Economics Briefs

Recession Is Showing on the Surface of U.S. Economic Data

After months in which official U.S. economic reports have been widely seen as rather creatively "adjusted," some reality is showing through. A report published April 6 by the so-called "outplacement services" firm Challenger, Gray and Christmas found that U.S.-based employers announced just under 90,000 mass layoffs in March, and 270,416 in the first quarter as a whole—five times the mass layoffs announced in the first quarter of 2022. In the same survey, planned *hirings* in March totaled 9,044—one-tenth of layoffs. As for the reflection of this in unemployment claims reports, which had been invisible until now, new claims in the week ending March 5 rose to 228,000 from 199,000, and the Labor Department suddenly revised the previous week's total upward by a full 20% to 246,000.

The most fundamental feature for the labor force and the economy is productivity, and in particular *total factor productivity* (TFP), which attempts to measure the degree of economic growth caused by technological advances and appropriate educational improvements in the labor force. A government report issued March 23 found that total factor productivity dropped by 1.2% in the economy in 2022 as a whole, "the largest decline in productivity since 1982." It was the third consecutive year of TFP declines.

GDP growth in the first quarter of 2023 is still being calculated, but the "GDPNow" estimates published by the Atlanta Federal Reserve Bank are dropping sharply as data is amassed; the latest estimate is a 1.5% rate of growth. The GDP growth rate was reported to be 2.6% in the last quarter of 2022, and zero in each of the two quarters before that.

Switzerland Debates 'Bank Separation'

The call for banking separation ("*Trennbanken*") is getting louder in Switzerland after the Credit Suisse (CS) debacle. When officials of the Swiss Financial Regulator Finma called a press conference April 5, journalists questioned the reason for the event, asking whether it was "because you fear the call for a banking separation." They also asked, "When did the USA start to make pressure" to bail out Credit Suisse in order to avoid a systemic contagion?

While Finma head Prof. Dr. Marlene Amstad simply ducked the first question, the CEO Urban Angehrn addressed, and indirectly admitted, the second: "There was no pressure from the USA to bail out CS. We were always in a dialogue with U.S. officials, but we did not need pressure from abroad. We had to do what is right for Switzerland, and it was right for the USA as well."

The same day, Swiss economist Hans Geiger called on the government to implement bank separation. In a video interview with Zurich's financial site insideparadeplatz.ch, he stated, "With a bank separation system, this crisis would not have occurred." Therefore, Geiger said, the government must now act. The investment banking of UBS, which bought up Credit Suisse, must be separated and cut off from central bank liquidity, as anything else would be high-risk.

It is expected that the issue of bank separation will be raised by some legislators at the special joint session of parliament next week.

Federal Reserve's Quiet Destruction of U.S. Banking System Continues

American Banker on April 5 drew (negative) attention to the fact that the Federal Reserve's Overnight Reverse Repurchase Facility (ORRF) is drawing deposits out of the banking system, through money-market mutual funds into the Federal Reserve Bank itself, by the high interest rate the ORRF is paying. The mass of funds put into the ORRF nightly by funds, and banks, has grown to approximate $2.5 trillion—in a banking system whose peak deposit level was $18.2 trillion in December 2021, and now $16.9 trillion.

The ORRF is another of those really smart "tools," like quantitative easing, invented at the Fed after the 2007–08 global crash. It was set up in 2013 to be used by the Fed if needed to raise the Federal Funds interest rate above zero, even while pouring hundreds of billions in new QE reserves into the banking system—by pulling them right back out into the Fed; get it? Since the end of 2021 it has done that with a vengeance as part of its interest-rate hiking procedure.

That procedure has made deposits shift from banks into money market

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funds, which "invest in Treasuries"—actually, to a significant extent, these buy Treasuries every night from the Fed's ORRF while placing cash there, resell the Treasuries to the Fed the next evening after earning a day's interest, and buy them again for the next overnight. The effect is bank deposits turning into Fed deposits which earn the Federal Funds rate (now close to 5%) and, more important for the economy, will never become loans.

And some mid-sized banks have begun to fail. As far as small banks failing, they don't die, they just fade away into bigger ones. Now that four mid-sized banks have failed or nearly so, there is again much discussion of the predicament of "America's more than 4,000 banks"; but in 2006, we would have spoken of "America's more than 8,000 banks."

Now, as the *coup de grace,* banks are paying, not only by having to sell assets at a loss to pay out departing depositors, but also by having to pay the same high interest rate for short-term borrowings of their own. In another warning April 5, *American Banker* reported that "Interest rates on unsecured commercial paper, an important source of short-term funding for banks, have reached the highest levels since the 2007–2009 Great Recession, raising the possibility of a credit crunch and further regulatory intervention."

This was also a 2007 preliminary stage of the 2008 global financial crash.

Yuan Replaces Dollar as Leading Foreign Currency in Russia

Citing Bloomberg analysts, *Izvestia* reports that the U.S. dollar is no longer the most traded foreign currency in Russia. In February 2023, the Chinese yuan for the first time outstripped the dollar in terms of monthly trading volume on the Moscow Exchange (MOEX), which is a direct consequence of the anti-Russian sanctions.

It is likely that the Chinese currency will also overtake the combined total trading volumes of the dollar and the euro before the year-end, Artyom Tuzov, Executive Director of the Capital Markets Department at Iva Partners, told *Izvestia*:

"The more Russian banks are sanctioned by the European Union and the United States, the more transactions will involve the yuan instead of the dollar and the euro. That said, an increase in the yuan's role in the Russian economy became inevitable the minute the dollar and euro accounts of a number of big Russian banks were blocked in February 2022," the expert explained.

The yuan's growing share in the Russian market is predictable, as it stems from two factors that will persist for now, says Andrey Stolyarov, Deputy Department Head and Associate Professor, Department of Financial Market Infrastructure at the Higher School of Economics. These are the growing trade with China, and the toxicity of traditional foreign currencies due to the sanctions on Russia.

Who and What Holds Treasuries

From December 2010 to December 2021, U.S. Federal government debt held by the public doubled, rising from approximately $11.5 trillion to $22.5 trillion. But of this, the share held by foreign institutions and individuals rose only from $5.5 trillion to $7 trillion; the share held domestically rose from $6.0 trillion to $15.4 trillion.

Prominent here has been China's disinvestment in Treasuries, from a peak of $1.3 trillion in 2014 to $867 billion now, a sell-off of one-third. But overall, foreign holdings of U.S. Treasury debt fell in 11 years from 35% to 25% of the total publicly held debt outstanding.

More striking is who holds what, domestically. The Federal Reserve's part rose $1.7 trillion to $5.2 trillion in those 11 years (from 15% to 24% of the publicly held total). The share held by U.S. private banks went from $400 billion to $1.4 trillion; and the share of "other U.S. entities" from $3.8 trillion to $8.8 trillion. Of those "other U.S. entities," mutual funds of various kinds held about $3.5 trillion as of June 2022. This means that the approximate holdings of the Federal Reserve, private U.S. banks, and mutual funds were $10.1 trillion or so when quantitative easing finally stopped in the Spring of 2022.

Thus U.S.-based financial institutions including banks and mutual funds, but not including hedge funds, by that Spring 2022 held 65% of domestically held Federal debt, compared to 45% in December 2010; and held more than 45% of all publicly held U.S. Treasury debt *worldwide*, compared to less than 30% eleven years earlier. Hedge fund holdings added an unknown further amount to that.

"Foreign official" holdings have now dropped by $400 billion in 2022 alone, reports the Treasury. Thus, it is very likely that the holdings of Treasury securities by foreign *private* financial institutions have also increased, perhaps by $500 billion or more just in the past year, and now total $3 trillion or more. That would mean private financial institutions and the Federal Reserve now hold 55–60% of all publicly held Treasury debt securities worldwide.