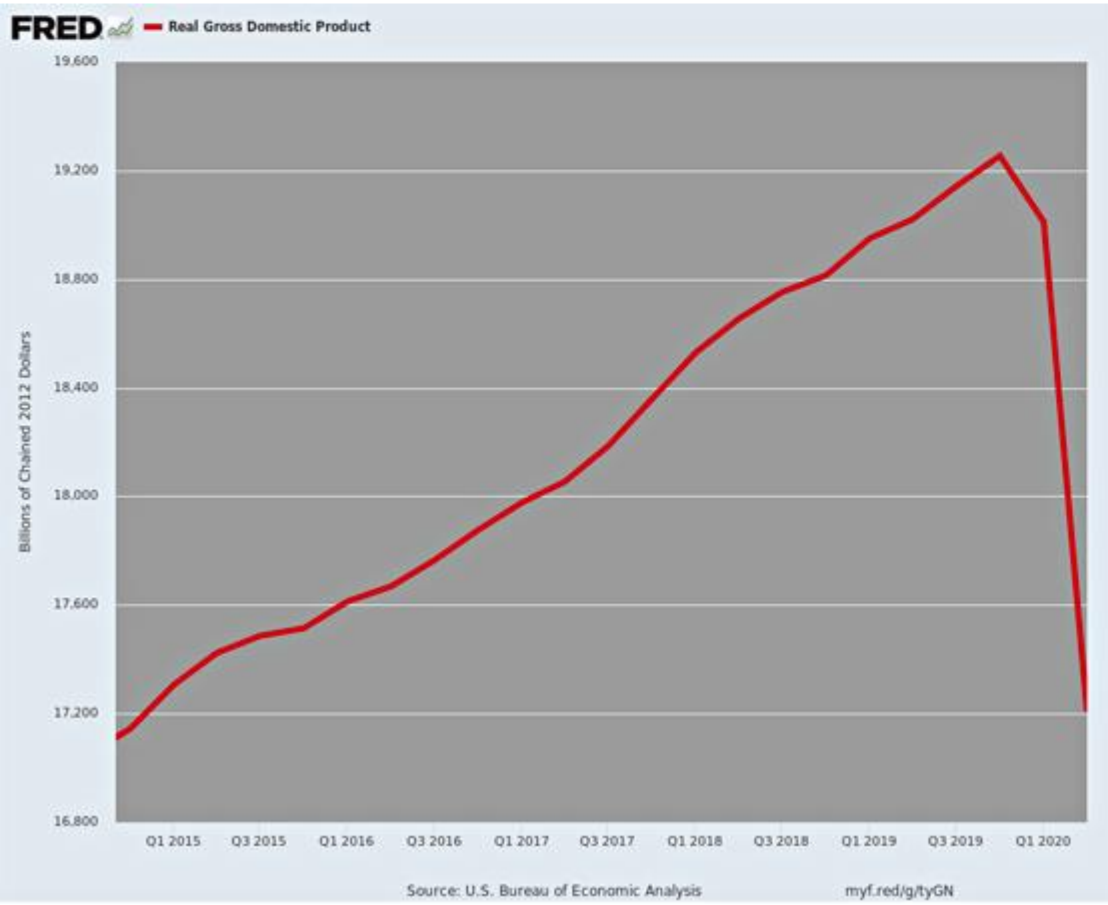
Lockdown Lunacy: Your US Government Ordered Depression Has Arrived

By David Stockman, 2 August 2020

Well, the Virus Patrol sure has done it. In a fit of reckless overkill they have managed to vaporize six years of economic growth during the last 90 days. And that's just by the mechanical reckoning of the GDP accounts, where total output in Q2 weighed in at essentially the same level as ***Q4 2014***.
The real damage is far deeper, however, and is reflected in millions of small businesses permanently destroyed, tens of millions of households wiped-out financially and the vicious daisy chain of delinquencies, deferrals and defaults just beginning to rip through the $78 trillion edifice of debt which entombs the US economy.

Real GDP Level



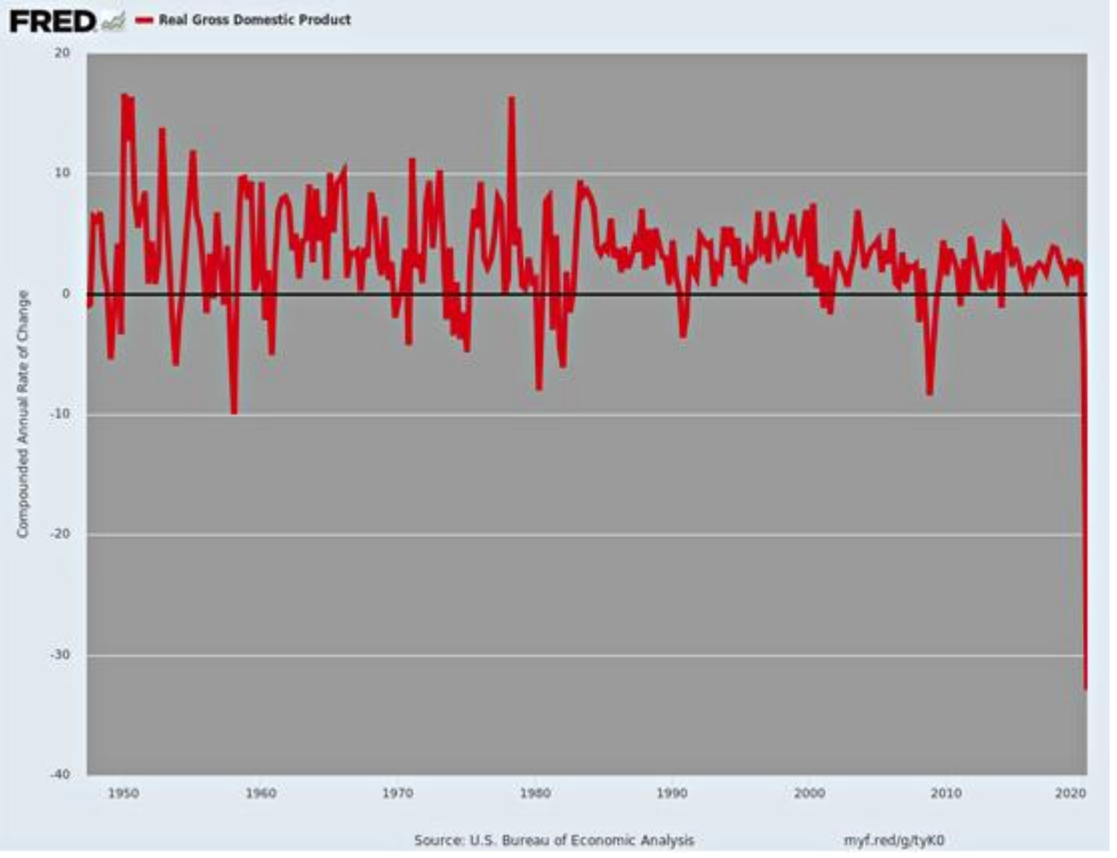
Of course, most of the Wall Street talking heads were nonplussed by this morning's release because, well, Q2 results are claimed to be ancient history: Reality is purportedly the "V"-shaped recovery on their spreadsheets, which really can't fail to happen because it's always two quarters out regardless of conditions at the moment.

So let's get something straight. What is happening is an economic catastrophe the likes of which we have never seen before, even during the Great Depression of the 1930s.

In fact, the worst annual decline back then was a ***14.8%*** drop in 1932, while the entire peak-to-trough real GDP decline between 1929 and the 1933 bottom was ***30.5%***.

So it would be fair to say that measured at an annualized rate, the idiotic Dr. Fauci and his Virus Patrol have now delivered a ***32.9% GDP plunge***, which single-handedly tops the entire contraction of the Great Depression.

Needless to say, the Q2 result also leaves the recessionary drops since 1950 way back in the dust. Even the auto industry induced plunge of Q1 1958 didn't make the double-digit threshold. It clocked in at a ***9.986%*** annualized decline or less than ***one-third*** of today's cliff dive.



What was especially notable, however, was the vaporization of personal consumption spending on services, which ordinarily accounts for upwards of 70 percent of total PCE; and which is also ballyhooed by the paint-by-the-numbers Wall Street economist as the ballast the keeps GDP moving ever higher.

Not this time!

Services spending literally fell through the trapdoor, contracting at a ***43.4%*** annualized rate. That compares with the 11 recessions since 1950 where real spending on services never went negative, save for the pinprick decline of -1.6% annualized during the Q1 2009 bottom of the Great Recession.

By every account, the economic plunge in the winter of 2008-2009 was the worst since the 1930s, but today the Commerce Department reported a PCE-services drop that was ***28X deeper***!

Our purpose here is not to marshal scary numbers, even as they surely are. Rather, our point is that what is coursing through the Q2 numbers is not anything that resembles a normal chain-of-reactions macroeconomic cycle. For instance, where job losses cascade through to shrinking incomes, thereby causing consumer confidence and spending wherewithal to diminish and household spending to be curtailed.

To the contrary, what is depicted below is essentially economic marshal law. Agencies of the state commanded airports, restaurants, bars, hair salons, gyms, movies, dentist offices, theme parks, sporting events etc. to close or operate at drastically reduced capacity, which meant, in turn, that day-in-and-day out commerce and economic output vanished instantly. Stated differently, this 43% plunge in services spending didn't happen for the ordinary reason that people were short on cash. As we show below, personal income during the quarter – thanks to the massive flow of free stuff from Washington (aka government transfer payments) – clocked in at a record level!

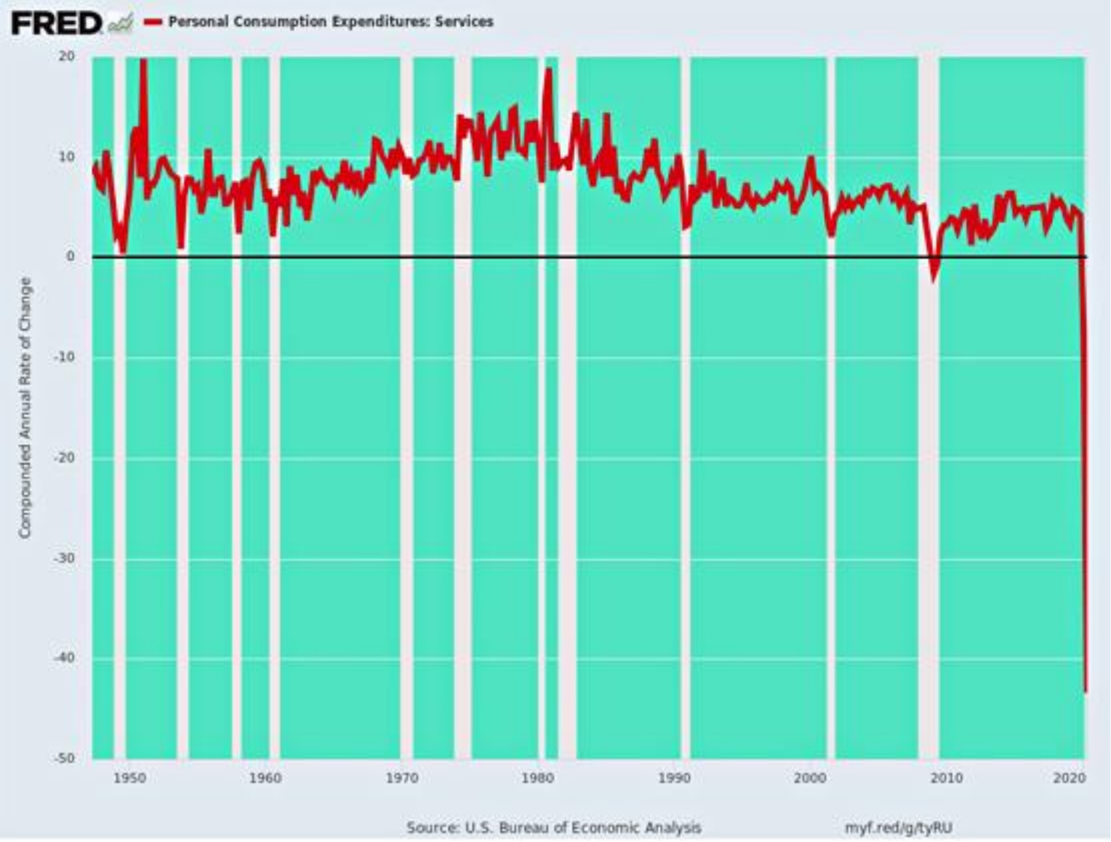
Consequently, there will be no rebound in the plunging red line below no matter how much fiscal and monetary "stimulus" Washington pumps into the main street economy.

The services sector accounts for nearly 66% of total PCE, which, in turn, accounts for 68% of measured GDP. So the latter will not recover until the Virus Patrol gets its foot off the neck of what we call the social congregation activities of daily economic life; and also until it and its MSM collaborationist desist from fanning the false claim that the Covid is the equivalent of the Black Plague, thereby causing people to voluntarily quarantine out of misplaced fear.

Of course, you don't have to listen to Dr. Fauci and the Scarf Lady for long – yes, they have not yet been locked up in padded cells where they belong – to realize that the Virus Patrol is on a once-in-a lifetime power trip.

In ultra-busy body/Nanny State fashion they are virtually regimenting the comings and goings of a $20 trillion economy – even as they keep the US economy on indefinite idle waiting for the vaccines and antivirals from their allies in Big Pharma and the Gates Complex to ride to the (mandatory) rescue.

Annualized Change In Personal Consumption Expenditures, Services, 1950-2020



We don't expect the Virus Patrol to be put out of business any time soon because the Donald is too confused and weak to shut them down.

Moreover, if he keeps shooting himself in the kneecaps via tweets like today's "lets-postpone-the-election" numbskullery, he will guarantee an even worse scenario: Namely, that while Sleepy Joe is being oxygenated and propped-up behind the Resolute Desk for daily Oval Office photo ops, the left-wing health Nazis who surround him will really go to town on Lockdown Nation.

Nor is that any kind of unhinged trashing of the camarilla of out-and-out statists who will form the core of the Biden Administration. The fact is, the Donald's malpacticing doctors, the MSM and the Blue State mayors and governors have now unleashed a full-on public hysteria that is self-fueling.

It is now transforming ordinary sheeples into obedient and unquestioning brown-shirts. Even in the purportedly enlightened, socialist republic of Aspen, where we are sheltering for the duration, we see them "mask-up" even with no one in sight, while pumping strenuously up the mountain side on a fat-tired bike.

On manifestation of the Covid-Hysteria is the soaring level of "testing" going on as people either try to get a hall pass in order to return to work or just plain run to the nearest testing station every time the media sends off new alarm bells.

During April, for instance, which was the very worst month of the contagion in terms of serious illnesses and deaths, 5.2 million new tests were reported or ***175,000*** per day.
By contrast, in July to date (thru the 29th), there have been ***21.5 million*** new tests reported or an average of ***745,000*** per day.
In a population that has been thoroughly exposed to the virus after five months, it is a given that with the number of tests soaring, the number of positive cases will rise proportionately. But that's a misdirection because the real issue is the true medical severity of the new cases, and that has dropped precipitously.

The death rate has dropped from ***1,800*** per day in April to ***780*** in July; and whereas 15-20% of new cases were being hospitalized in most states during April, that figure has now fallen to ***2-4%***.
That is, after the Grim Reaper's original romp through the most vulnerable populations – especially the nursing homes and long-term care facilities in March/April – the preponderant share of the remaining populations being infected and testing positive appear to have stronger immune defenses, and are mainly either asymptomatic or treating and recovering at home in the normal flu-season manner.

So on the facts, the Hysteria should be dying out, but, alas, the facts are of small moment in the context of a runaway public hysteria that is being turbocharged by a severely aggravated anti-Trump partisanship that has no modern precedent, or any at all.

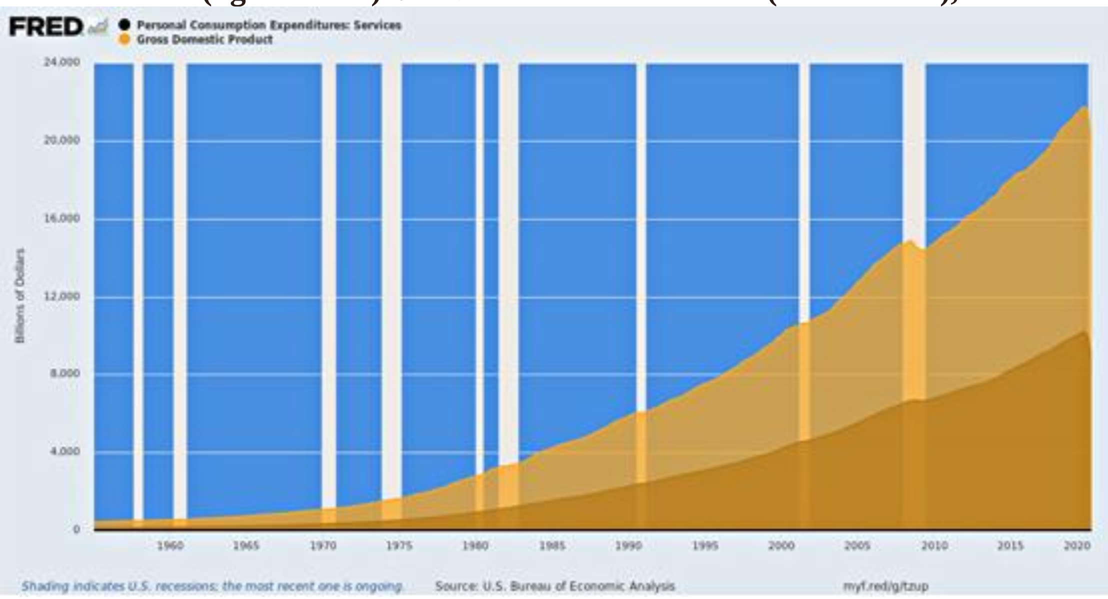
We are constantly reminded that there are less than 100 days until the election, but probably of even more salience is that the next flu season will be arriving even sooner in October. And it won't matter whether the obvious herd immunities building up against the SARS-Cov-2 cause the next flu season to be unusually mild or not.

That's because the Virus Patrol will be at shrill alert for the "second wave" in the run-up to October, keeping the suffocated economy evident in today's GDP report on its back foot for the balance of the year, at least. That means the ballyhooed V is now surely dead-as-a-door nail.

In this context, it needs be recalled that the services sector of the US economy is bearing the brunt of the Lockdown orders, but that it now counts for fully ***$8.7 trillion*** or ***45%*** of GDP. That compares to a mere ***26%*** back in the days of America's industrial might in the mid-1950s.
In the big picture context, therefore, national policy – especially at the Eccles Building – caused the off-shoring and hollowing-out of the US industrial economy over the last three decades. In turn, that has left main street especially vulnerable to a state-orchestrated attack on its new services sector center of gravity such as outpatient surgery clinics, Pilates studios and tapas bars.

Again, an economic marshal law attack on the new epicenter of the US economy means that the issue is not traditional stimulus, but clearing the decks and clearing the air of the Virus Patrol orders and Covid-Hysteria, which was the real culprit behind the Q2 GDP disaster.

Nominal GDP (light brown) Versus Service Sector PCE (dark brown), 1955-2020



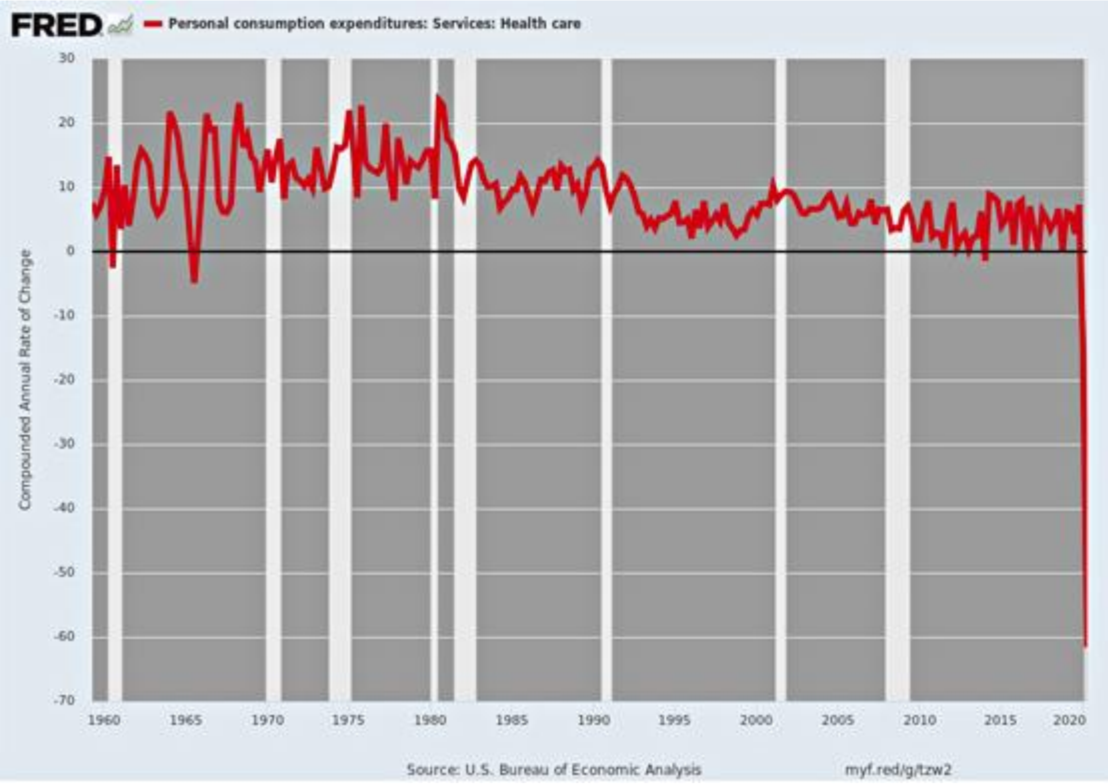
Perhaps nowhere is the impact of economic marshal law more evident, ironically, than in the health care sub-sector of the services economy.

The former, of course, has been the workhorse of US GDP growth for decades. However, after peaking at $2.50 trillion in Q4 2019, it weighed in at just $1.89 trillion in Q2 2020. That's a ***$608 billion*** decline, reflecting an astounding ***-24%*** contraction.
And this is supposed to be the worst medical crisis to hit America since the Spanish Flu of 1918!

But, actually, the government's data mill is telling an absolutely opposite, nay crazy, story. Namely, that the single largest sector of the US economy plunged at a ***61.6%*** annualized rate in Q2 – meaning that the figure gives the notion of being "off the charts" of history an altogether new definition.
Needless to say, health care spending is not now and never has been amenable to Washington's vaunted stimulus machines. The overwhelming share of spending is government funded directly through Medicare/Medicaid et al or through the $300 billion per year tax shelter for employer health plans; and whether public or private, consumer health

payments are overwhelming made by third-parties, thereby further limiting the efficacy of the cheap money from the Fed and free money from Uncle Sam.

The plunging red line below, therefore, is the doing of the Virus Patrol and its orders to shutdown most so-called discretionary healthy care services, such as cancer screenings? So until it is put out of business and the public Covid-Hysteria is substantially abated, the rebound of the health services sector is likely to the contained and protracted.

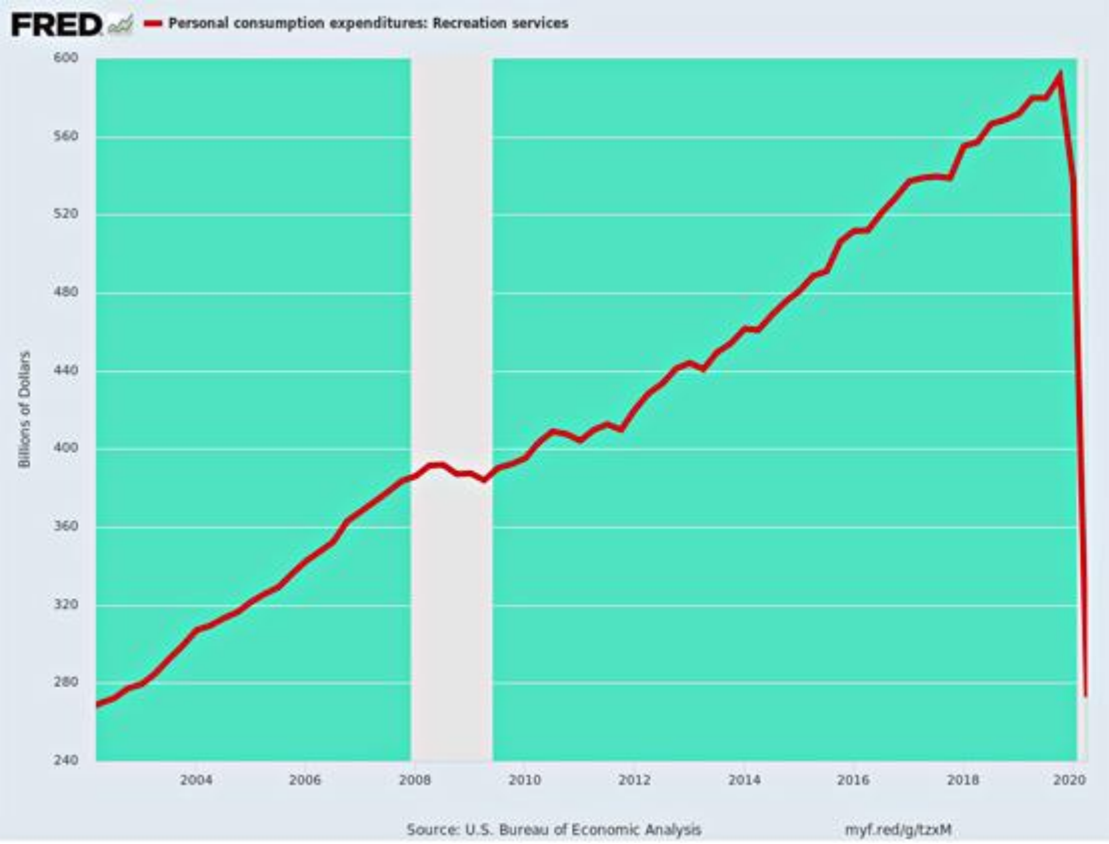


In short, what we have is a government-ordered depression, not a macroeconomic recession that is purportedly remediable by a huge dose of monetary and fiscal stimulus. So the truth is, the Virus Patrol, not the Fed and Washington's everything bailout brigade, is in charge of the recovery from the Q2 disaster, and they are not much interested in letting it happen.

To take another salient example, the go-to strategy of the Virus Patrol has been to shutdown large scale public gatherings entirely, but that's obviously the venue of the recreation sector.

So it is not surprising that the PCE spending rate for this sector has given "cliff-diving" a run for its money. Compared to the $590 billion annualized rate of spending in Q4 2019, the current quarter clocked in at just $272 trillion.

The amounted to a ***53.4%*** decline from Q4 and an out-of-this-world contraction of 61% annualized in the current quarter. Or alternatively, recreation spending in Lockdown Nation during Q2 reverted to the level first crossed in Q2 2002.
That's 18 year's worth of growth gone in a virtual economic heartbeat.



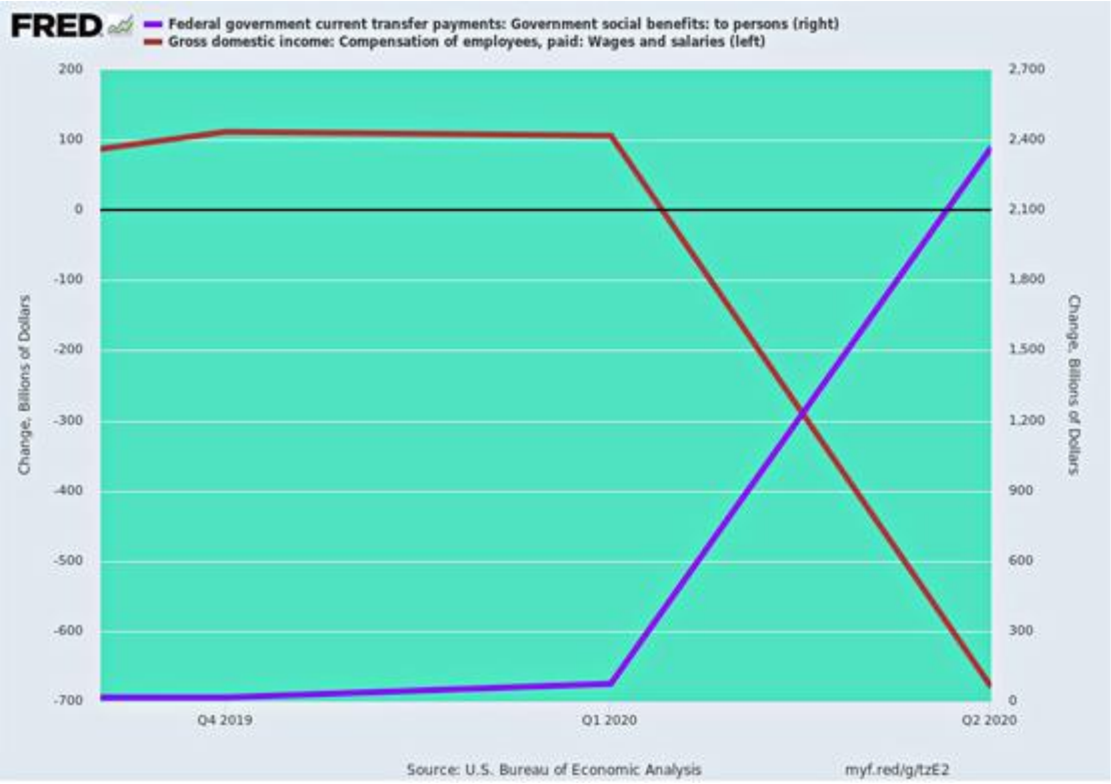
Of course, there was one thing that was way up in Q2 – transfer payments and personal income. And every dime of the massive increase in transfer payments shown below was borrowed by Uncle Sam and monetized by the Fed.

Yet the only thing it accomplished was to further balloon the public debt because the current depression does not flow from the want of means or desire to spend: It's the product of economic marshal law ordered up by the Virus Patrol.

Still, it is worth noting that wage and salary income (brown line) was down by ***$680 billion*** at an annual rate in Q2, while the Washington spending machine boosted transfer payments at a ***$2.4 trillion*** annual rate, or by nearly ***four times more***!
Once upon a time, that would have been considered insane overkill, and at least caused Republicans to screech at the top of their lungs about fiscal profligacy.

Alas, as they put up their $1.2 trillion Everything Bailout 5.0 against the House Dems' $3.3 trillion alternative in the days just ahead, the chart below will be nowhere seen in the porkers' lounges of Capitol Hill.

Change From Prior Quarter In Billions: Transfer Payments (purple line) Versus Wages and Salaries (brown line)



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