The Economy's 30-Year Buildup Will Be Destroyed in Just One

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> '*If you want to see the front page tomorrow, start looking at page seven today.*'

These were valuable words of advice I once received from a seasoned journalist.

Stories can often start out as a 'slow burn'. Some die out.

Others, fanned and fuelled by facts, eventually become line news.

The constricting forces on the global economy are a trend I identified a number of years ago. At that stage, very few people seriousl

This is an extract from the April 2014 edition of *Gowdie Family Wealth* (emphasis mine):

> '*Underpinning the* Gowdie Family Wealth *portfolio is The Great Credit Contraction theory. Here's a brief recap on the theory.*
>
> '*The three decades immediately following WWII generated genuine economic growth through productive activity: manufacturing,*
>
> '*Whereas the economic "growth" of the past 30-plus years has largely been due to the private sector spending money they had r prospect of a sustained and lasting change in society's attitude towards debt is abhorrent to them.*
>
> '*The whole system (tax revenues, welfare promises, health funding, corporate profitability, share prices, property values, retirem*

It's taken longer than I thought — due to the relentless, unprecedented and coordinated stimulus efforts — for the squeeze to work i

> 'CPI figures suggest no rate rise yet as inflation disappoints' [CPI: consumer price index]
>
> *The Sydney Morning Herald*, 26 July 2017
>
> 'U.S. Inflation Remains Low, and That's a Problem'
>
> *The New York Times*, 24 July 2017

The absence of inflation doesn't mean that all household costs are falling. Some, like power costs and health insurance, are rising fa

However, what it does mean is that wages growth is much harder to come by…especially in the private sector.

Discretionary spending — and that includes the ability to take on more debt — is under pressure.

The Australian Financial Review published this line on 27 July 2017:

> 'Coles reveals the rising pressure on household'

Here's an extract (emphasis mine):

> '*"There is a sizeable proportion of consumers who are being forced to devote time and effort each week to work out how they ca*

> '*"At Coles we are seeing shifts in consumption from premium to mid-tier products, and, for many, shifts to our value range of pro*

> '*Durkan said that over the past six years, childcare costs have risen by 58 per cent; household utilities prices by 35 per cent and*

> '***If these trends continue, particularly the rise in electricity prices, it could have grave implications for the banking syste***

The last thing the banking system wants is for people to live within their means. The banks want — no, make that *need* — debt slaves.

The interconnectivity created by globalisation means that what happens in one corner of the world eventually ripples through to our island nation.

Tokyo-based William Pesek (a former columnist for Barron's and Bloomberg and author of *Japanization: What the World Can Learn from Japan's Lost Decades*) wrote an op-ed piece on 21 July 2017 for LiveMint titled (emphasis mine): 'Is deflation bearing down on Asia? China is at the crossroads where the ideologies of Keynes and Friedman meet: **aggressive stimulus over time loses potency, requiring ever bigger doses**'.

In his article, Pesek cites recent research from Nomura Securities that states '*The world's second largest economy* [China]*, to which the rest of Asia is very exposed, is flashing several signs of vulnerability…Should things unravel, they say, "contagion to the rest of Asia could be substantial."*'

Excessive and aggressive use of monetary steroids can do wonders in the short term for an economy, making it appear bigger and stronger than it really is. *When*, not *if*, China eases up on the 'debt juice', the deflationary effects will not just ripple — they'll flood into all corners of the world.

And then, last week, I read this from US-based Saeculum Research:

> '*Expect Amazon and Walmart to continue to play hardball with suppliers. All of these discounts come at a price — to vendors. W budge on prices. Insiders suspect that this is why all Pampers products mysteriously disappeared from Amazon.com earlier this*

This is how the cycle goes.

Income constrained and debt-burdened consumers want lower prices.

Behemoth retailers squeeze suppliers to deliver on consumer demand.

Suppliers in turn look to trim margins…reduce wages, lower hours and automate more of the production. Workers (who are also consumers) face wage pressures.

Central banks reduce interest rates to make debt cheaper (hoping to rekindle the debt-dependent economic growth model), but lower rates also reduce the income of conservative retirees (consumers).

Income-constrained and debt-burdened consumers….

We are caught in a vicious bind of our own making.

Decades of living beyond our means has sown the seeds of our economic demise.

The world built excess capacity to supply a consumption model that was not sustainable.

Suppliers, retailers and consumers are in the process of cannibalising each other.

And as we're witnessing, the effort of governments and central bankers to reverse this trend is meeting stiff resistance. Leaving them scratching their s over why the usual 'incentives' no longer stir consumer 'animal spirits'.

Their flawed economic theories are now doing more harm than good.

The trend we identified several years ago is now making its way to the front pages.

As the pressure continues to build, here's what I think future lines are going to look like:

'Dow collapses'

'Bankruptcies on the rise'

'Property markets crash'

'Homes lost'

'Unemployment numbers worse than expected'

'Social unrest on the increase'

The world has too much debt, too much capacity, too many entitlements, too many people moving into retirement, and too many people who think the world owes them a living.

Reality is going to hit — and hit *hard*.

The squeeze is on.

Regards,

Vern Gowdie,
Editor, *Markets %26 Money*

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