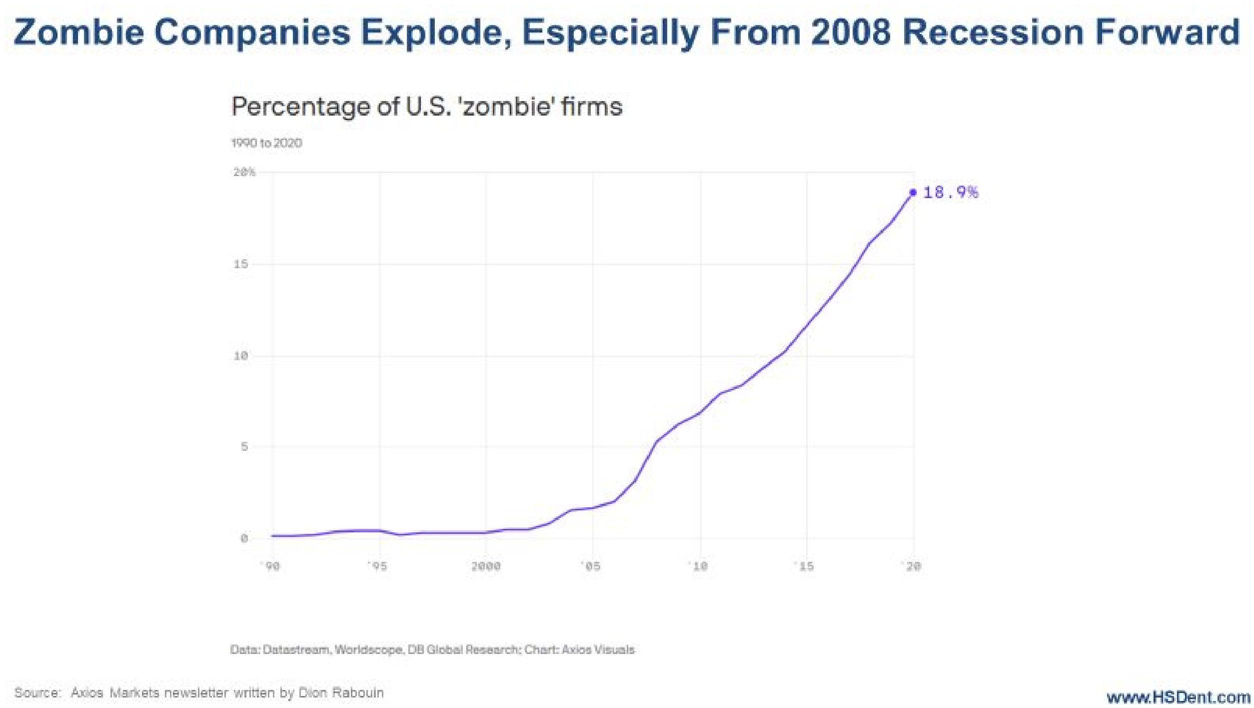
Harry's Take

June 18, 2020

What's Wrong With Endless Money Printing? The Rise of the Living Dead

I can't rant enough about the utter stupidity of economists who do not seem to understand the work that gets done healing our economy through cost cutting, restructuring of debt, and innovation. It's like when we sleep: we don't know everything that happens, but a lot does. Maybe scientists should try to invent a way to make it so that we don't have to sleep any more, to have more hours for work and play.

I was listening to Dion Rabouin from Axios Markets newsletter on CNBC. He has tabulated the rising percentage of "zombie companies," those that are still operating but cannot pay their debts. It's now at 18.9%, which is very high. No surprise that the number of them has accelerated since the 2008 Great Recession. Credit was easy coming into the 2007 economic peak, and then, just when a lot of companies should have gone under and restructured debts and so on, this ratio just kept rising.

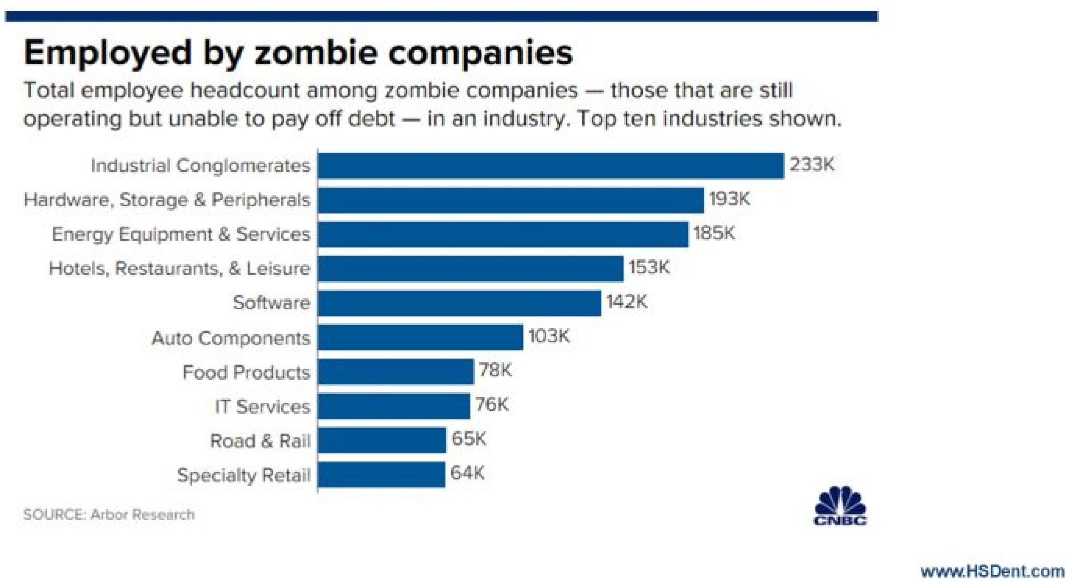


Why? QE keeps flooding the banks and financial system with money. Along with suspending mark-to-market rules for loans, banks also don't have to write down loans and take losses that would hurt their earnings. So, we create more zombie banks. We also obviously create more zombie companies, which are not required to go into Chapter 11 bankruptcy. They just keep limping along, not paying back their debts and interest… and those companies sustain zombie jobs.

This keeps capital and people in companies that should have been flushed out or restructured to be more profitable. The falling money velocity that economists hardly understand is a direct result of these unproductive investments in zombie companies, which cannot pay their loans. Only economist Dr. Lacy Hunt seems to be able to explain this. This is bad economics and also leads to drops in productivity, which averaged 2.3% for decades into 1973 and then fell to 1.8% into 2010 and 0.9% into 2019.

Rabouin also shows the top 10 sectors for zombies and the employment levels at those firms. If you combine tech hardware and software, that group is number one, at 335,000 jobs (193k HW + 142k SW), followed by industrial at 233,000, energy at 185,000, and travel and entertainment at 153,000. The top 10 alone come to about 1.3 million zombie jobs. These are the companies with the below-investment-grade or junk bonds and the leveraged loans (CLOs) that are the new CDOs of this cycle. These are the companies that will and should default. Is 18.9% enough to cause a problem? That's a depression in itself!

Industrial, Tech, Energy, and Travel & Leisure Dominate Zombies



I know this may sound perverted, but I can't wait for the real financial crisis to occur, to lay these zombies to rest. This will only happen when the endless doubling down on stimulus by central banks fails so badly that the crisis just happens despite them.

No matter how good your luck, if you keep doubling down at the casino, you will end up broke. The recent string of exponentially higher QE and fiscal stimulus shows we are at that breaking point.

Harry

Got a question or comment? You can reach us at info@hsdent.com.