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# Hubris

"*We run the risk by laying out the pros and cons of a particular argument of inducing people to join in on the debate, and in this regard, it is possible to lose control of a process that only we fully understand.*"
– Alan Greenspan

The quotation comes from remarks made by Mr. Greenspan, then-chairman of the Federal Reserve, in 2004. The American Heritage Dictionary defines Hubris as *overbearing pride or presumption; arrogance*. Unfortunately, our world has become overpopulated with these types who pontificate on matters they simply aren't competent to address. We see it in political leaders, talking heads, and government agencies.

Alan Greenspan was lauded as the savior of the economy and the stock market during his tenure. In hindsight he ushered in the era of the activist Fed, and with it, a whole lot of unintended consequences.

Interest rates *should be* determined solely by a willing lender and a willing borrower. The lender looks at the credit worthiness of the borrower (↓ credit = ↑ interest), the length of the loan (↑ time = ↑ interest), and an estimate of future inflation (↑ rate = ↑ interest). The borrower then determines if he/she can live with the terms, and if so, the loan is consummated and they are off to the proverbial races.

Enter the bulldozers called Central Banks (in the US, the Federal Reserve Bank). When Central Banks manipulate interest rates to speed up, slow down, or otherwise attempt to "rescue" an economy the effects are far reaching and imprecise. Much like a boat that takes some distance to slow, a skilled captain needs to anticipate that momentum to avoid crashing into the pier. Unfortunately, most Central Banks look a lot more like Al Czervik than Dennis Conner.

In the US's case, interest rates were kept way too low for way too long after the Great Financial Crisis (GFC) of 2007. Jerome Powell ~~bravely~~ belatedly tried to raise rates back in 2018 only to take them back down to zero after two quarter point increases and a stock market that cratered 20%. Then came COVID. After making the monumental decision to shut down the world's economy, governments showered their citizens with "free" money (and plenty of leisure time to pick up a lot of really bad habits—did I say that out loud?). Through all of this Central Banks worldwide kept interest rates near zero in an effort to spur on their respective economies, while turning a blind eye to the pier looming off their collective bows.

Now, in a futile attempt to avoid a crash landing, Central Banks have slammed the throttle in full reverse. The wake created by this is beginning to be felt.

According to Epiq Bankruptcy Solutions, corporate bankruptcies have catapulted 68% for the first half of 2023 compared to the same period in 2022. Individual bankruptcy filings (chapter 13) are up 23% for the same period.

One curious anomaly for the past year has been the presumed resiliency of the US consumer in the face of rising interest rates and inflation. On the surface it appeared that the average American was holding his/her own. That was only on the surface.

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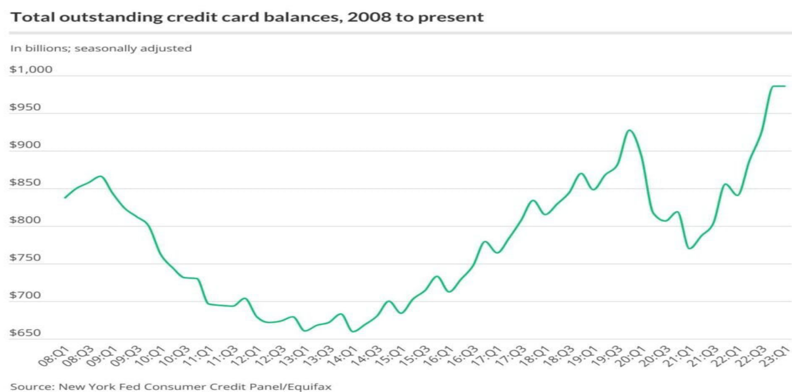
The above is a measure of weekly retail sales going back to 2001. Notice the dip in 2009 (GFC) and 2020 (COVID-19). Since the free money bonanza concluded in 2022 retail sales have fallen every month.




Even though retail sales have dropped precipitously, debt has not. Credit card debt held by individuals is about to breach the $1 trillion mark. This is by far the highest reading since it was first tracked in 1999. The tragic message revealed when combining the information contained in these two graphs is that Americans are spending more while at the same time buying less. That is the tragic impact of inflation.

Another puzzling incongruity has been the high and relatively stable prices for single family homes, as interest rates have risen substantially for fixed rate mortgages. As of this writing the 30 year mortgage rate stands at 7.37%, more than twice what is was a few years ago. Given this we would normally expect that home prices would be falling—dramatically. One theory is that those that would like to sell their home and trade up are not willing to give up their low-interest mortgages and face dramatically higher payments on the new home. Ironically, lower interest rates in the future will probably spur a flurry of selling activity and lower prices—just the opposite of what normally happens.

Another possible explanation for home prices is the explosion of homes purchased to rent. Airbnb and VRBO, which began as a means for property owners to capture some income on sparingly used properties, quickly morphed into a way to speculate in real estate. Many of the landlords using these sites have multiple properties that have never been owner occupied. Homes have been scooped up in major markets to be used as hotels, not residences. Unfortunately, the economic slowdown has come knocking on the doors of these property owners. Rental income in the top 10 markets is down over 40% this year. Cities such as Phoenix, Austin, and Denver may see a flood of properties coming to the market soon as the owners struggle to make their loan payments.

All of the above suggests that despite what you hear (or aren't hearing) from our betters and the popular press, the average middle class consumer is tapped out. Given that the US economy runs on consumer fuel (70% of GDP is related to consumer spending) a slowdown is inevitable. We are watching out over our bow.