

Decline in Credit Card Debt in the United States

Review of Markets

By [Bob Chapman](#)

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Americans borrowed less for a 10th consecutive month in November with total credit and borrowing on credit cards falling by the largest amounts on records going back nearly seven decades.

The Federal Reserve said yesterday that total borrowing dropped by \$17.5 billion in November, a much bigger decline than the \$5 billion decrease economists had expected.

November's \$17.5 billion drop in total credit was the biggest amount in dollars terms since records began in 1943.

That represents an 8.5 percent fall from the October borrowing level. That was the biggest percentage drop since total credit declined 9 percent in May 1980.

The borrowing category that includes credit cards fell by \$13.7 billion, an all-time record decline in dollar terms. The drop was 18.5 percent from October, the biggest decline in percentage terms since a 29.6 percent plunge in December 1974.

The Fed's credit report excludes home loans and home equity mortgages, covering only borrowing that is not secured by real estate.

The drop in overall credit for 10 straight months continued a record in terms of consecutive declines, surpassing the mark of seven straight declines set in 1943 and in 1991.

Hank Greenberg, former chief executive officer at American International Group Inc., said Goldman Sachs Group Inc. is responsible for the collapse of the insurer during the economic crisis, the Wall Street Journal reported.

"It certainly wouldn't be difficult to come to that conclusion," Greenberg is quoted as telling the newspaper.

Greenberg blamed new standards for credit-default swaps - -pushed by Goldman or Deutsche Bank AG, he said — and subprime, housing-backed derivatives sold and then shorted by Goldman as contributing to AIG's collapse, the newspaper reported.

"Mr. Greenberg appears to base his views on news reports rather than facts," Lucas van Praag, a Goldman spokesman, said in an e-mail to Bloomberg News. "It is interesting that he doesn't mention the devastating conclusions about AIG reached by the company's own auditors."

The Federal Reserve will ask a U.S. appeals court to block a ruling that for the first time would force the central bank to reveal secret identities of financial firms that might have collapsed without the largest government bailout in U.S. history.

The U.S. Court of Appeals in Manhattan, after hearing arguments in the case today, will decide whether the Fed must release records of the unprecedented \$2 trillion U.S. loan program launched after the 2008 collapse of Lehman Brothers Holdings Inc. In August, a federal judge ordered that the information be released, responding to a request by Bloomberg LP, the parent of Bloomberg News.

Bloomberg argues that the public has the right to know basic information about the “unprecedented and highly controversial use” of public money. Banks and the Fed warn that bailed-out lenders may be hurt if the documents are made public, causing a run or a sell-off by investors. Disclosure may hamstring the Fed’s ability to deal with another crisis, they also argued. The lower court agreed with Bloomberg.

“The question is at what point does the government get so involved in the life of the institution that the public has a right to know?” said Charles Davis, executive director of the National Freedom of Information Coalition at the University of Missouri in Columbia. Davis isn’t involved in the lawsuit.

The ruling by the three-judge appeals panel may not come for months and is unlikely to be the final word. The loser may seek a rehearing or appeal to the full appeals court and eventually petition the U.S. Supreme Court, said Anne Weismann, chief lawyer for Citizens for Responsibility and Ethics, a Washington advocacy group that supports Bloomberg’s lawsuit.

U.S. investors oppose federal initiatives that would force them to give up control over their 401(k) accounts, the Investment Company Institute said.

Seven in 10 U.S. households object to the idea of the government requiring retirees to convert part of their savings into annuities guaranteeing a steady payment for life, according to an institute-funded report today.

“Households’ views on policy changes revealed a preference to preserve retirement account features and flexibility,” the institute, which represents the mutual-fund industry, said in the report.

The U.S. Treasury and Labor Departments will ask for public comment as soon as next week on ways to promote the conversion of 401(k) savings and Individual Retirement Accounts into annuities or other steady payment streams, according to Assistant Labor Secretary Phyllis C. Borzi and Deputy Assistant Treasury Secretary Mark Iwry, who are spearheading the effort.

The institute’s member companies manage \$11.6 trillion of assets in mutual funds, including employer-sponsored 401(k) accounts. Some lawmakers have questioned the public-policy value of the tax benefits for people investing in retirement accounts, the ICI said in a report today.

The average 401(k) fund balance dropped 31 percent to \$47,500 at the end of March 2009 from \$69,200 at the end of 2007, according to a Fidelity Investments review of 11 million accounts it manages. The Standard & Poor’s 500 Index tumbled 46 percent in that period.

The average balance of the Fidelity accounts recovered to \$60,700 as of last Sept. 30 as the stock market rebounded.

Senator Herb Kohl, chairman of the Senate Special Committee on Aging, proposed legislation on Dec. 16 to require fund companies to do more to ensure 401(k) options are appropriate for workers. The Wisconsin Democrat cited reports that target-date funds designed for people retiring in 2010 invested in high-yield, high-risk corporate bonds.

Representative George Miller, a California Democrat, is advocating legislation to require more disclosure about 401(k) fees paid by investors. The Education and Labor Committee, which Miller leads, approved a bill requiring more disclosure about fees in June.

The ICI survey was based on a telephone survey of 3,000 households from Nov. 20 to Dec. 20 and had a sampling error of plus or minus 1.8 percent.

Federal Reserve officials squabbled about how to proceed with a program of mortgage-backed-securities purchases at their December meeting, with some saying a weak economy could warrant expansion and at least one arguing for scaling back. The minutes show some officials worried the housing recovery could be cut short next year when the Fed stops buying mortgage debt and when other federal support programs expire. Some participants remained concerned about the economy's ability to generate a self-sustaining recovery without government support,' the minutes of the Dec. 15-16 meeting said. Some officials argued the Fed might need to expand its mortgage-purchase program and extend it beyond the first quarter to keep the recovery going. It goes without saying, if this recovery fails for whatever reason, yeah, they'll ramp up asset purchases,' said Alan Levinson, chief fixed-income economist at T. Rowe Price.

The Dallas Cowboys' first postseason game in their new \$1.1 billion stadium has no cheap seats for fans or cheap parking for cars. The Cowboys are charging as much as \$500 for seats along the sidelines at Cowboys Stadium in Arlington, Texas, more than twice the regular-season price. Tickets start at \$35 for standing-room that doesn't guarantee a view of the field. Before they even get into the stadium with a 60-yard-long video screen, \$13 Kobe beef burgers and \$9 Shiner Bock beers, fans have to fork over as much as \$75 to park.

Personal bankruptcies soared last year in Western states hit hardest by the real-estate bust. In states such as California, Arizona and Nevada, where housing prices soared and then collapsed during the past decade, consumer bankruptcy filings rose roughly twice as much as the national average increase of 32%. In Arizona and Nevada, where bankruptcies increased most, filings skyrocketed by 79.6% and 59.5%, respectively. Nearly 6.2% of mortgages in Arizona and 9.4% of mortgages in Nevada were in foreclosure by the end of the third quarter. California saw personal bankruptcy filings rise 58.8% last year. At the end of the third quarter, some 5.8% of loans were in foreclosure there.

Federal Reserve officials discussed whether the economy is strong enough to allow their \$1.73 trillion of asset purchases to end in March and differed over the risk of inflation, minutes of their last meeting showed. A few policy makers said it 'might become desirable at some point' to boost or extend securities purchases aimed at lowering mortgage rates.

Morgan Stanley Asia Ltd. Chairman Stephen Roach said U.S. policy makers should start to exit emergency stimulus measures now if the economic recovery is as strong as they say it is. There is never an easy time to do it, Roach said. The longer they wait, the greater the

chance they sow the seeds for the next bubble. So I'm in favor of an early exit strategy.

John Taylor, creator of the so-called Taylor rule for guiding monetary policy, disputed Federal Reserve Chairman Ben S. Bernanke's argument that low interest rates didn't cause the U.S. housing bubble. 'The evidence is overwhelming that those low interest rates were not only unusually low but they logically were a factor in the housing boom and therefore ultimately the bust,' Taylor, a Stanford University economist, said. Taylor, a former Treasury undersecretary, was responding to a speech by Bernanke two days ago, when he said the Fed's monetary policy after the 2001 recession 'appears to have been reasonably appropriate' and that better regulation would have been more effective than higher rates in curbing the boom.

As the US Federal Reserve pulls back from the mortgage market, will the government and its proxies, Fannie Mae and Freddie Mac, pick up the baton? Many investors are looking to Fannie and Freddie to play an expanded role in the market for mortgage-backed securities (MBS) - helping to keep the market liquid and mortgage rates low - as the Fed completes its \$1,250bn purchase programme. This is mitigating concerns, expressed by some Fed officials that the scheduled winding down of Fed purchases of MBS by March 31 could 'undercut' a fragile housing recovery.

U.S. apartment vacancies rose to a record 8% in the fourth quarter and rents fell the most in three decades according to Reis Inc. Asking rents dropped 2.3% from a year earlier to an average of \$1,026, the biggest decline since Reis began records in 1980. Never before have we observed rental properties in so much distress, Victor Canalog, Reis's research director, said.

Office vacancies in the U.S. surged to a 15-year high in the fourth quarter and rents fell the most on record according to Reis Inc. The vacancy rate climbed to 17% from 14.5% a year earlier.

Vacancies at the largest U.S. shopping centers reached a record 8.8% in the fourth quarter, Reis Inc. said. Vacancies at smaller neighborhood and community centers increased to 10.6%, the highest level since 1991, from 8.9% a year earlier.

U.S. state tax collections fell the most in 46 years in the first three quarters of 2009 as the recession shrank revenue from sources including personal income, the Nelson A. Rockefeller Institute of Government said. Revenue dropped 13.3%, or \$80 billion, compared with the same nine months of 2008, to \$523 billion, the institute said. Collections in the third quarter alone sank 10.9% to about \$162 billion. The first three quarters of 2009 were the worst on record for states in terms of the decline in overall state tax collections, as well as the change in personal income and sales tax collections, Rockefeller analysts Lucy Dadayan and Donald J. Boyd wrote. Budget gaps have opened in 31 states since fiscal year 2010 began, Dadayan and Boyd wrote 2010 is going to be very difficult for the states and the next year is likely to be significantly worse, Rockefeller Deputy Director Robert Ward said.

New York's Metropolitan Transportation Authority, the largest mass-transit agency in the U.S., will be one of the first issuers to sell Build America Bonds in a year when such taxable offerings may push municipal issuance to a record \$450 billion. The 'generous' 35% Treasury rebate on Build America interest costs may entice state and local borrowers to sell as much as \$150 billion of the bonds in 2010, more than twice as much as last year, Municipal Market Advisors forecast this week. The MTA, operator of subways, buses, rail

lines and river crossings, plans to sell \$350 million of so-called BABs.

Silicon Valley is beset by the biggest office property glut since the dot-com bust, leaving the U.S. technology hub with empty high-rises and office parks that make it impossible for landlords to sustain average rents. More than 43 million square feet — the equivalent of 15 Empire State Buildings — stood vacant at the end of the third quarter, the most in almost five years, according to CB Richard Ellis Group Inc. San Jose, Sunnyvale and Palo Alto have 11 empty office buildings with about 3 million square feet of the best quality space. 'There is a bubble bursting in much the same way as the residential market burst,' said Jon Haveman, principal at Beacon Economics. None of those towers will fill up anytime soon.

Manhattan apartment prices fell for a third consecutive quarter as Wall Street job losses drained demand and the decline in co-op and condominium values reached 21 percent since the market peak. The median price slid 10 percent to \$810,000 in the fourth quarter from a year earlier, down from almost \$1.03 million in 2008, New York appraiser Miller Samuel Inc. and broker Prudential Douglas Elliman Real Estate said.

The campaign to get Treasury Secretary Timothy Geithner in front of a congressional panel to discuss his relationship with American International Group Inc. in 2008 may have an unlikely supporter: Geithner.

By the looks of it last week, Rep. Darrell Issa (R-Calif.) struck what could have been the most damaging blow to the Treasury Secretary's career since he took office last year. See Bloomberg report on Geithner and AIG.

Issa, who has been critical of Geithner, released emails showing that officials at the regional Fed bank told AIG not to disclose key details of their agreements to make big payouts to banks in late 2008. AIG (AIG 29.23, -0.11, -0.38%) later had to amend its regulatory filings to provide the disclosure. See report on New York Fed and AIG.

Issa fueled the fire by suggesting Geithner — or his team — tried to cover up the payments.

"Geithner's team was concerned about the controversy that full disclosure of the payments would create," Issa wrote in the Huffington Post. "So the New York Fed instructed AIG to delete references to the counterparty payment rate from its SEC filing, thus obscuring the full measure of the bailout bonanza made possible by U.S. taxpayers." See Issa commentary on Huffington Post.

The accusation against Geithner not only set off alarms in Congress but in the media. Read commentary on Geithner's role.

News Hub: 4Q Earnings Kicks Off

As fourth quarter earnings season kicks off, the market will be looking for signs that the recession is ending.

That led to Treasury officials and Thomas Baxter Jr., the general counsel of the New York Fed, to come to the Treasury Secretary's defense.

Geithner "played no role in, and had no knowledge of, the disclosure deliberations and communications referenced in those emails," Baxter wrote, throwing the AIG grenade back to Rep. Issa who only was able to say Baxter "raises more questions."

Here's one: Does the congressman have the goods or not?

President Barack Obama plans more economic stimulus measures to bring down the high U.S. unemployment rate, while cutting the bulging budget is a longer-term challenge, a top White House economic aide said on Sunday.

"We are ... talking about actions right now to jump-start job creation," White House Council of Economic Advisers Chairwoman Christina Romer said on CNN's "State of the Union." "You don't get your budget deficit under control at a 10 percent unemployment rate," she said...Congress is considering proposals to help labor markets that include a \$155 billion jobs package that has already cleared the House of Representatives.

Romer said more spending will be necessary to sustain a fragile recovery.

"The sense that we need to do more is overwhelming," she said on ABC-TV's "This Week."

Ambrose Evans-Pritchard: America slides deeper into depression as Wall Street revels
December was the worst month for US unemployment since the Great Recession began. Bulls hope that weak jobs data will postpone monetary tightening: a silver lining in every catastrophe, or perhaps a further exhibit of market infantilism...

David Rosenberg from Gluskin Sheff said it is remarkable how little traction has been achieved by zero rates and the greatest fiscal blitz of all time. The US economy grew at a 2.2pc rate in the third quarter (entirely due to Obama stimulus). This compares to an average of 7.3pc in the first quarter of every recovery since the Second World War.

Mr. Rosenberg is asked by clients why Wall Street does not seem to agree with his grim analysis. His answer is that this is the same Mr Market that bought stocks in October 1987 when they were 25pc overvalued on Shiller "10-year normalized earnings basis" - exactly as they are today - and bought them at even more overvalued prices in 2007, long after the property crash had begun, Bear Stearns funds had imploded, and credit had its August heart attack. The stock market has become a lagging indicator.

http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/6962632/America-slides-deeper-into-depression-as-Wall-Street-revels.html

Politicians are taking bolder actions to influence monetary policy, signaling that the global financial crisis may end up reining in the independence of many central bank.

That independence is now under threat and is figuring in talks among central bankers gathered in Basel, Switzerland, this week for annual meetings at the Bank for International Settlements. Central banks are vulnerable to political meddling because they became deeply involved in government-led efforts to rescue the global economy.

Central banks also took extraordinary measures on their own. The Federal Reserve bought mortgage-backed securities and took complex derivatives as collateral for loans. The Bank of England essentially printed money when it bought swaths of government bonds. The European Central Bank, the Bank of Japan and others took similar steps.

December Employment Report; let us count the ways.

The 'real jobs lost' are 506,000 (NSA) - 661,000 people dropped out of the work force,

meaning they have stopped looking for employment. They are no longer counted among the unemployed. Those not in the labor force dropped a whopping 843,000.

The labor force has shrunk by 1.9 million people since May. This keeps the official unemployment rate from being much higher. 2.5 million lack a job but want one; yet they are not counted as unemployed.

The participation rate in the labor force – the portion of adults either working or looking for work – declined to 64.6%, the lowest reading since August 1985.

The household survey showed a decline of 589k in jobs; if the participation rate remained unchanged, the unemployment rate would've hit 10.4%. Since July, the participation rate for both men and women has fallen sharply. Nearly 1.3 million people have left the labor force since July.

For men, the rate has declined from 72.0% to 71.0%, a decline of 801,000 men. For women, the rate has fallen from 59.2% to 58.6%, a decline of 491,000 women.

U6 (comprehensive) unemployment hit 17.3%; 17.4% in October is the all-time high.

Employers cut 4.2 million jobs in 2009, but this number will jump when the BLS performs its 824,000 downward revision to NFP in coming months. About 15.3 million people are unemployed.

The economy has lost more than 7.2 million jobs since the recession began in December 2007.

The index of the number of firms hiring also backtracked in Dec, falling back to 40.0 from 42.4, but still above 33.8 in October.

The Employment-Population ratio tumbled to 58.2% in December, the lowest level since 1983.

B/D (fictional) jobs are 59k. A record 6.13 million workers have been unemployed for more than 26 weeks (and still want a job). This is a record 4.0% of the civilian workforce. (series started in 1948)

The government will hire about 1.2 million temporary workers in the first half of the year to administer the decennial population count, possibly providing a bridge to gains in private employment later in the year.

The surge will probably dwarf any hiring by private employers early in 2010 as companies delay adding staff until they are convinced the economic recovery will be sustained.

Senate Democrats, meanwhile, have begun crafting a bill to encourage job creation, which Democratic aides said will likely focus on small business, infrastructure spending and “green” energy. The House passed a \$154 billion jobs bill in December.

What amazes me most of all is that politicians can be bought so cheaply. Public records show that combined labor, insurance, big pharma and related corporate interests spent just under \$500 million last year on healthcare lobbying (not much of which went to politicians)

for what is likely to be a \$50-100 billion annual return.

The fact is that investors, much like national citizens, need to be vigilant and there has been a decided lack of vigilance in recent years from both camps in the US. Dwindling discipline lie ahead for governments and investor portfolios alike. While my own Pollyannish advocacy of “check-free” elections may be quixotic, the shifting of private investment dollars to more fiscally responsible government bond markets may make for a very real outcome in 2010 and beyond. Additionally, if exit strategies proceed as planned, all U.S. and U.K. asset markets may suffer from the absence of the near \$2 trillion of government checks written in 2009. It seems no coincidence that stocks, high yield bonds, and other risk assets have thrived since early March, just as this “juice” was being squeezed into financial markets. If so, then most “carry” trades in credit, duration, and currency space may be at risk in the first half of 2010 as the markets readjust to the absence of their “sugar daddy.” There’s no tellin’ where the money went? Not exactly, but it’s left a suspicious trail. Market returns may not be “so fine” in 2010.

Jeffrey Lacker, President of the Federal Reserve Bank of Richmond, said on Friday he favored selling some of the assets on the central bank’s balance sheet as a way to withdraw stimulus when the time comes.

According to Investors Intelligence, there are now three times as many bulls as there are bears. Almost everyone is a performance chaser.

Based on the Shiller normalized P/E ratio, which is based on the 10-year trend in real corporate earnings, the S&P 500 is trading with a 20x multiple versus the long-run average (back to 1881) of 16x. This market, in other words, is more overvalued now (25%) than it was in heading into October 1987. To be sure, the average ‘overvaluation gap’ at a market peak is 50% so the argument can certainly be made that the market can go even higher from here until it rolls over.

On average, profits in any given year typically rise 7%. The challenge is what is currently being discounted. Market participants seem to agree that we will see something close to \$77 of operating EPS this year. It is fascinating that this precisely what the consensus view was this time last year for 2009, and what we will get is something close to \$56. Nice call. That would be a 36% increase from the 2009 level.

Never before — never — have we seen a 4% nominal GDP performance translate into anything remotely close to a 30% earnings profile, let alone a figure higher than that.

From San Diego to Mount Shasta, voters are expressing mounting disgust over California’s fiscal meltdown and deteriorating services, and they are offering scores of voter initiatives that seek to change the way the state does business.

Over 30 such initiatives — among over 60 total initiatives so far — are now wending their way toward the ballot box. Every day, it seems another vexed voter adds a proposal to the fray. Some verge on the radical, like one to establish the state’s first constitutional convention in over a century, to rewrite California’s most fundamental legislative rules. There are initiatives in circulation that would reduce the time the Legislature is in session, punish legislators for late budgets and criminalize “false statements about legislative acts.”... [Pitchforks & torches are next.]

The Financial Crisis Inquiry Commission will require top bankers and regulators to testify under oath in the coming week when its first public hearings get under way, the panel's chairman and vice chairman said Friday.

Chairman Phil Angelides, a Democrat, and Vice Chairman Bill Thomas, a Republican, said in an interview that the commission also plans to call Federal Reserve Chairman Ben Bernanke and Treasury Secretary Timothy Geithner to testify under oath in the months ahead.

J.P. Morgan Chase & Co. Chief Executive James Dimon, Bank of America Corp. Chief Executive Brian Moynihan, Morgan Stanley Chairman John Mack, Goldman Sachs Group Inc. Chief Executive Lloyd Blankfein and Federal Deposit Insurance Corp. Chairman Sheila Bair are among those expected to testify on Wednesday and Thursday.

More than a third of U.S. residential loans modified by Fannie Mae and Freddie Mac early last year were in arrears again after six months... About 34 percent of homeowners with loans guaranteed by the companies modified in the first quarter of 2009 were at least 60 days delinquent, the Federal Housing Finance Agency said in a quarterly report on Friday. That compares with 39 percent of mortgages going bad after the companies agreed to ease terms of the loans in the last quarter of 2008, the report said.

Banks are boosting their lending to hedge funds and private-equity firms to levels unseen since before the financial crisis, raising their risk levels and adding fuel to the buying power of key players across the stock, debt and buyout markets.

Banks and investment banks, including Citigroup Inc., Bank of America Corp., J.P. Morgan Chase & Co. and Morgan Stanley are offering levels of borrowing—known as leverage—that they haven't provided in more than two years, according to people familiar with the banks and funds.

Borrowing terms also are easing, though not to the extent witnessed several years ago.

From corn to crude, prices for a wide range of commodities are on the rise across the globe, a trend that underscores — but could also hinder — a gathering economic recovery.

In recent months, global food prices have been growing at a rate that rivals some of the wildest months of 2008, when food riots erupted across the developing world. Higher prices could be a positive sign that companies are gearing up for a rebound in consumer spending, or the harbinger of a return to the upward spiral that plagued consumers before the recession took hold...

But Hugh Grant, chairman and chief executive of St. Louis crop-biotechnology company Monsanto Co., said the recession merely "masked" the 2008 food crisis.

But rising commodity prices, in part, illustrate concerns that central bankers' easy-money policies, aimed at rescuing the economy, will fuel inflation. "Inflation expectations are creeping up," said Spyros Andreopoulos, global economist at Morgan Stanley in London.

Both actual price rises and fears of future inflation threaten to put central bankers around the world in a tough spot. On one hand, many want to keep interest rates low longer to support the recovery. But the need to keep prices in check could force them to hit the brakes sooner.

Food prices are a big concern in developing countries such as China and India, where food makes up a larger portion of consumer purchases. On Thursday, China's central bank raised a key interest rate in a shift toward a policy of managing inflation. Economists say the Reserve Bank of India could raise interest rates as early as this month.

Key members of the Senate Banking Committee are in discussions to create a special bankruptcy court for "too-big-to-fail" banks, according to people familiar with discussions on the panel.

The court would work in tandem with a process to dismantle a Lehman-like failing super-sized bank in a way that doesn't cause collateral damage to the markets.

Lawmakers in the committee are working to see if they can create a broad bipartisan bank reform bill in response to the financial system's near collapse in 2008. Sens. Mark Warner, D-Va., and Bob Corker, R-Tenn., two Senate Banking Committee members have been charged with reaching a bipartisan deal on systemic risk issues.

Senate Banking Committee Chairman Christopher Dodd, D-Conn., who announced last week that he plans to retire next January, is working with Sen. Richard Shelby, R-Ala., to create a bipartisan bill for the committee to consider later this month or in early February. Unlike efforts in the Senate, the House was unable to produce a bipartisan bank reform bill when it passed legislation with Democratic backing on Dec. 11.

In November, Dodd introduced a draft bank reform bill that would create a mechanism for the Federal Deposit Insurance Corp. to dismantle a failing systemic bank in a way that does not result in the failure of other financial institutions and the expansion of a financial crisis.

The process would allow the FDIC to use taxpayer funds to make payouts to counterparties and creditors of the failing institution so that they don't fail as well. After that, the costs of those payouts would be recouped by fees charged to financial institutions with more than \$10 billion in assets.

However, Corker and Warner are looking at creating a special bankruptcy court that could decide whether the institution should go through a traditional bankruptcy process or be subjected to the FDIC's dismantling approach, also known as a "resolution process," according to people familiar with the panel.

With this approach, if U.S. government bank regulators agree that a resolution process makes sense, they would need to file that decision to the court, which would make the final decision about whether it made sense to use the resolution process.

Warner communications director Kevin Hall said the panel and committee are "not discussing details," about discussions between the staffs of Warner and Corker. A Corker spokeswoman declined to comment.

Such an approach would also need to be worked out with the Senate Judiciary Committee, which has jurisdiction over bankruptcy code legislation. A senate Judiciary spokeswoman did not return calls.

Even as federal officials move to rein in the nation's biggest banks, one chunk of giant Citigroup Inc. keeps expanding — with the help of the U.S. government.

Citigroup's Global Transaction Services unit, or GTS, zaps more than \$3 trillion around the world each day for hundreds of corporations and dozens of governments and agencies, including the Federal Reserve. It converts currencies for the Fed, processes all passport applications for the U.S. government and handles U.S. military payments to Iraqi contractors.

The political winds are blowing stiffly against giant banks these days, as their "too big to fail" status galls.

The Federal Reserve Bank of New York may be compelled to hand over documents related to American International Group Inc.'s government bailout after the chairman of a House oversight committee said he will issue a subpoena.

Edolphus Towns, the New York Democrat who runs the Oversight and Government Reform Committee, said in a statement that he will issue a subpoena today to get New York Fed records concerning the decision it made to fully reimburse AIG's partners. Banks including Goldman Sachs Group Inc. and Societe Generale SA were among beneficiaries of AIG's rescue, called by lawmakers a "backdoor bailout" for financial firms.

The New York Fed, run by Timothy Geithner when AIG was rescued, had resisted since November calls to provide documents without a subpoena, Darrell Issa of California, the ranking Republican on the oversight committee, said today in a letter. The New York Fed asked AIG to withhold and delay the disclosure of information about the bank payments to the public, according to e-mails provided by Issa to Bloomberg News last week.

"This subpoena will provide the committee with documents that will shed light on how and why taxpayer dollars were used for a backdoor bailout," Towns said in his statement. Jack Gutt, a spokesman for the New York Fed, didn't immediately return a call seeking comment.

Geithner, now the head of the Treasury Department, was asked by the oversight committee last week to testify in public hearings about what he knew of the New York Fed's efforts to limit disclosure of the payments. Thomas Baxter, general counsel of the New York Fed, said last week that Geithner wasn't aware of the issue because the lawyer didn't think it merited Geithner's attention.

The biggest monthly rebound in the Dollar Index since January means faster gains for Australia's and Canada's currencies as the recovering U.S. economy boosts demand for their commodities.

The Canadian and Australian dollars will strengthen to trade at parity with the greenback or better together in 2010 for the first time in 34 years, appreciating at least 3 percent and 7.5 percent, three of last year's four best forecasters for both currencies say. Traders are favoring the so-called loonie and Aussie over the dollar on the Chicago Mercantile Exchange even while betting more than ever on the Dollar Index advancing.

Accelerating U.S. growth will spur demand for Canadian oil and natural gas as China's expansion boosts purchases of Australian iron ore and coal, pushing both currencies higher, said Sacha Tihanyi, a foreign-exchange strategist in Toronto at Bank of Nova Scotia. The loonie and Aussie both rose last week even as the People's Bank of China took steps to curb lending.

The Federal Reserve will ask a U.S. appeals court to block a ruling that for the first time

would force the central bank to reveal secret identities of financial firms that might have collapsed without the largest government bailout in U.S. history.

The U.S. Court of Appeals in Manhattan, after hearing arguments in the case today, will decide whether the Fed must release records of the unprecedented \$2 trillion U.S. loan program launched after the 2008 collapse of Lehman Brothers Holdings Inc. In August, a federal judge ordered that the information be released, responding to a request by Bloomberg LP, the parent of Bloomberg News.

In her Aug. 24 ruling, U.S. District Judge Loretta Preska in New York said loan records are covered by FOIA and rejected the Fed's claim that their disclosure might harm banks and shareholders. An exception to the statute that protects trade secrets and privileged or confidential financial data didn't apply because there's no proof banks would suffer, she said.

Burden Not Met

The central bank "speculates on how a borrower might enter a downward spiral of financial instability if its participation in the Federal Reserve lending programs were to be disclosed," Preska, the chief judge of the Manhattan federal court, said in her 47-page ruling. "Conjecture, without evidence of imminent harm, simply fails to meet the board's burden" of proof.

Team Obama is proposing a special tax on banks. In order to remedy destructive laws and regulations statisticians must construct more rules & regulations because they cannot admit the errors of their initial ways. The compounding complexities harm individuals and businesses, but they enrich lawyers and lobbyists.

The Obama administration is considering levying a fee on banks to recoup more of the taxpayer funds spent to rescue the financial system, according to an administration official.

Such a move comes as Wall Street banks, having regained their footing, are set to pay out large bonuses. Despite the mortgage meltdown, financial firms are coming off a blockbuster year. Revenue has rebounded to pre-crisis levels, and 2009 compensation is on pace to approach or surpass the record payouts of 2007. <http://online.wsj.com/article/SB126322918488724799.html?mod=djemalertNEWS>

The big brokers and banks screw up, commit misdeeds and chicanery, so regulators mandate that we must report every single trade, every single share that we transact. Of course there is no way that regulators can review the billions of shares that are reported to them. But the ridiculous regulations provide cover for their lax regulations on the big guys as well as the sins of the big banks and brokers.

Wal-Mart said Monday it will close 10 money-losing Sam's Club stores and cut 1,500 jobs to reduce costs.

The stores will close Jan. 22. They are in Nampa, Idaho; La Quinta, Calif.; Louisville, Colo.; Vista, Calif.; Rolling Meadows, Ill.; Clay, N.Y.; and Irvine, Calif. The cities of Houston, Phoenix and Sacramento, will each lose one store.

National chain store sales got off to a weak start in January, falling 1% in the first week of the month compared with December, according to Redbook Research's latest indicator of

national retail sales released Tuesday.

The fall in the index was compared to a targeted 1.2% drop.

The Johnson Redbook Index also showed seasonally adjusted sales for the period were up 1.4% from last year, surpassing the targeted increase of 1.2%.

Redbook said sales momentum continued into early January as gift cards “seemingly continued to drive sales for the week.” But promotional clearances weren’t as heavy as last year, reflecting better inventory control.

The International Council of Shopping Centers and Goldman Sachs Retail Chain Store Sales Index fell 3% in the week ended Saturday from the week before on a seasonally adjusted, comparable-store basis.

The decrease came as consumers lacked a reason to go out and shop after the holiday season, and bargain-hunting consumers had limited clearance merchandise from which to choose.

“If it is not on sale and the consumer does not need it, they will not make the purchase,” ICSC chief economist Michael Niemira said.

Niemira said an ICSC-Goldman Sachs consumer survey showed that 53% of consumers said they were looking for bargains, with two-thirds of those bargain-hunters saying they weren’t likely to buy an item that wasn’t on sale.

Niemira said January industry-wide comparable-store sales are likely to be “flat to up 1% as limited clearance merchandise is likely to hold back reported sales.”

On a year-on-year basis, the reading rose 1.7% last week.

The U.S. trade deficit widened more than expected in November, as surging oil prices helped imports to outgain exports.

The U.S. deficit in international trade of goods and services expanded 9.7% to \$36.40 billion from \$33.19 billion the month before, the Commerce Department said Tuesday. The October trade gap was originally reported as \$32.94 billion.

The November deficit was bigger than Wall Street expectations for a \$34.7 billion shortfall.

While exports have registered seven straight months of gains as economic growth has returned, the rise in oil prices has brought the trade deficit back up. After a temporary dip in October, oil imports rebounded in November.

Trade, which was one of the few bright spots in the during the recent recession, has been a drag on growth as imports have outstripped exports. Net exports subtracted 0.81 of a percentage point to gross domestic product in the third quarter, when the economy expanded at a 2.2% pace. It was the first negative contribution to growth in a year.

The real, or inflation-adjusted deficit, which economists use to measure the impact of trade on GDP, rose to \$40.71 billion in November from \$38.33 billion the month before, Commerce said Tuesday.

U.S. exports in grew 0.9% to \$138.24 billion, the highest level in a year, from \$137.01 billion in October. Imports increased more sharply, meanwhile, rising 2.6% to \$174.64 billion from \$170.20 billion.

The U.S. bill for crude oil imports in November rose to \$17.81 billion from \$17.44 billion the month before, as higher oil prices more than offset a drop in import volumes. The average price per barrel jumped \$5.15 to \$72.54, the highest since October 2008. Crude import volumes fell to 245.45 million barrels, the lowest level since February 1999, from 258.83 million.

The U.S. paid \$22.97 billion for all types of energy-related imports, up from \$22.45 billion in October.

Crude oil and other petroleum products boosted overall imports of industrial supplies, which gained \$2.08 billion in November. Imports of foreign-made consumer goods increased \$1.36 billion, while purchases of capital goods like computers rose \$1.22 billion.

Food and feed imports fell \$157 million, while auto and related parts imports declined \$54 million.

As for exports, U.S. sales abroad of food, feed, and beverages rose \$1.28 million, boosted by soybean exports. Auto exports increased \$714 million and sales of capital goods were up \$360 million.

Consumer goods, including art and pharmaceuticals, decreased \$719 million in November. Sales of industrial supplies fell \$511 million.

By region, the U.S. trade deficit with China narrowed in November to \$20.22 billion from \$22.66 billion the month before. Exports to China rose by \$469 million to a record \$7.33 billion.

The deficit with Canada also fell to \$1.42 billion from \$2.09 billion, though trade gaps with other major trading partners expanded.

The deficit with Japan rose to \$5.43 billion from \$4.42 billion, while the shortfall with the euro area increased to \$4.96 billion from \$3.76 billion. The U.S. gap with Mexico increased to \$5.14 billion from \$4.55 billion, as well.

Confidence among small businesses declined in December to the lowest level in five months as the outlook for sales remained dim, according to the National Federation of Independent Business optimism index.

The gauge of business activity declined to 88 last month from 88.3 in November, the Washington-based organization reported today. The measure reached a 2009 low of 81 in March, second only to a 1980 reading as the lowest on record.

The report showed small companies, which accounted for six out of every 10 jobs created over the past 15 years, turned more pessimistic last month about the economy and building inventories. The figures signal President Barack Obama's Dec. 8 proposal to give small companies tax credits to spur hiring did little to lift owners' spirits.

It may have taken 38 years but the world is starting to realize that the US dollar, the world's

reserve currency, can no longer function in that role without gold backing. Abandoning the gold standard on August 15, 1971 began the death of the dollar. All control and discipline has been cast aside for years; that is certainly been demonstrated by the privately owned Federal Reserve. Taking the lead of the Fed central banks worldwide have to a greater or lesser degree followed in their footsteps with aggressive stimulus in creating and issuing money and credit and lowering interest rates. The result has been rampant speculation, financial excesses, outright criminality and all the other problems excesses bring. That leaves us with a financial system awash in liquidity, which is in the process of forming another bubble. Worse yet, if the Fed and other central banks withdraw the liquidity the system will collapse. We are told of higher Fed interest rates in July. We will believe it when we see it. Withdrawal of liquidity and higher rates will allow the deflationary undertow to take hold and the worst part of the depression will begin. That said, America is in a money and credit bubble and sooner or later it will burst. Incidentally, we refer you to the section on China; they are in a bubble as well.

Recently the Chairman of the Fed, Mr. Bernanke, said Fed rate policy was right between 2002 and 2006, and that a low Fed funds rate was not the cause of the housing bubble, Ben is either dumb or a liar. It was all the fault of the Fed. The banks tell the Fed what to do and the Fed rubberstamps it. By banks we mean the 12 banks that own the Fed. Currently they see inflation perhaps hyperinflation, but they fear deflation even more. They see what we see, declining use of credit and saving by individuals, a decline in bank lending, an ongoing credit crisis masked by their issuance of money and credit, and still very little securitization. The end of quantitative easing is something the economy cannot cope with.

The dangerous excesses are in the treasury, Agency and MBS markets. They are not responsible for the Treasury and Agency mess, that was the creation of fiscal policies by this and the last two administrations. The mortgage disaster is where we believe they deliberately blew it. What the Fed did was destroy the credit of our country in tandem with government's reckless spending. As a result the Fed is forced to hold interest rates close to zero percent as they monetized Treasuries, GSE and MBS paper. This and government intervention has distorted prices and even supplied us with a dollar carry trade.

A demand from government for money has been vicarious and it could be that the Treasury could be facing a debt spiral. In January and February the Treasury will need about \$150 billion to service old debt and grapple at the same time with up to \$300 billion in new debt. In recent months foreign government have been sellers of debt not buyers, leaving them buyers on a net basis of only some \$8 billion. It should be noted that about \$2 trillion in debt was sold in 2009. For the year foreigners' holdings of all US liabilities fell about \$44 billion and if you separate the Treasury holdings they fell about \$38 billion. Those figures are borne out by a fall in reserve holdings of foreign central banks of dollars from 64.5% to 61.8% in just the last six months of the year.

The only other buyer of size has been the privately owned, "Federal Reserve," which creates money out of thin air. They call it "quantitative easing," another euphuism for creating money with wild abandon.

If you add in demands for cash by desperate state and local governments, insurance company and pension plans, you have a situation that could rocket exponentially.

Our government is bankrupt as we have said over and over again and has been for the past 11 years. Only monetization has kept it afloat.

We suspect that secretly corporations are being told to buy Treasuries and Agencies. We do not see much of that kind of buying coming out of cash flow, so we would guess it would come from the sale of stocks, which does not bode well for the stock market. This comes at a time when 70% of the country wants the Fed audited and investigated.

If the monetization is ended the whole house of cards will collapse. Year on year, in order to strangle inflation, the Fed has an M3 outstanding of \$14.193 trillion versus \$14.317 trillion. They had been increasing M3 by as much as almost 18% and now it is negative. Incidentally, all major countries central banks have been doing the same thing, yet official US inflation is 2.7% and real inflation is 8-1/4%. Can you imagine what it would have been otherwise? That means the inflation is being caused by the stock of euro dollars and cash outside the US, which are obviously being cashed in or sold. Banks internationally starting in 1948 created euro dollars, and the banks have been creating them ever since, some trillions of dollars.

This in a world in which savers get little interest for their savings and in fact are losing some 5 to 7 percent by being in CDs, and Treasuries. This means cash holders are going to demand higher interest rates, which will put downward pressure on bonds, real estate and stock prices. There can be no economic recovery in that kind of an environment.

As this transpires investors are back pursuing risk assets the action, which brought about these problems in the first place. The corporate world is accumulating cash at a ferocious pace. It is not only investment grade assets, but piles of junk as well. Banks may have cut borrowing 18% to small and medium-sized businesses, but transnational conglomerates have no trouble getting funds. At the same time the fiscal deficit expands and monetary policy verges on madness.

The system should have been purged 2-1/2 years ago, but the bankers and Wall Street stopped that from happening. Now the mess is exceedingly worse. 2010 and perhaps 2011 will be bubble years. We hate to contemplate the outcome.

Some say 80% of Treasury and Agency issuance is being absorbed and monetized by the Fed. In the scramble to place debt the Treasury wants to increase the duration of its debt by about two years. Most buyers do not want 7, 10 or 30-year notes and bonds, so it is the Fed who has been buying the debt.

Up until about 6 months ago, year-on-year, 40% of total demand was absorbed by the Fed, or about \$800 billion. We have been projecting these figures for months but no one wants to listen. On top of that we don't know what secret deals have been made with other foreign central banks, like the \$500 billion swap deal almost a year ago. During the first 6 months of 2009 the Fed also purchased \$861 billion in MBS or 80% of issuance and holdings by banks, insurance companies, and Wall Street.

What could be underway now is a sustained increase in interest rates, as a result of the Fed's actions and those of the Treasury as well. A ¾% increase in rates would cause Treasury interest rate costs to rise by \$120 billion, an increase to 5% would add \$650 billion a year in debt for interest alone. That is if they have lenders at that level of interest. It is obvious those lenders are not available at current levels and haven't been available for some time. This is why 80% is being monetized by the Fed. Higher interest rates would squeeze the economy, which would make assets fall further in value, as unemployment rose even higher. This is why so much pure gambling is going on in the markets. The public doesn't understand what is going on, so they stand still while they get shafted. If they hold

Treasuries they are losing 25 to 30 percent of the buying power annually. If the Fed wasn't suppressing interest rates they would be somewhere between 6 percent and almost 10 percent. As you can see, bonds are certificates of guaranteed confiscation. The Fed and the Treasury are stealing people's money.

The path to destruction was chosen in 1990 when the system could have been more easily purged. That option is no longer voluntarily available.

The path chosen was for inflation and it is inflation we have, which will become massive inflation and in that process the dollar will be the big victim. The only thing the Fed can do is hold interest rates down and create more and more inflation. As each wave of Treasury funding washes over the economy the dollar gets weaker and inflation rises higher and more dollars get sold by foreigners and instability increases.

The only alternative to the carnage we face is gold and silver bullion, coins and shares. That is the only place ultimately where your wealth can be protected. As interest rates and monetization rise and the dollar falls with stock and bonds, you have little alternative but to be in gold and silver related assets. The only thing that won't fall as the market drops is gold and silver related assets. If you do not have them, you had best get them because the window of opportunity could close quickly.

Last week the Dow gained 1.8%, S&P 2.7%, Nasdaq rose 1.7% and the Russell 2000 rose 3.1%. Banks surged 10%; broker/dealers 4.2%; cyclicals 7%; transports 3%; consumers 0.8%, as utilities fell 1.2%. High tech rose 0.9%; semis 2.2%; Internets 0.9% and biotechs 3.3%. Gold bullion rose \$40.00 and the HUI Index rose 7.6%. The USDX fell 0.5% to 77.45.

Two-year T-bills fell 16 bps to 0.88%; the 10-year notes were unchanged at 3.84% and the 10-year German bunds were unchanged at 3.38%.

Freddie Mac's 30-year fixed rate mortgage fell 5 bps to 5.09%. The 15's fell 4 bps to 4.50%, the one-year ARMs fell 2 bps to 4.31% and the 30-year fixed jumbos fell 12 bps to 6.08%.

Fed credit fell \$3.6 billion and Fed foreign holdings of Treasury and Agency debt rose \$6.3 billion to a record \$2.962 trillion. Custody holdings for foreign central banks expanded \$437 billion, or 17.3% yoy.

M2, narrow money supply, rose \$16.4 billion to \$8.413 trillion. Total money fund assets rose \$13.8 billion to \$3.307 trillion. Year-on-year that is off 15.1%.

On Monday the 10-year T-note auction saw a bid to cover of 2.65 to 1, versus an average over the past 5 auctions of 2.42 to 1. Those were TIPS.

The Conference Board said its Employment Trends Index climbed to 91.8 in December from 90.3 in November. That is up 5 times from a year ago. Fitch says loans coming due over the next two years will result in delinquencies peaking at 12%. Of the five main property types, each has seen an increase of over 195% since December 2008, ranging from multifamily with a 196% increase and hotels with a 1,175% increase.

Economist David Rosenberg says employment is 58.2%. For every 100 people, 41.8 are not working a new low. The duration of unemployment is at a record high and those unemployed 27-weeks and over is at 40%. These are the lowest numbers since August 1983.

David Rosenberg and John Williams expose the drivel, which passes for financial journalism today. John bases his statistics on the formulas of 1980 as we do. That is why all three of us believe the US is in depression. John said that last year that using generally accepted accounting principles were unfunded liabilities like Medicare and Social Security are included in the same way that corporations account for their pension liabilities that in 2008 the deficit would have been \$5.1 trillion, instead of \$450 billion officially reported.

We find that out of the “Home Affordable Modification Program”, HAMP, out of 760,000 Americans whose mortgage loans are under water only some 31,400 have been modified or 4.1%. As that transpired five million mortgages went into foreclosure. This is another losing program.

Then there is Fannie Mae and Freddie Mac from which the Fed bought \$1.1 trillion in home loan bonds. There was a cap of \$200 billion of these loans by the Fed, which was removed a few weeks ago. Fannie and Freddie have done well. The Fed owns 80% of the shares of Fannie and Freddie, which in turn means you own them.

What has happened in the MBS market is that the Fed has been deliberately overpaying for mortgages to fatten the balance sheets of their owners, which are banks, Wall Street, insurance companies and pension plans. In fact, bankers have been quoted as saying they made ridiculously high bids in sweeping the market of offerings. This reduces bids on MBS and pushes remaining bond prices higher. In that process Fannie Mae and Freddie Mac were the lenders of last resort, which means the taxpayer got to pay for the inflated MBS dumped on them by the Fed. All the risk has been heaped on the taxpayer and the Fed glides away to rescue something or someone else. That is how they managed to make \$45 billion this past year. This predicament for the GSEs allows them to justifiably increase fees, which have to be paid by banks that originate and service loans, forcing these banks to sell more of their loans to these entities. That also means small and intermediate banks will make fewer loans and make less profit.

The Fed has again bailed out the legacy-money center banks and in the process has distorted true market prices. The Fed, Fannie, Freddie, Ginnie and FHA are the mortgage market. The market has been socialized and nationalized. Government runs the mortgage market not the lenders.

Historically when government has interceded in markets more often than not the result has been disastrous. We wrote seven years ago that we believed that government wanted to own 50% or more of the housing stock so they could control people’s lives. They are well on the way to accomplishing that. Those who do buy homes get an excellent borrowing rate, but the Fed and the GSE control it, and the taxpayer gets to pay for it.

Eventually the free housing market has been destroyed and the prices of homes have nowhere to go but lower. At the same time banks make less from their investments and less profits. Then they are forced to merge and eventually get purchased by mega banks that are being subsidized by the Fed as well. The average bank cannot lend because the profit is not there, so they keep money on deposit at the Fed earning $\frac{1}{4}\%$, which is hardly what they are in business for. The situation is now that if the Fed or the agencies withdrew from the market it would collapse. That means housing and mortgages are in perpetual dependency. Wait until interest rates rise, and qualifier borrowers dry up and phantom housing inventory appears from the banks or even the agencies, what happens then? We will tell you, the \$100,000 house becomes a \$30,000 house. This is where this is all headed.

The 3-year auction had a bid to cover of 2.98 to 1 versus an average of the past 10 auctions to 2.78 to one.

The IBD/TIPP Economic Optimism Index climbed to 48.8 in January from 46.8 in December.

The number of drug price hikes doubled from 2000 to 2008. The GAO found these increases to be extraordinary for 321 brand-name drugs, with prices jumping by 100% to 500%. In a few cases by more than 1,000%.

The small business optimism index fell for the second straight month, dropping 0.3points to 88.0 in December. Plans to make capital expenditures over the next few months rose % to 18%, but it is still only 2-points above a 35-year low.

The Fed will end its reliance on the federal funds rate, long its primary monetary policy tool. Set to take place is the interest rate the Fed pays on excess bank reserves, a total the central bank has no control over.

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