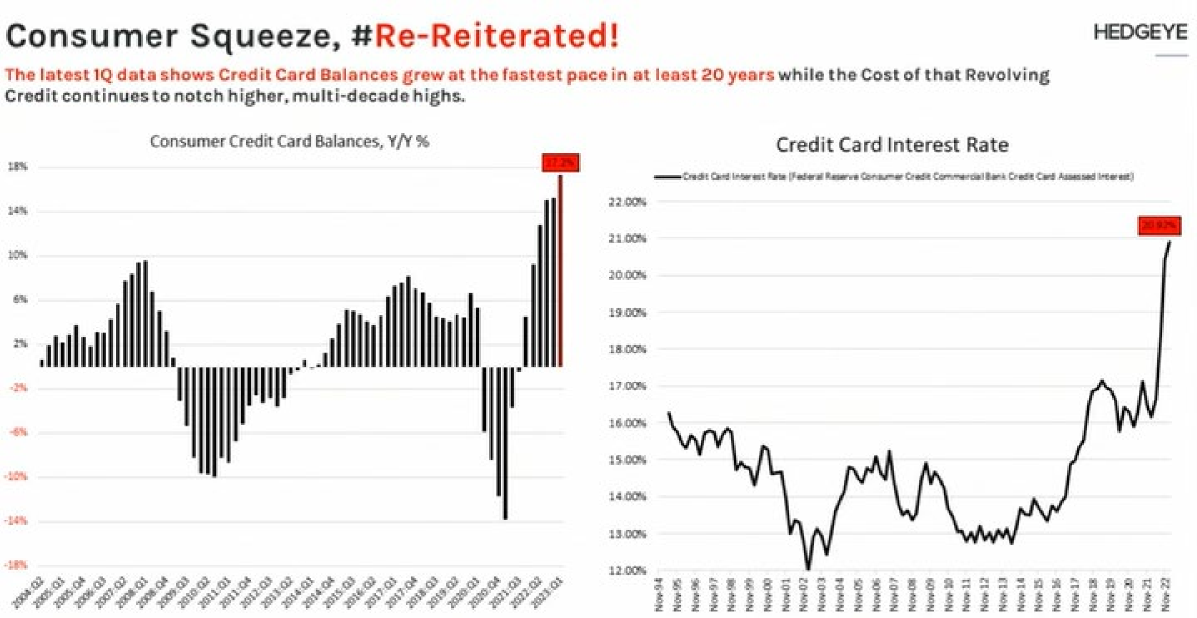
For example, bank after bank is exiting the **car loan business**.
Car loan defaults are at the highest levels in a generation.

Banks are rejecting applications 14% more than last year i.e. their lending standards have tightened greatly, unsurprisingly.
Notably, car loan applications are up 12% compared to last year. So, fewer are even applying (as are being rejected) as they know they will be rejected.

Used car prices in the US are down 13% since the peak in early 2021. A lot more down to come. Used car prices is a significant element in US CPI.
NB Households' bad debts (defaults on loans, credit cards, car loans, not mortgages) are up 70% year on year.

Bank loan demand / approval is at low levels, normally only seen in recessions.

Credit cards' balances though are through the roof... while card interest rates are also through the roof.



Bank loan demand / approval at low levels, 22% average credit card interest rate, and credit care balances at generational highs. Probably All Time Highs.

Not a good combination for the economy.

It all smacks of 2000 to 2002 to me. A deep recession. But longer, more drawn out and deeper.

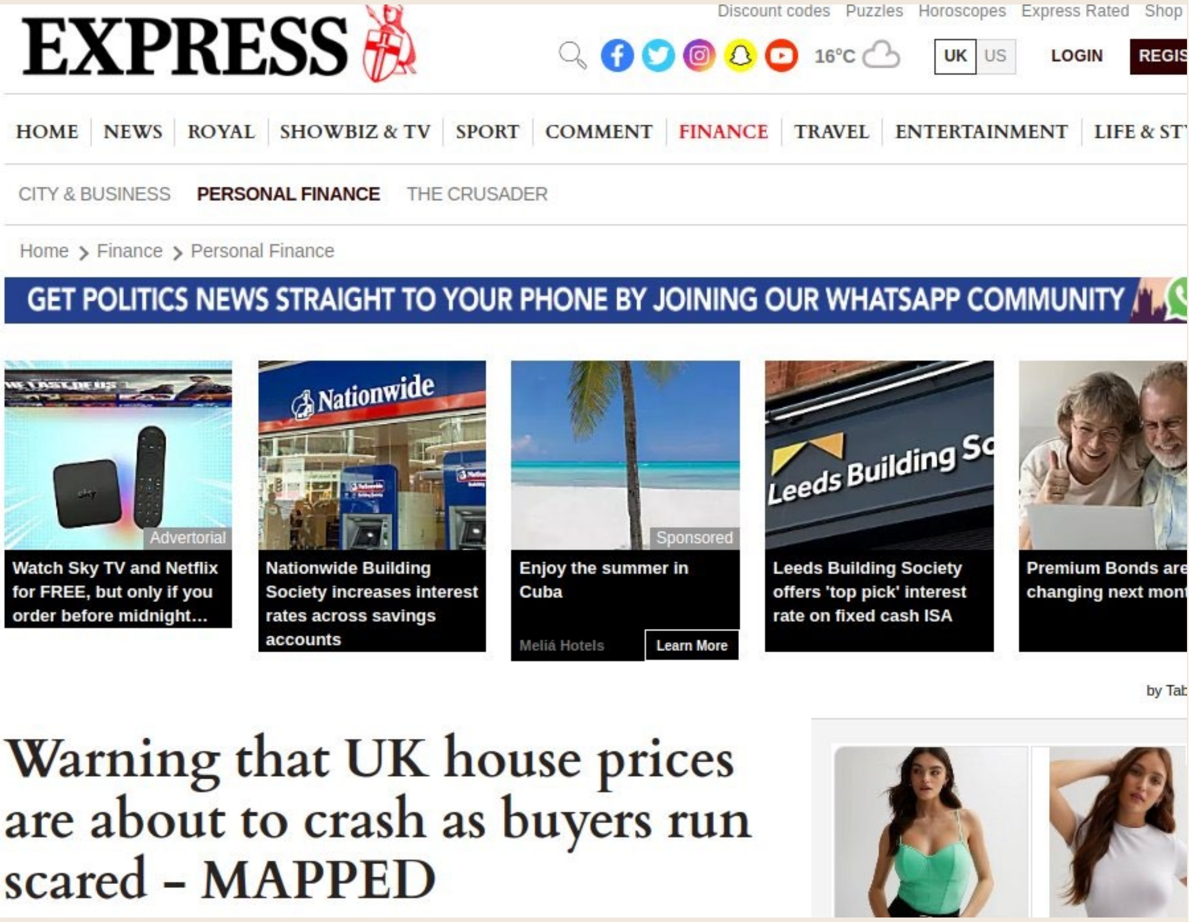
Already this year we have seen the (inflation-adjusted) value of banks gone bust, by assets, as much as the entire 2008 banking collapse in the US...! And, as Karen and Richard sang: We've only just begun.*

* The song, ironically, was a jingle on a bank advert, that Richard spotted one evening, watching the box that never lies.

Yet again we see that there is only 'demand' when there is easy lending and falling borrowing rates. Nothing to do with population, density, innovation etc, as they constantly tell us. Just banking.

Just like property.

The media is starting to squeal.

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Whether residential or commercial (especially office blocks / skyscrapers), the mainstream media is starting to tell people that... they ought not to have bought last year or traded up (really helpful), or they should have traded down or sold their commercial property in 21 or 22 (oh, so helpful).

But then again, why only listen to the media? Everyone could see interest rates soaring all last year. Especially readers of the (free) Booms & Busts Reports.

Forward to friends, family, clients and suggest to them to subscribe for future Reports, at our site. ***Subscribe here***, free. No subscriber is junk-mailed, nor their details sold.

The US National Bureau of Economic Research has shown that commercial real estate vacancy rates in many US cities are at 30 year highs. With CRE mortgage interest rates at multi year / decade highs... Not a recipe for high prices.

2023 sale after sale of skyscrapers shows prices are down 40-80% from the peak. Yes, in some cases down 80%.

Black Rock's commercial property division profits are down 94% year on year.

Corporate 4-week bankruptcy numbers (above $50m debts) are at 2020 and 2008 levels.

They were at multi year lows last year.

The effect on the banking system and Private Equity investments is enormous. What is your defined benefit occupational pension invested in? Hefty chunks of both PE and direct commercial property, probably...

As banks are affected, detrimentally, so is lending... so will be the listed stock markets.

This has been coined the Mother Of All Bubbles. I respect the sentiment. So should you.

In the UK we have seen mortgage defaults (losing the home) rise 35% over the last year. Yet small numbers. Still...

This is before 3 million mortgage resets, by the end of 2025, for which they will see their annual mortgage costs soar 50-75%. A huge 'pay cut'.
For 15% of UK households.

The average 2 year fix is now 6.7%.
It was under 3% as recently as this Spring.

UK sales are down materially. To 80k per month.
Agents / RICS say enquiries have collapsed.

In inflation-adjusted terms, the average UK house price is back to the 2007 level. It will go down much further.

15% of sales take place now at a price at least 10% below the initial asking price. 42%, at least 5% below.

And it's only just started.

In the US, the market is dead.
Sales numbers are back to 2004 levels... yet the US population has increased by 50% over the last 20 years.

US housing is the least affordable since ... the 1980s.

And a chart from Spain caught my eye.

Spanish individual bankruptcies

Stark, is it not?

Seems to me, the shape of things to come closer to home and in the US.

In a nutshell, this is how I see things:

Circle of ~~Life~~ Deflation

I see commercial property, offices, in particular, in multi year depression.

I am not saying that - yet - for residential. But the runes suggest it could be.
The last multi year crash was 1989 through 1993/94 (95 even in the North), nationally.

(Northern Ireland's 50+% collapse was 2007 to 2012/13. They laughed at me, live on the BBC - Stephen Nolan's TV show - in December 2007, when I said NI house prices could fall 50%.)

I see the economy in or heading to major recession, soaring unemployment, crashing stocks and corporate bonds.

With the political elections in 2024, I see them bailing everyone out, **but after a stocks crash**.
This will stop inflation falling and bring it right back up again. Thus, the future upswing will last only 2, maybe 3 years.

#onverra

Are you still betting on rising stocks in your pension? Your retirement fund?
Your financial assets and arrangements?
Let's see. And we'll see it over the next weeks and months, into next year.

If there is a crash in stocks and corporate bonds, will you be able to get out?

De-banking

You know of Farage being de-banked. If you disagree with his politics, that's up to you. If you agree to the de-banking then shame on you!

First they came for the Communists
And I did not speak out
Because I was not a Communist

Then they came for the Socialists
And I did not speak out
Because I was not a Socialist

Then they came for the trade unionists
And I did not speak out
Because I was not a trade unionist

Then they came for the Jews
And I did not speak out

Because I was not a Jew

Then they came for me
And there was no one left
To speak out for me

Martin Niemöller, 1946

De-banking isn't new. They've been doing it to conservatives (not Conservatives!) for years. There's a Facebook group of 10,000 who have been debanked. Farage just brought it to wider attention.

To be de-banked is to be unpersoned. In 2023, it is impossible to prosper or perhaps even survive if de-banked.

If you disagree with someone, fine. Don't agree to them being put out of society...unless they break common laws of course.

If **you've** been de-banked, the first thing you should do is submit a Subject Access Request, demanding to see whatever information that company is holding on you. If it shows you've been discriminated against, you can then complain to the Financial Ombudsman and, if necessary, take the bank or payment processor to court.

The Free Speech Union has helped several members navigate this process, and they'll be happy to help others who have been affected by the recent rise of politically-motivated financial censorship.

If you're a member, you can get in touch with the case team at ***help@freespeechunion.org***.

I advise clients on Wealth Advice and Later Life Advice all over GB and, indeed, on three continents.

"We advise you based on what we would do, were we in your shoes, given what we know."

Call me personally to see how we can help you.

I think most folk do not realise the sizeable risks - and opportunities - in investment markets.
They will. But will they have benefitted or lost from the actions taken?

Thank you for reading. I hope you found it interest and, perhaps, useful.
If you have any queries over any of the issues raised, just call me or email by clicking ***here***.

With kind regards

Jonathan Davis **BA MBA FCII FPFS EFP**
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Chartered, Financial Adviser and Economist

SOLLA
Society of Later Life Advisers
ACCREDITED

Chartered Financial Planner

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Please note that investments can fall as well as rise. And they do!

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