

August 2, 2010: More Things I Think I Think

I recently finished a month-long speaking tour in which I spread my virulent gospel across ten time zones. Owners showed-up by the thousands, many of whom were in a zombie-like state. I played the role of the Dead Collector (“Bring Out Your Dead!”) from Monty Python’s Holy Grail. I would walk around the room and bonk the nearly dead on the head with my Darwinian worldview.

On a positive note, all of the time on planes along the way gave me time to consider more things I think I think.

First, regardless of whether the economists judge that the US has, or will double dip, I think the next few years will feel like we have. But, a double dip would likely knock the wind out of the public markets, and that would destroy our fragile national psyche. We really need to feel somewhat wealthy right now, even if we’re not actually wealthy (and we’re not).

Unfortunately, the evidence of a double dip is right in front of us. I think this because the two recession metrics that are typically most instructive have both turned negative in the past few weeks.

The ECRI Weekly Leading Index "growth rate" – what I consider to be a true activity index - just fell below -10%. This is bad. David Rosenberg, one of my favorite contrarian economists, claims that every time this index has hit the -10% level since its inception in 1967, a recession has followed....normally within two quarters.

Also, the Baltic Dry Index (which tracks global shipping rates from around the world) recently fell every day for more than a month. This shows that the "real time" demand for raw materials is falling, another sign that economies around the world are slowing. Changes in the Baltic Index tend to show up in the economic data in the next two quarters as well.

Sounds like it’s time to write another post-iceberg U.S.S. Titanic Note.

These canary-in-the-cave indices both point to a major economic slowing. This is happening as world governments are adopting austerity programs. Where will the demand for products and services come in the next couple of years? Do you plan to spend, spend, spend?

Second, I am convinced that unless business owners cause a revolution in their own businesses, they will not have to worry about business ownership for much longer. This business-as-usual, hope-that-globalism-is-a-fad attitude is killing private companies. What is required is an overthrow of the business model, strategies and tactics for most private firms. I know this smells of Schumpeter’s creative destructionism, and I’m OK with that. It’s beyond time for some major changes, and owners need to drive that change.

Finally, I think I’ve been correct in the past year saying that real un(der)employment in America is closer to 25% than the 10% or so the government claims. Now I have evidence from an unlikely source.

Several polls show 25-29% of households with at least one member who's unemployed and looking for a job. Some adjustments are required to the polling data to make them useable as unemployment rates. When these adjustments are made, the pollsters say the true unemployment rate in the US is 22%. This is the exact number I've been using in past MidasNotes when I looked at reported unemployment numbers, and then added severe underemployment plus those people who had stopped "officially" searching for a job.

What would our government policies be if we were trying to solve a 22% unemployment rate, rather than kidding ourselves with a 10% rate? We'll never know, of course, because this would require re-examining our long-standing official policy of denial. But I suspect these 22% will make their feelings known in the next couple of elections.

I often like to finish on a hopeful note, so here we go. The companies that listened to me/Midas a couple of years ago and re-conceptualized their practices are now making a killing. Just **tonning** it. I'm talking about going from making just a few bucks to realizing \$10-20 million EBITDA per year.

Remind me again why you're not **tonning** it?

- Rob

Comment directly to Rob at R.Slee@midasnation.com