

The Wheels Have Started to Come Off the US Economy, the Worst Is Yet to Come

For a long time, there was a lot of denial about the direction that the U.S. economy was heading. The Biden administration and the mainstream media just kept insisting that everything was just fine even though everyone could clearly see that it wasn't. But now reality is setting in.

Last week we got some numbers that Wall Street really didn't like, and a massive temper tantrum ensued. The panic that we witnessed on Friday was quite breathtaking, and many are concerned that it could bleed over into the new week. Investors are desperate for the Federal Reserve to cut interest rates, but so far the Fed has not moved.

On Friday, many were surprised when the employment numbers were much worse than anticipated.

U.S. job growth cooled sharply in July while the unemployment rate unexpectedly rose to the highest level in nearly three years.

The Labor Department on Friday reported that employers added 114,000 jobs in July, missing the 175,000 gain forecast by LSEG economists. The unemployment rate also unexpectedly inched higher to 4.3% against expectations that it would hold steady at 4.1%.

It marked the highest level for the jobless rate since October 2021.

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Please keep in mind that the U.S. economy must produce at least 150,000 new jobs each month just to keep up with population growth.

So even if we did add 114,000 jobs last month, we would still be losing ground.

But the only reason why the official figure showed an addition of 114,000 jobs last month is because the birth/death model added 246,000 jobs to the final number.

Of course, we can't possibly forget that every jobs number is highly manipulated and rigged, and July was no difference with the Birth/Death model adding a ridiculous 246K "statistical" jobs to the unadjusted print. Which it does not translate apples to apples, one can confidently say that the actual adjusted payrolls number would be far, far smaller had it not been for this ongoing fabrication.

It isn't difficult to get a positive employment report every month when you are "adjusting" the final number by about a quarter of a million jobs that you just "assume" are being created somehow.

In any event, even if we take the government's report at face value, the Sahm Rule has still been officially triggered.

That's because the rise in unemployment triggered the so-called Sahm Rule, an indicator that is used to provide an early recession signal. The rule stipulates that a recession is likely when the three-month moving average of the jobless rate is at least a half-percentage point higher than the 12-month low.

Over the past three months, the unemployment rate has averaged %, which is percentage points higher than the 3.5% rate recorded in July 2023. The Sahm Rule has successfully predicted every recession since 1970.

Even though this indicator has successfully predicted every single recession since 1970, Fed Chair Jerome Powell insists that it may not be correct this time around.

Fed Chair Jerome Powell responded to a question about the rule at a news conference Wednesday following the Fed's decision to keep the key interest rate unchanged. "It's not like an economic rule where it's telling you something must happen." He continued, "what we think we're seeing is a normalizing labor market and we're watching carefully to see if it turns out to be more."

Unfortunately, it appears to be inevitable that the unemployment rate will go even higher because large companies all over America continue to shed workers.

In fact, last week Intel announced that it will be "cutting 15% of its workforce."

Months after the federal government gave Intel \$8.5 billion in grants to help bring back chipmaking to the U.S., the company said it is cutting 15% of its workforce, which translates to around 17,000 jobs.

The tech company announced the job cuts as part of a massive cost-cutting and restructuring plan.

Of course Intel is far from alone.

Businesses from coast to coast have fallen on hard times, and business bankruptcy filings have risen by more than 40% during the past 12 months.

Over the past year, business bankruptcy filings are up 40.3%, and have now reached a number not seen since the second quarter of 2020, at the peak of lockdowns. American households are following along, with total bankruptcy filings up 16.2% in the past year, including 132,710 new filings in

the second quarter of 2024 alone.

The last time business bankruptcy filings were this high was during the lockdowns in the early days of the COVID pandemic. But we don't have any lockdowns to blame the current wave of bankruptcies on.

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What we are witnessing now is really quite scary. Hordes of businesses are failing, and commercial real estate values have been crashing hard.

Brookfield owned Gas Company Tower in Downtown Los Angeles has plummeted over \$400M in value. The skyscraper was recently valued at \$. It was appraised at \$632M just three years ago. This is a commercial real estate apocalypse.

Right now, our banks are sitting on gigantic mountains of commercial real estate loans that have gone bad.

For many of those banks, it is just a matter of time before they go belly up.

But don't just take my word for it. Recently, a number of prominent experts have been warning that a tsunami of bank failures is on the way.

The echoes began in May.

Barry Sternlicht of Starwood Capital Group predicted a regional bank failure "every day or every week."

Days later, Newmark Chair Howard Lutnick warned, "Every single weekend a regional bank is going to go bye-bye," and predicted 500 to 1,000 failures in 2025 and 2026—as did alternative lenders speaking at the same event. In June,

PIMCO's head of global private commercial real estate joined the chorus.

Yes, this is really happening. A tremendous amount of financial chaos is in our future, and most people are going to be completely blindsided by it.

There is one thing that the Federal Reserve could do to mitigate the damage. If the Fed started cutting interest rates immediately, that would certainly help. But so far, the Fed has refused to budge. We are being told that the Fed "might" give us a rate cut in September.

That isn't going to do the job.

We need help now, because major problems are already starting to erupt all around us.

Michael Snyder's *new book entitled "Chaos" is available in paperback and for the Kindle on , and you can subscribe to his Substack newsletter at .*

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