



Retirement *Lifestyle*
Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Karl Denninger
Market-Ticker.org

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Dennis Tubbergen:

Welcome back to RLA Radio. My guest, once again, on today's program, back by popular demand, Mr. Karl Denninger. Karl is a prolific commentator. You can read his work at market-ticker.org, and on the landing page on the right-hand side, there is a link labeled, Click for What the Media Does Not Want Published. I'd encourage you to check that out as well. And Karl, welcome back to the program.

Karl Denninger:

Well, thank you for having me.

Dennis Tubbergen:

Karl, before we actually started recording today's conversation, we were talking a bit about a topic that really is on everybody's minds if you're putting fuel in your car, and that is energy. And we were chatting a bit about the news story that broke, or has been breaking, I should say, that the strategic petroleum reserve is at its lowest level since the mid-eighties, as I recall. And there's actually oil being sold now overseas, despite the high prices here at home. Can you comment?

Karl Denninger:

Well, sure. There's a lot of... There's some interesting stuff that's come out on that. There was an article recently that essentially made the claim, the assertion, that the SPR and what Biden has authorized will be depleted. This turns out their math was wrong, so it's not quite true.

Dennis Tubbergen:

Shortage of disinformation. Yeah.

Karl Denninger:

Well, I don't think that was intentional. That was just somebody got the math wrong, and I cited it and then I went back and actually did a strikeout on the original article and updated it and left the edit where it was visible for anybody that wants to see it because that's a mistake is... I mean, that's an error. That's not somebody trying to play a game with someone. And that should... When that kind of a mistake gets made anywhere in the media, it should be not only corrected, but it should be, the correction should be left where it's easily visible. It shouldn't be relegated to page six somewhere.

Karl Denninger:

But the big issue here is really that we're seeing this on a global basis, with Germany and of course the stuff that's going on between Ukraine and Russia, is that... And the United States is part of it. Is this move towards supposedly renewable green energy sources. First problem is they're not actually green, and I could spend two hours or three hours going through all the stuff with carbon dioxide in the atmosphere and global climate change or whatever have you, but I'll stay away from it simply because I don't want to get deflected off the point. And that is that no matter how you slice it, these renewable energy sources are unreliable. And that's just simply because the wind doesn't always blow and the sun doesn't always shine, and there's not anything you can do about that. That's outside your area of control.

Karl Denninger:

If you are going to be doing things that essentially force your economy into using those energy sources, the only way to avoid shortages at the worst possible time is to ridiculously overbuild capacity, which of course, is very expensive because now 90% of the time, 95% of the time, you don't need that. You need a hundred windmills, you have to put up 300, because if there's almost no wind, you get almost no energy out of a individual windmill, so you have to have many, many more than you otherwise would. And yet, most of the time, those other 200 just sit there and don't do anything useful. They have to be feathered because you don't have the demand to actually absorb what they can produce. That drives the cost up.

Karl Denninger:

The other possible way to handle it is to have fossil fuel backups, or nuclear backups, which are both reliable because they're not dependent upon what the weather is doing a given point in time, that can be brought online rapidly. And unfortunately, both nuclear and large coal plants cannot do that because there is a lot of thermal inertia. If you think about the size of a nuclear plant, it's absolutely enormous, of course. And in order for it to materially change its output, all of that thermal mass has to come up to the new power level, the new temperature, and same thing's true with coal. The large coal fire plants, the same basic problem.

Karl Denninger:

And so, we have historically used those as base load. In other words, the amount of electrical demand that is always there, and then dispatch what are called peaking plants, which today, are largely powered by natural gas. And those are used to cover the peak loads that show up at certain times. When it's 110 degrees out and there's no wind, you have no windmills, but you can very rapidly start up and bring up to power a natural gas fire turbine

and produce electricity with that. Well, if you declare a war on these fossils fuel bases, base energy sources, then essentially what you've done is you've taken away that stable base of power generation.

Karl Denninger:

And now, we just had it happen here, recently here down in Texas, where again, they had very, very hot weather, high pressure system, sat over the top of the state. It happens. There's nothing you can do about it. It's 110 degrees out, but there's no wind. And so now, well, gee, we'd love... If we'd had these coal plants that were still operating or these nuclear plants that were still operating, this wouldn't have been a huge problem because the available natural gas peaking energy sources would've been sufficient to cover it, but all of a sudden, oops, it's not. And so, now we're telling people, hey, don't turn that air conditioner on, because if you do, and enough people do it, we're going to end up in a situation where we have to black people out because we just don't have the supply.

Dennis Tubbergen:

Karl, given that, as you say, green energy is not actually that reliable, and we'll stay away from that it's not actually that green, which is another conversation. What is the political motivation for pushing so hard for green energy?

Karl Denninger:

You know, I don't know. I mean, there's a great deal of just flat-out falsehood that's peddled with regards to everything related to this. It even goes so far as the supposed ranges that are available with electric vehicles. They're nonsense. They're synthetic calculated ranges, and if you remember, there was a fear about this with gasoline power cars several times over the years where some company has gotten caught cheating on the test cycles, either on an emissions basis, like what happened with Volkswagen, or in some cases on the fuel economy. And in fact, a number of years ago, the EPA revised their drive cycle testing for this with the window stickers that are on all cars, because nobody was getting anywhere close to what was on those stickers. Okay. They were just pure garbage.

Karl Denninger:

Well, the same thing's true with EVs. And the test cycle is a synthetic cycle to not meet reality against facts. And there was a recent test that was run, it's on YouTube. You can find it. A couple of guys that took one of Ford's Lightning 1500 trucks, the electric one, and a brand-new Chevy gas powered truck and put two identical trailers behind them and then started down from Longmont, Colorado down towards Colorado Springs. And the expectation

was that they'd lose about half the mileage that they could get off the truck, and they'd be able to get to Colorado Springs where there are a fast charge and everything else. Well, they didn't. They got 75 miles and nearly ran out of power in the electric truck. And essentially, at the point they got to about 60, they realized there was no way they were going to make that charging station. It was not even close. They were going to be 30 or 40 miles short.

Karl Denninger:

And so, they turned around and came back on the side road, on the access road, because windage is obviously a big thing, wind resistance. And they made it to charge at the closest charging station, but if they kept going, they would've run out of power. What I found most amusing about that, was not just what it said about the actually trying to use a truck as a truck and that it doesn't work. Basically, if you buy one of these things, you can't use it as a truck. But the other interesting aspect of it is that I have a 2002 half ton SUV in my driveway, and I just got done driving across the country with a trailer of almost identical specification, in terms of size, weight, and everything else, to what these guys were testing with. And I got approximately 10 miles per gallon with that trailer, and this was over the space of 3000. Okay. It was a pretty good test, in terms of actually being able to look at the fuel receipts.

Karl Denninger:

The interesting thing is, this brand new 2022 Chevy, that is again, half ton truck, trailer of almost exactly the same specifications, got the same fuel economy. Now, it's been 20 years. Okay. That's 20 years old. And so, all this innovation, all this technology, all this better engines, better gear boxes, more gears, this, that and the other, better emissions, da, da, da, da, da. At the end of the day, it still gets 10 miles a gallon with a trailer on the back.

Dennis Tubbergen:

Not much has changed.

Karl Denninger:

Well, nothing's changed. Why would I buy the new one? As long as the old one's in perfectly good mechanical condition, why would I buy the new one? I'm not going to get any benefit from it.

Dennis Tubbergen:

Right. Karl, in the time we have left, which is just a few minutes here, do you have a forecast for fuel prices? I think our listeners would be interested in your opinion.

Karl Denninger:

Well, we're getting demand destruction. It's already showing up. I'm seeing it in a number of different areas and demand destruction is just very simple. It's called recession. It's called high prices are the cure to high prices because people don't buy as much. It's already happening and you're already seeing that start to turn. In terms of going back to somewhere reasonably close to where it was a couple of years ago, we are in for an environment that is not going to materially change for a very long time. And the reason is that nobody in their right mind is going to make the investments necessary to expand our energy infrastructure and just maintain it, just do ordinary maintenance, if at any time, with the wave of a pen and a phone call, the executive, whoever it is, whether it's Democrat or Republican, can destroy that investment.

Karl Denninger:

Now, we have a process we're supposed to follow to do this, and that is that these things get debated in Congress and we have representatives and things like... And there's a reason that it's supposed to be hard to do this and you have both a House and a Senate that must concur. We have, over the last 10 years or so, we've spent an awful lot of time doing it all through executive policy, which is wildly illegal. It's been ruled illegal twice, specifically with regards to carbon dioxide, at the Supreme Court. And yet, it is still going on and until it stops, you're not going to see a solution to this problem.

Dennis Tubbergen:

Well, my guest today is Mr. Karl Denninger. His website is market-ticker.org. I would encourage you to check it out. I'll continue my conversation with Karl when RLA Radio returns. Stay with us.

Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. I have the pleasure of chatting on today's program, once again, with returning guest, Karl Denninger. Karl is a prolific commentator. I would encourage you to check out his work at market-ticker.org. The website again is market-ticker.org, and Karl, in the last segment, you alluded to the fact that one of the best cures for high energy prices is lack of demand or perhaps recession. It's been my contention that since the first of the year, we have been in recession. And it seems now that some of the numbers coming out may confirm that. What's your view?

Karl Denninger:

Well, yeah. I mean, the amusing part of recessions is that the NBER, which is the Non-governmental Agency of Businesses that officially declares them when they start and they end, is always six months to a year behind. And they retroactively declare them because the data is a little bit behind. Okay. And yet, the St. Louis fed, along with others, track economic activity in real time. You can look at that and you can see that the official benchmark is supposedly two quarters of economic contraction. And the second quarter numbers have been tracking negative for the last three or four months. I mean, the first quarter was, so there's recession. And starting at the top essentially was right at the beginning of the year.

Karl Denninger:

A lot of people are getting very happy faced about this because the last couple of times that we've had this kind of thing happen, which is 2000 and then 2008, it was V-shaped and very sharp. I think people should be very careful because those were bubble based within a specific sector of the economy. This is a cost push inflationary and energy driven recession. And those are rare. We don't have a whole lot of them, but the closest analog that you can look at is from the late 1970s and early eighties, and that went on for about four years.

Dennis Tubbergen:

Karl, the markets obviously, the stock markets have been reacting negatively year to date. Let's start with stocks and move on maybe to your take on housing but seems like the markets have paused here a bit, but when you look at valuation levels, they're still up there. Does that mean there's more downside ahead?

Karl Denninger:

Oh, I think there's a lot more downside ahead. The question is always, when you start looking at, for example, valuations, usually it's calculated on price earnings ratio. The question is always, what are the earnings? Okay. When you go into a recessionary environment, it's not what's the price, it's what are the earnings? And over the last 30 years, the earnings that have been reported, and they're real by the accounting standards, all right, have been goosed by this ever-declining interest rate environment. That's over, it's never coming back.

Karl Denninger:

And then on top of that, the ability to sequester inflation through foreign trade has been destroyed by the war between Ukraine and Russia and the sanctions activity that have been undertaken by Western governments.

That's never coming back. Any credit emission that goes on, any deficit spending that goes on within the federal government, I don't care whether it's here or anywhere else, immediately reflects back into inflation. And that means that we have to have positive real interest rates to control it. We are a long way away from positive real interest rates. They would have to be at about six or 7% right now, in order to achieve that, to have a positive cost across that. Obviously, we're nowhere near six or 7% today.

Dennis Tubbergen:

Karl, it's been my take also that the fed will likely, at a certain point, reverse course and continue with easy money, simply because they'll probably say that the economy needs the support. Do you think they'll do that? And if yes or no, why?

Karl Denninger:

I don't think they can do it, and if they do do it, I would be very concerned about the possibility of extremely serious repercussions within the American economy and civil system, including the possibility for civil unrest or worse.

Dennis Tubbergen:

You think that short of them doing that, then we are headed for probably the mother of all recessions, to use that term. I mean, when you look at debt levels that exist in the private sector, we're rivaling the Great Depression when measured as a percentage of the economy and the government wasn't broke in 1929, so that doesn't bode well for what lies ahead.

Karl Denninger:

No, I think you could be seeing a... My base case scenario is something that looks like the late seventies, early eighties, where you have a four- or five-year period of time before a reasonable level of economic stability is reestablished. If the fed attempts to back off, you could get a 1930 scenario quite easily.

Dennis Tubbergen:

Talk about real estate. It seems that there's starting to be some cracks showing in the real estate market. Is the real estate market ready to follow the trajectory that stocks now find themselves on?

Karl Denninger:

Real estate ultimately, there's... Well, there's two components over it. The first one is residential, which is what everybody thinks of when they think of real estate. Residential real estate has to be priced at such a level that the average person can buy the average house and raise an average family in it,

on the wages that are available within that particular area. It's very local. It is nowhere near that, essentially anywhere in the United States right now. Places like this area are at least 50% overvalued, at least. And in many places, it's worse than that. In those parts of the country that have been driven by the technology, scream fest with social media and stuff like that, I think the overvaluations are probably a factor of 70 or 80%. And I don't know how much of that air is going to come out, but either wages have to go up substantially, and you can't do that when you can't make a profit in a high interest rate environment, or prices have to come down. Those are the only two possibilities.

Karl Denninger:

On the commercial side, it's potentially even worse because high energy costs, every single thing that you buy, I don't care where you get it from. I just had to go buy a piece for a car at an auto parts store. That got to the store by truck, and until the cost of fuel to run that truck comes down, you're not going to see the cost structure within the shipment of goods and therefore, every piece of commercial real estate that depends on that is absolutely overpriced. And where that stabilizes, at this point, I don't know.

Dennis Tubbergen:

Karl let's talk a bit about, you mentioned wages have to go up to compensate for these higher prices. Comment a bit on the current state of the labor market. Truly something we've never seen before.

Karl Denninger:

Yeah, and there's some very interesting things in the internals of that data, the BLS, and I'm not entirely sure. I always have trouble trusting just small samples, especially when there's political interference, and there absolutely has been in the past. We know this factually. It's not an unbiased source by a stretch of the imagination, but on the other hand, there's only so much of that you can do before you have to correct it. Okay. And then when you correct it, people go, oh, wait, where'd that come from? And so, there's plenty of that stuff that's going on in there, but one of the things that I found most interesting was that last month, a huge percentage of the people that are not in the labor force, about six, 700,000 people came back into the labor force from the not in labor force numbers, but almost none of them, six out of seven did not find a job.

Karl Denninger:

Okay. What you have is now you have people coming into the workforce that were sitting on the sidelines, voluntarily or otherwise, and yet they did not find employment. And then inside the tables was a precipitous drop in the

number of college grads that are in the workforce. It was about 700,000 that just disappeared. Now, you can't lose educational attainment. Okay. Normally what happens is with migration, you don't have a high school diploma, you graduate high school, you then go from one bucket to the other, but once you get to bachelor's degree or above, you can't lose a bachelor's degree. The only way to leave that bucket is to either stop working entirely, or to die, or end up in... Well, you could end up in a prison or a nursing home. That's that also takes you out of the workforce.

Karl Denninger:

But short of that, you don't leave that data set and yet, 700,000 people last month did supposedly leave that data set. Now, there's been a lot of talk about the demographic shift over time of the boomers retiring, things like this, but the idea that 8 million people on an annualized basis did this last month, no, that's not the explanation. This may be something else. This may be the leading edge of some really serious high-level cutbacks within American industry. It could be the effects of certain other things that nobody wants to talk about, or it could be a data error, but it's something that I'm going to watch very carefully over the next few months.

Dennis Tubbergen:

Well, certainly when you have an extreme with employers looking for employees and seemingly no employees to be found, I mean, that's an extreme situation. It seems that would have to correct itself. Could this just be an extreme correction that now we're going the other way?

Karl Denninger:

Well, it could. The thing that I've noted though, over the last 20 years or so, is that we've had barbell economy. Okay. The people with no high school diplomas, and they have jobs, the people with bachelors and above have jobs, and the trends have both been positive and the ones in the middle have been less so or have been outright negative. And so, and that's been a pattern that has followed with the shift that we've had with a lot of our blue-collar labor overseas, and it's not a new thing. It's been going on for two decades. That's one of the reasons it's the probably second or third thing I look at in that report every first Friday when it comes out, and this is a change.

Karl Denninger:

Now, whether or not this is a durable change, I mean, last year there was an apparent loss of non-institutional population in term. The acceleration that has been going on for the last two decades suddenly stopped and reversed. That ended up being revised out in this last January. That you see

something in the data doesn't necessarily mean it's real, but it's something that sends up red flags, especially when you have recessionary winds blowing to begin with. And then all of a sudden, you've got this coming. You have the rumors of Zuckerberg over at, at Meta, Facebook, sending out a memo, basically saying, I'm going to find all the dead wood in the company and I'm going to cut it. Well, how much of that's already going on?

Dennis Tubbergen:

Right. Well, the clock says, Karl, we're going to have to leave it there. My guest today has been Mr. Karl Denninger. His website is market-ticker.org. I would also encourage you to check out the link on the first page labeled, Click for What the Media Does Not Want Published. There's some terrific content there as well. Karl, I always have great feedback whenever you're on the program and appreciate you joining us today, and I would love to have you back down the road.

Karl Denninger:

No, anytime.

Dennis Tubbergen:

We will return after these words.