Looming Global Debt Crisis

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What do you do after you have zero interest rates and you have flooded the world with money and credit?

The answer is you attempt to fight off higher interest rates and see if you can dodge the inflation bubble that follows. The commitment for this current fiasco to save the world's Illuminist banks has already caused an official debt responsibility for the US of more than $23 trillion or about 40% of world GDP. That is staggering and it is official. We wonder what the real figure is? It is also wise to remember that the Federal Reserve, and other reserve banks worldwide, all international, are responsible for the carnage we are witnessing.

The public is now paying for their gambling and corruption as central banks, who started this scam, transfer the debt to the taxpayers by buying up toxic garbage, guaranteeing losses and making sure none of the key Illuminist banks don't go under. The Fed, privately owned, won't let us look at their books, so we can tell what they are paying for these almost worthless assets. We are told it is a state secret.

There have been some salutary affects, but they are only transitory. As we can see the pace of job losses has slowed and will slow over the next year in anticipation of elections. About 80% of the stimulus package hits before the next election. There will be a slight increase in production and some inventory building. The real question is what will the Fed, government, Wall Street and banking due for an encore? They will most likely demand another stimulus package of some $2 trillion; keep zero interest rates and perhaps go to negative rates and continue to increase M3, money and credit, by 14%. That will neutralize the undertow of deflation and cause higher inflation. This game could last for a few more years, but one thing is for sure, many more are discovering what the game is and they are flocking to gold and silver in a flight to quality to preserve their wealth. If you have any doubts our Treasury Secretary, Mr. Geithner, has recently told us the same plan of easing is in effect. The manipulation and losses in fixed assets will continue. The underlying deflation will not go away. The remedy more money and credit and low interest rates will prevail. The manipulation of markets will continue; world monetization is going on full bore not only in the US but in the UK, China, Japan and many other countries as well. They are all working together to bring down the world financial system when it pleases them to institute world government.

A good part of money and credit injections have been into world stock markets to give a semblance of normality and to make people think all is well. At the same time we hear of eliminating this orgy of money and credit, but it gets pushed off further and further into the future, as it forms another speculative inflationary bubble. There is no doubt that a groundswell is forming as inflation begins to appear again, an event that really started in May, five-months ago. As you can see jobs are not being created and that this financial largess is again flowing mostly into financial markets. The inflationary bubble is on the way again worldwide.

G-20 members that are flooding the markets with money and credit think they are doing a great thing saving us. These are scam and propaganda artists. All they are guaranteeing is higher gold and silver prices. Governments issue bonds and central banks in part buy them monetizing the debt. All this in the name of bailing out bankers, insurance companies, Wall Street and the federal government. Reckless spending is ruining almost all world economies. Borrowed money is subsidizing deficit spending in a big way and soon it will turn inflation higher.

We have just seen Treasuries, Agencies and GSE MBS expand $2 trillion over the past year and expect a further $2 trillion expansion for the next fiscal year. The private sector and foreign central banks are simply not capable of financing such deficits. That means credit expansion and monetization has to take place and that will be inflationary.

This past week we again were treated to the "Fed Friday Night Financial Follies." Chicago's Corus Bank, under crippled by construction loans for condos, was seized by regulators and its $7 billion in deposits were acquired by MB Financial. This makes 91 failures this year and 416 FDIC insured banks are on the problem list.

Last week the Dow gained 1.7%; S&P 2.5%; the Russell 2000 3.9% and Nasdaq 2.8%. Cyclicals surged 4.3%; transports 5.3%; consumers 2.5%; banks 0.4%; broker/dealers 3.3%; high tech 4%; semis 3.6%; Internets 4.1%; biotechs 0.3% and only utilities fell 0.5%. Gold bullion gained another $11.00 and the HUI index of non-hedging gold and silver shares rose 4.0%. They are now up 40.9% on the year. The dollar fell 1.9% last week to 76.67.

The two-year T-bill fell 3 bps to 0.80%; the 10-year T-notes fell 10 bps to 3.34% and the 10-year German bund fell 1 bps to 3.23%.

Freddie Mac's 30-year fixed rate mortgage rate fell 1 bps to 5.07%, the 15's fell 4 bps to 4.50% and one-year ARMs rose 2 bps to 4.64%.

Fed credit rose $6.3 billion. Credit has declined $177 billion ytd, but it expanded $1.181 trillion, or 133% yoy. Foreign holdings of Treasuries and Agencies fell 0.7% to $2.828 trillion. Custody holdings for foreign central banks has risen 17.9% ytd, and 18.1% yoy.

M2 rose $11.3 billion to $8.294 trillion. The narrow money supply is up 7.6% yoy.

Total money fund assets fell $15.4 billion to $3.543 trillion.

We have to laugh at the outrageous lies and propaganda being spewed out over Treasury auctions – the supposed strong demand attached to last week's auction of Treasury bonds, notes and bills. Some $70 billion were auctioned at a bid to cover of 2.92 to 1. Two to 1 is okay, 2.3 to 1 would be considered very good.

In just the third quarter alone the Treasury has sold $442 billion of notes and bonds after selling $963 billion in the first half of the year, or $481.5 billion per quarter.

What the business media fails to mention is the Fed's currency swaps. The Fed swapped dollars for five major currencies. Thos nations' central banks are using that $500 billion to buy Treasuries.

We have a new site to visit to check out your bank. Go to http://www.ffiec.gov and go to bank performance reports.

Last Friday three more bank failures joined the FDIC Friday Night Financial Follies, taking the total to 92.

As you know we believe the Fed has five major banks buying US Treasuries with the dollars they received in the latest $500 billion currency swap. Now we hear from Rob Kirby and Ellen Brown that Bernanke is using hedge funds in the Cayman Islands to secretly buy huge sums of US Treasuries. Caribbean banks are doing the buying. Others believe the Fed is the direct buyer and has been for some time. We give these reports great credence, because the Chinese, Japanese and Europeans are not buyers and have not been buyers for some time.

Joe Stiglitz, Nobel Prize winning economists says, "The US has failed to fix the underlying problems of its banking system after the credit crisis and the collapse of Lehman Bros. To big to fail banks worldwide have become even bigger. The problems are worse than they were in 2007 before the crisis." It is an outrage he says. We say it should be noted that when TARP money was proposed that voters were 100 to 1 against the bank bailout. This is why the new PM of Japan says, "We are not a colony of Washington."

In one of his first major decisions on trade policy, President Obama opted Friday to impose a tariff on tires from China, a move that fulfills his campaign promise to "crack down" on imports that unfairly undermine American workers but risks angering the nation's second-largest trading partner.

The decision is intended to bolster the ailing U.S. tire industry, in which more than 5,000 jobs have been lost over the past five years as the volume of Chinese tires in the market has tripled.

It comes at a sensitive time, however. Leaders from the world's largest economies are preparing to gather in Pittsburgh in less than two weeks to discuss more cooperation amid tensions over trade.

The tire tariff will amount to 35 percent the first year, 30 percent the second and 25 percent the third.

Although a federal trade panel had recommended higher levies — of 55, 45 and 35 percent, respectively — the decision is considered a victory for the United Steelworkers union, which filed the trade complaint.

"The president sent the message that we expect others to live by the rules, just as we do," Leo W. Gerard, president of the union, said Friday night.

China's government and its tire manufacturers, as well as tire importers and some U.S. tire makers with plants overseas, had strenuously objected to the measure.

"The President decided to remedy the clear disruption to the U.S. tire industry based on the facts and the law in this case," the White House said in a statement released Friday night.
[This is the first shot in the beginning of a major trade war. The reason for the action is fundamentally sound and the Chinese are dumping dollars as fast as they can. So there is nothing to be lost in this decision at this time. Hopefully it will lead to tariffs on goods and

services legislation in the near future so that America can again compete in world markets and that we can end free trade, globalization, offshoring and outsourcing once and for all. This will save our economy. Bob]

Senate negotiators closing in on a comprehensive health care bill have whittled away all but the most contentious issues and one of those loomed large yesterday: coverage for illegal immigrants.

The negotiators thought they had settled the issue, but that was before Representative Joe Wilson of South Carolina shouted "You lie!'' at President Obama when the president said in his speech to Congress that illegal immigrants wouldn't be covered under his health plan.

That led the senators to revisit the issue to make sure they have provisions in place to enforce prohibitions against illegal residents getting federally subsidized coverage.

"What we are trying to prevent is anyone who is here illegally from getting any federal benefit,'' said Senator Kent Conrad of North Dakota, a member of the "Gang of Six'' of three Democratic and three Republican members of the Senate Finance Committee.

The White House says that Obama does not want illegal immigrants to be able to buy insurance through the new purchasing exchange he proposes. White House press secretary Robert Gibbs said yesterday that the administration will work with lawmakers on language to enforce that.

The House health bill expressly prohibits federal subsidies for illegal immigrants, but critics note that there are no enforcement mechanisms or language on how to verify whether someone is in this country legally.

"Without a verification requirement it's essentially like posting a 55-mile-per-hour speed limit and not having any highway patrol on the road,'' said Ira Mehlman, spokesman for the Federation for American Immigration Reform.

Democrats in two House committees defeated amendments that would have required verification of legal status, saying such measures create barriers to legal residents getting the health coverage they need.

The Senate negotiators are facing a deadline early next week to produce a bipartisan deal. If they don't succeed, committee Chairman Max Baucus plans to go it alone with a Democratic bill.

The Federal Deposit Insurance Corp. urged banks that are sharing losses with the agency to temporarily reduce mortgage payments for unemployed borrowers as part of a broader effort to curb home foreclosures.

The banks, which bought failed lenders, should reduce the loan payment to "an affordable level'' for at least six months for homeowners who are without a job or underemployed, the FDIC said yesterday in a statement released in Washington.

President Obama to OK Israel's plans to receive seventy-five US F-35 fighters, indicating a desire to be able to penetrate into Iran and Syria, a report says. They will buy (be given) another fifty F-35 jets soon after. The total cost will be over $15 billion in 2009 dollars.

The F-35 Joint Strike Fighter (JSF), made by Lockheed Martin, is expected to be one of the most-advanced fighter jets in the world, said the Russian news agency, quoting a passage from a Jerusalem Post article.

Last week, Tel Aviv forwarded an 'official request' for the F-35 stealth fighter jets to the US Department of Defense, hoping to replace some of its older F-15 and F-16 fighter jets with the new model.

Several days later, there were reports that the two sides had reached an 'understanding' over the purchase after some initial disagreements.

As his graduation from Babson College's MBA program drew near last year, Josh Bob began interviewing for a handful of jobs on Wall Street. But because those positions have dried up in the tough economy, he changed courses.

Business schools awarded 146,406 MBA degrees in 2006, up from 111,532 in 2000 and 78,255 in 1990.

Bob wound up keeping his job as the northeast regional manager for the World Adult Kickball Association, but is using his new MBA to start a business, Textaurant Corp., which aims to help restaurants manage waiting lists and notify customers when tables are ready by sending text messages to their cell phones.

"I was seeing 40 candidates lined up for every opening,'' said Bob, 30, of Waltham, who had long wanted to be an entrepreneur. "I made a conscious decision that I did not want to be a part of that backup.''

It used to be that a master of business administration could almost guarantee a gig on Wall Street, but not anymore. A national unemployment rate that hit 9.7 percent last month has left six job seekers for every one job. Adding to that, the financial services sector, a mainstay for MBA grads, cut tens of thousands of jobs following the financial crisis and continues to shed hundreds of jobs each month.

That has left some MBA graduates wondering how to adapt their career plans to the new market realities so they can use their coveted degrees.

Joseph Stiglitz, the Nobel Prize- winning economist, said the U.S. has failed to fix the underlying problems of its banking system after the credit crunch and the collapse of Lehman Brothers Holdings Inc.

"In the U.S. and many other countries, the too-big-to-fail banks have become even bigger," Stiglitz said in an interview today in Paris. "The problems are worse than they were in 2007 before the crisis."

Stiglitz's views echo those of former Federal Reserve Chairman Paul Volcker, who has advised President Barack Obama's administration to curtail the size of banks, and Bank of Israel Governor Stanley Fischer, who suggested last month that governments may want to discourage financial institutions from growing "excessively."

A year after the demise of Lehman forced the Treasury Department to spend billions to shore up the financial system, Bank of America Corp.'s assets have grown and Citigroup Inc. remains intact. In the U.K., Lloyds Banking Group Plc, 43 percent owned by the government, has taken over the activities of HBOS Plc, and in France BNP Paribas SA now owns the Belgian and Luxembourg banking assets of insurer Fortis.

While Obama wants to name some banks as “systemically important” and subject them to stricter oversight, his plan wouldn’t force them to shrink or simplify their structure.

Stiglitz said the U.S. government is wary of challenging the financial industry because it is politically difficult, and that he hopes the Group of 20 leaders will cajole the U.S. into tougher action.

“We aren’t doing anything significant so far, and the banks are pushing back,” he said. “The leaders of the G-20 will make some small steps forward, given the power of the banks” and “any step forward is a move in the right direction.”

“It’s an outrage,” especially “in the U.S. where we poured so much money into the banks,” Stiglitz said. “The administration seems very reluctant to do what is necessary. Yes they’ll do something, the question is: Will they do as much as required?”

Stiglitz, former chief economist at the World Bank and member of the White House Council of Economic Advisers, said the world economy is “far from being out of the woods” even if it has pulled back from the precipice it teetered on after the collapse of Lehman.

“We’re going into an extended period of weak economy, of economic malaise,” Stiglitz said. The U.S. will “grow but not enough to offset the increase in the population,” he said, adding that “if workers do not have income, it’s very hard to see how the U.S. will generate the demand that the world economy needs.”

The Federal Reserve faces a “quandary” in ending its monetary stimulus programs because doing so may drive up the cost of borrowing for the U.S. government, he said. “The question then is who is going to finance the U.S. government,” Stiglitz said.

According to thought leaders from the principal world economies, the current international monetary system, reliant on the US dollar, is deeply flawed, but a single viable alternative is not readily apparent. This was the outcome from the debate at the Annual Meeting of the New Champions where they discussed the global currency reserve system.

In March, China’s Central Bank Governor Zhou Xiaochuan sparked controversy when he proposed that the International Monetary Fund create a new reserve currency – a proposal with enormous implications across Asia, which holds nearly US$ 4 trillion in foreign currency.

“I strongly supported the proposal made by Governor Zhou,” said Yu Yongding, Senior Fellow, Institute of World Economics and Politics, Chinese Academy of Social Sciences (CASS), People’s Republic of China and member of the Forum’s Global Agenda Council on International Monetary Systems. However, panellists agreed that the creation of a new global currency to replace the dollar and other sovereign currencies was not politically viable.

The overwhelming problems facing the Asian and US economies are not based on currency doubts. “Don’t kid yourself. This crisis is not about currency problems. This problem is about the failures of policies,” said Stephen S. Roach, Chairman, Asia, Morgan Stanley, Hong Kong SAR. “We’ve had central banks that have just gone along for the ride, driven by ideologies, driven by politics.” For the global financial system to steady itself, the US must increase exports and Asian economies, China’s in particular, must do much more to reorient their growth away from external demand towards domestic consumption. “The most important thing for China is to speed up structural reform,” agreed Yu.

When polled informally, participants preferred the yuan over the dollar as an investment but few believed it would replace the dollar as the global reserve. Among the panelists, only Oki Matsumoto, Founder and Chief Executive Officer of Japan’s Monex Group, was mildly bullish on the dollar.

South Carolina Republican Representative [racist] Joe Wilson, who faces possible censure in the U.S. House of Representatives for shouting “You lie!” during President Barack Obama’s speech to Congress on healthcare reform, said on Sunday he would not apologize again. Calling his outburst on Wednesday evening “a town hall moment,” Wilson told “Fox News Sunday” that since his apology to the president had already been accepted, he did not plan to apologize on the House floor as Democrats have demanded.

Microsoft this week was sued in a Washington district court for allegedly violating privacy laws through Windows XP’s Windows Genuine Advantage (WGA) copy protection scheme. Similar to cases filed in 2006, the new class action case accuses Microsoft of falsely representing what information WGA would send to verify the authenticity of Windows and that it would send back information that could be traced back to individual users. Although the company has claimed no personal information is sent, the authentication system is said to provide daily information on the user’s IP address and other details that could be used to trace information back to an individual home.

The complaint further argued that Microsoft portrayed WGA as a necessary security update rather than acknowledge its copy protection nature in the update. WGA’s implementation also prevented users from purging the protection from their PCs without completely reformatting a computer’s system drive, leaving many with no real choice but to accept WGA after it was installed. In its official stance, Microsoft has only said it provides system data and has denied that any identifying information would be sent. It has long since acknowledged WGA’s main role, which among other things has blocked important updates like service packs and Internet Explorer upgrades for copies believed to be pirated. The lawsuit is specific and would ask for at least $5 million in compensation for the affected class of all Windows XP users in the US.WGA has been controversial as it has also been embedded in Vista and is periodically known to falsely flag users as pirates, although such incidents have generally become rarer over time. The approach contrasts sharply with that of Apple, which even with Mac OS X Snow Leopard has declined to add copy protection to its OS releases. The company is helped by its control over hardware, which reduces the impact of piracy on its business, but nonetheless continues to rely on trust alone for a significant amount of its OS revenues.

Washington notables broke ground on the future home of the Department of Homeland Security on Wednesday, symbolically starting construction on the biggest federal building project in the Washington area since the Pentagon 68 years ago.

The project will bring together more than 15,000 employees now scattered in 35 offices in the region, placing them on a 176-acre campus strewn with historic buildings in a long-neglected corner of Washington, five miles from the Capitol building.

Department leaders hope the $3.4 billion consolidation will help the department fulfill its core mission — protecting the homeland — in ways big and small.

“It will help us hold meetings,” Secretary Janet Napolitano said. “It will help us build that culture of ‘One DHS.'”

The Obama administration said Thursday that a program used to guarantee as much as $3 trillion in money market mutual fund assets will end on schedule next week.

The program, which will be closed down on Sept. 18, had no direct cost to taxpayers and earned more than $1 billion in fees paid by the mutual fund industry, according to the Treasury Department.

It was established at the height of the financial crisis last fall after a large money market fund “broke the buck” — meaning the value of its underlying assets fell below $1 for each investor dollar put in. [Pay particular interest to this announcement. If it is not changed you have little protection in your savings or checking accounts anymore. We suggest you keep absolute minimal amounts of money in your accounts. Those funds should be invested in gold and silver related assets as soon as possible. Bob]

Wealthy individuals’ Chapter 11 bankruptcy filings jumped 73% in the second quarter from a year earlier, according to the National Bankruptcy Research Center. More individuals or families with at least $1,010,650 in secured debt and $336,900 unsecured are using Chapter 11 of the U.S. bankruptcy code typically associated with business reorganizations.

George Washington University is increasing holdings of commodities such as oil and natural gas out of concern that a return to inflation rates last seen in the 1970s may ravage the value of its $1 billion endowment. U.S. consumer prices may rise 8% annually within three to five years because of unprecedented government spending and deficits, said Donald Lindsey, the Washington school’s chief investment officer. Inflation, once it starts, could get very difficult to stop, Lindsey, 50, said. ‘We could see a stagflation environment that’s similar to the 1970s.

Foreclosure filings in the U.S. exceeded 300,000 for the sixth straight month. A total of 358,471 properties received a default or auction notice or were seized last month, according to RealtyTrac Inc. That’s up 18% from a year earlier.

About $134 billion of securitized ‘option’ adjustable-rate mortgages will reset to higher payments over the next two years according to Fitch.

The default rate on commercial mortgages held by U.S. banks will rise to 5.4% in 2011, the highest since at least 1992 according to Real Estate Econometrics LLC.

Federal Reserve examiners failed to rein in practices that led to losses from excessive real estate lending at two banks in California and Florida that later closed, the central bank’s inspector general said.

Riverside Bank of the Gulf Coast in Cape Coral, Florida, “warranted more immediate supervisory attention” by the Atlanta district bank, Fed Inspector General Elizabeth Coleman said in a report to the central bank’s board. In overseeing County Bank in Merced, California, the San Francisco Fed should have taken a “more aggressive supervisory” approach, Coleman said in another report, also dated Sept. 9.

The findings follow criticism by lawmakers including Senate Banking Committee Chairman Christopher Dodd, who say the Fed failed to curtail flawed underwriting and other lending abuses that contributed to the collapse of the housing market. Another report by the Fed's inspector general in June faulted the Atlanta Fed's oversight of First Georgia Community Bank.

Congress is reviewing a U.S. Treasury proposal to give the Fed more power by making it the supervisor for large and interconnected firms that may damage the U.S. financial system in the event of failure. The Treasury plan is part of an effort to overhaul U.S. financial regulation.

"The Fed does not come out smelling like a rose," said Gilbert Schwartz, former associate general counsel of the Fed board and now a partner at law firm Schwartz & Ballen LLP in Washington. "There are things that could have been done better."

China announced a probe into the alleged dumping of American auto and chicken products, two days after U.S. President Barack Obama imposed tariffs on imports of tires from the Asian nation.

Chinese industries have complained that they're being hurt by "unfair trade practices," the nation's Ministry of Commerce said on its Web site yesterday. The Beijing-based ministry is also looking into subsidies for the products, it said. It didn't specify the imports' value.

It's not a very complicated story," said Charles Biderman, who runs market research firm Trim Tabs. "Insiders know better than you and me. If prices are too high, they sell."

Biderman, who says there were $31 worth of insider stock sales in August for every $1 of insider buys, isn't the only one who has taken note. Ben Silverman, director of research at the InsiderScore.com web site that tracks trading action, said insiders are selling at their most aggressive clip since the summer of 2007.

U.S. junk bond default rate rose to 10.2 percent in August from 9.4 percent in July as the worst recession since the 1930s left more companies unable to pay off debt, Standard & Poor's data showed on Thursday.

The default rate is expected to rise to 13.9 percent by July 2010 and could reach as high as 18 percent if economic conditions are worse than expected, S&P said in a statement.

In another sign of corporate distress, the rating agency has downgraded $2.9 trillion of company debt year to date, up from $1.9 trillion in the same period last year.

The president's chief economic adviser warned Friday that the nation's unemployment rate could stay "unacceptably high" for years to come — a situation that would seriously complicate Barack Obama's ability to convince Americans that he's beating back the recession.

The typical American household made less money last year than the typical household made a full decade ago.

To me, that's the big news from the Census Bureau's annual report on income, poverty and health insurance, which was released this morning. Median household fell to $50,303 last year, from $52,163 in 2007. In 1998, median income was $51,295. All these numbers are adjusted for inflation.

In the four decades that the Census Bureau has been tracking household income, there has never before been a full decade in which median income failed to rise. (The previous record was seven years, ending in

1985.) Other Census data suggest that it also never happened between the late 1940s and the late 1960s.

So it doesn't seem to have happened since at least the 1930s.

FOR years now, many businesses and individuals in the United States have been relying on the power of government, rather than competition in the marketplace, to increase their wealth. This is politicization of the economy. It made the financial crisis much worse, and the trend is accelerating.

But we are now injecting politics ever more deeply into the American economy, whether it be in finance or in sectors like health care. Not only have we failed to learn from our mistakes, but also we're repeating them on an ever-larger scale.

Lately the surviving major banks have reported brisk profits, yet in large part this reflects astute politicking and lobbying rather than commercial skill.

President Dwight D. Eisenhower warned of the birth of a military-industrial complex. Today we have a financial-regulatory complex, and it has meant a consolidation of power and privilege. We've created a class of politically protected "too big to fail" institutions, and the current proposals for regulatory reform further cement this notion. Even more worrying, with so many explicit and implicit financial guarantees, we are courting a bigger financial crisis the next time something major goes wrong.

One disturbing portent came over the summer when it was reported that the Obama administration had promised deals to doctors and to pharmaceutical companies under the condition that they publicly support health care reform. That's another example of creating favored beneficiaries through politics.

Eli Lilly and Co said on Monday it plans to cut 5,500 jobs, or 13.5 percent of its workforce, in a restructuring meant to bolster the company as it girds for generic competition by late 2011 on its top-selling Zyprexa schizophrenia drug.

The Indianapolis-based drug maker, whose revenue outlook has also been dimmed by competition for its Byetta diabetes drug and safety concerns for its recently approved Effient blood clot preventer, said it aims to cut its "cost structure" by $1 billion by the end of 2011.

The company said it plans to shrink its workforce to 35,000, from its current strength of 40,500, by the end of 2011. But the new headcount does not include any new sales force additions in fast-growing emerging markets and Japan, Lilly said.

The news media's credibility is sagging along with its revenue.

Nearly two-thirds of Americans think the news stories they read, hear and watch are frequently inaccurate, according to a poll released Sunday by the Pew Research Center for the People & the Press. That marks the highest level of skepticism recorded since 1985, when this study of public perceptions of the media was first done.

The poll didn't distinguish between Internet bloggers and reporters employed by newspapers and broadcasters, leaving the definition of "news media" up to each individual who was questioned. The survey polled 1,506 adults on the phone in late July.

The survey found that 63 per cent of the respondents thought the information they get from the media was often off base. In Pew Research's previous survey, in 2007, 53 per cent of the people expressed that doubt about accuracy.

Finally, some good news for Vikram Pandit and Citigroup (C).

The beleaguered CEO and other officers and directors of the bank won dismissal of a lawsuit claiming they manipulated the market for auction-rate securities before it collapsed in February 2008.

Bloomberg: U.S. District Judge Laura Taylor Swain in New York today dismissed the so-called derivative lawsuit on procedural grounds because the plaintiffs failed to ask the bank to bring the case itself. She gave the plaintiffs an opportunity to file a new complaint.

Plaintiffs led by the Louisiana Municipal Police Employees Retirement System claimed New York-based Citigroup was exposed to billions of dollars in settlements, fines and lost business after bankers rigged the market in auction-rate securities to hide a lack of liquidity. The defendants included board members Michael Armstrong and former Chairman Win Bischoff.

As the article notes, state regulators have already settled with Citigroup, UBS, Credit Suisse, Goldman Sachs and other underwriters that agreed to buy back billions of dollars in securities.

Citigroup agreed to buy back $7.3 billion of the debt from individual investors and pay $100 million in fines last August, also pledging to help 2,600 institutional customers unload $12 billion of securities.

SLM Corp., the student-financing company known as Sallie Mae, had its long-term debt rating cut one level by Fitch Ratings to BBB-, the lowest investment-grade ranking. Sallie Mae has $34.4 billion of debt and preferred stock that's affected, the ratings company said. On Aug. 27, Moody's Investors Service said it may cut Sallie Mae's long-term ratings because it "faces significant uncertainties.''

The world has not tackled the problems at the heart of the economic downturn and is likely to slip back into recession, according to one of the few mainstream economists who predicted the financial crisis.

Speaking at the Sibos conference in Hong Kong on Monday, William White, the highly-respected former chief economist at the Bank for International Settlements, also warned that government actions to help the economy in the short run may be sowing the seeds for future crises.

"Are we going into a W[-shaped recession]? Almost certainly. Are we going into an L? I would not be in the slightest bit surprised…The only thing that would really surprise me is a rapid and sustainable recovery from the position we're in."

The comments from Mr. White, who ran the economic department at the central banks' bank from 1995 to 2008, carry weight because he was one of the few senior figures to predict the financial crisis in the years before it struck.

Mr. White repeatedly warned of dangerous imbalances in the global financial system as far back as 2003 and – breaking a great taboo in central banking circles at the time – he dared to challenge Alan Greenspan, then chairman of the Federal Reserve, over his policy of persistent cheap money.

Meanwhile, the underlying problems in the global economy, such as unsustainable trade imbalances between the US, Europe and Asia, had not been resolved, he said.

The Federal Reserve, which convenes its policy meeting next week, is likely to stay the course to buy $1.45 trillion in mortgage-linked securities despite potential resistance from a few regional Fed presidents.

Central-bank officials plan to discuss winding down those purchases over the coming months to limit disruption to the market when the buying comes to an end.

Some regional Fed policy makers have suggested the Fed might halt the program before it finishes its purchases of $1.25 trillion in mortgage-backed securities and $200 billion in Fannie Mae and Freddie Mac debt announced in the past year

At the Federal Open Market Committee's Sept. 22-23 meeting, the central bank's policy makers — including the 12 regional Fed presidents — will assess the early signs of improvement now taking shape across the economy.

21.43% of FHA mortgages are delinquent or in foreclosure per its own service report.

FHA and VA are today writing loans with 3.5% down (and in fact 0% down if you use the $8,000 "home buyers credit") and ignoring safe and sound front and back end ratio limits in a desperate attempt to prevent that which must happen to restore a sound housing industry: A decline in prices to sustainable levels.

National chain store sales rose 0.5% in the first two weeks of September versus the previous month, according to Redbook Research's latest indicator of national retail sales released Tuesday.

The rise in the index was compared to a targeted 0.3% drop and came as back-to-school sales continued to help results.

The Johnson Redbook Index also showed seasonally adjusted sales in the period were down 2.1% from September 2008, compared with a targeted 2.9% fall. The latest numbers are starkly different because they don't include Wal-Mart Stores Inc. (WMT), which earlier this year stopped giving monthly same-store-sales figures.

Redbook said, "Back-to-school business continued to be a primary sales driver in the second week, which included the Labor Day holiday, as the season approached its peak selling period. Some merchants may have been positively affected by mismatched comparisons with last year's early Labor Day."

US July Business Inventories down 1%.

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

On a year-on-year basis, retailers saw sales rise 1.6% in the latest week, with the decline moderating from recent weeks.

Michael P. Niemira, ICSC chief economist, attributed that jump to easier comparisons, mild weather and slighty better demand. He reiterated that in part because of weakness last year, sales declines for this month should be about 2%.

NY Empire State Manufacturing Index increases to 18.9 in September .

Producer prices rebounded sharply last month on the back of rising gasoline and other energy costs, though core prices posted only a slight gain.

Price pressures deeper in the production pipeline moved up, as well, suggesting the possibility of higher prices down the road.

Still, the data should give the Federal Reserve continued flexibility in trying to support the weak economic recovery, given the relative lack of core price pressures.

The producer price index for finished goods rose 1.7% on a seasonally adjusted basis in August, the Labor Department said Tuesday, after falling 0.9% in July.

Last month’s increase was bigger than the 1% gain predicted by economists in a Dow Jones Newswires survey. However, PPI was still down 4.3% from August 2008.

Core PPI advanced 0.2% last month compared to July, versus expectations for a 0.1% increase. It was up 2.3% from a year ago.

Last week, a government report showed a jump in U.S. import prices in August. However, consumer price data due Wednesday are expected to indicate only modest pressures last month.

The PPI data showed an 8% jump in energy prices in August, the biggest gain since November 2007. That followed a 2.4% decline the previous month. The increase in energy prices was led by a 23% surge in wholesale gasoline prices, the biggest increase since April 1999.

Food prices, meanwhile, were up 0.4%. Prices of passenger cars rose 0.7% last month, while light truck prices gained 0.8%.

Deeper in the production pipeline, rising prices indicated a buildup of inflation pressures in the economy. Prices of raw materials, known as crude goods, rose 3.8% on the month. Core crude goods prices increased 6%, the most since April 2008.

Intermediate goods prices rose 1.8% in August. Core intermediate goods increased 0.6%.

Sales at U.S. retailers surged in August by the most in three years, led by a jump in auto purchases as consumers took advantage of the government’s “cash-for-clunkers” program.

The 2.7 percent increase exceeded the median forecast of economists surveyed by Bloomberg News and followed a 0.2 percent drop in July, Commerce Department figures showed today in Washington. Purchases excluding automobiles climbed 1.1 percent, also more than anticipated.

Auto sales increased by the most in almost eight years, spurred by the Obama administration's cash incentive to trade in older models for new, more fuel-efficient vehicles. The gain in spending was broad-based as 11 of 13 categories registered increases, easing concern that rising unemployment and a record loss of household wealth will cause Americans to retrench.

The 2008 global recession caused the first worldwide contraction in assets under management in nearly a decade, according to a study that found wealth dropped 11.7 percent to $92.4 trillion.

A return to 2007 levels of wealth will take six years, according to a Boston Consulting Group study that examined assets overseen by the asset management industry.

North America, particularly the United States, was the hardest hit region, reporting a 21.8 percent decline in wealth firms' assets under management to $29.3 trillion, primarily because of the beating U.S. equities investments took in 2008.

Also hit hard were off-shore wealth centers, like Switzerland and the Caribbean, where assets declined to $6.7 trillion in 2008 from $7.3 trillion in 2007, an 8 percent drop.

The downturn has "shattered confidence in a way we have not seen in a long time," said Bruce Holley, senior partner and managing director at BCG's New York office.

The study forecasts that wealth management firms' assets under management will not return to 2007 levels, $108.5 trillion, until 2013, a six-year rebound.

Europe posted a slightly higher $32.7 trillion of assets under management, edging out North America for the wealthiest region, though the total wealth in region dropped 5.8 percent.

Latin America was the only region to report a gain in assets under management, posting a 3 percent uptick from $2.4 trillion in 2007 to $2.5 trillion in 2008.

Retail sales soared in August as car dealers cashed in on "clunkers," getting a big boost from the government car rebate program, according to a report that also showed other merchants faring well in an unexpected sign of consumer resilience.

Retail sales last month exceeded expectations and rose 2.7%, the Commerce Department said Tuesday. Wall Street was looking for a 2.0% jump.

While much of that big gain came from cars and gasoline, other sales rose 0.6%; that was the second increase in six months within the ex-car, ex-gas category.

Consumer spending makes up 70% of gross domestic product, which is the broad measure of U.S. economic activity. High joblessness and household debt have restrained spending, drawing skepticism about the strength of an economic recovery. In a report last week on the economy, the Federal Reserve said consumer spending remained soft in much of the U.S. The "Beige Book" report said most regions reported retail activity was flat in late July and in

August.

July retail sales fell 0.2%, revised down from an originally reported 0.1% dip.

So Tuesday’s report of a 2.7%, broad-based August retail sales increase marked a good sign for the economy as it tries growing out of recession. To pull the consumer back into stores and malls, some states in the U.S. cut sales taxes temporarily during August, traditionally a month for merchandise aimed at students heading back to school. Tuesday’s data showed clothing store sales increased 2.4% last month, the largest gain since February. Also, the federal government rolled out “cash for clunkers,” which let motorists swap their gas guzzlers for more fuel-efficient cars. The retail report Tuesday showed auto and parts sales in August increased by 10.6%, the largest gain since 25.6% in October 2001.

Excluding autos, all other retail sales increased 1.1%; economists expected a 0.4% gain.

August filling station sales rose 5.1%, partly reflecting rising gas prices.

Excluding gasoline sales, other retailers’ sales increased 2.4%.

August furniture retailers fell 1.6% and building material and garden supplies dealers dropped 1.2%, as the housing sector tries healing.

But food and beverage stores increased 0.5%. Electronic and appliance stores rose 1.1%

General merchandise stores jumped 1.6%. Sporting goods, hobby, book and music stores rose 2.3%.

Health and personal care stores increased 0.4%. Restaurants and bars were up 0.3%. Mail order and Internet retailers inched 0.1% higher.

Retail sales may have risen 2.7% in August from July, but they fell 5.3% yoy, which they forgot to mention. Clunker sales rose 10.6% and gasoline sales 2.7%.

The retail numbers have to be wrong. Look at this Abercrombie and Fitch off 23%; GAP off 2%; Hot Topic off 7%; JC Penny off 5.6%; the Limited off 4.6%; Macy’s off 8.5%; Neiman Marcus off 15.3%; Nordstrom’s off 3% and Saks off 18.2%. Our government lies about everything.

Bank of America Corp and Citigroup Inc customers defaulted on their credit card debts in August at the highest rates since the onset of the recession, a sign that the banks’ consumer lending woes are far from over.

“The defaults are a wake-up call for those expecting a V-shaped recovery,” said Elliot Spar, options market strategist at Stifel Nicolaus & Co.

Bank of America said its charge off-rate — loans the company does not expect to be repaid — rose to 14.54 percent in August from 13.81 percent in July.

Citigroup, the largest issuer of MasterCard-branded credit cards, said its charge-off rate rose to 12.14 percent in August from 10.03 percent in July.

The charge-off rates for both Citi and Bank of America, two of the biggest recipients of U.S. government bailouts, were the highest yet during the financial crisis.

JPMorgan Chase & Co, the largest issuer of Visa-branded credit cards, said its charge-off rate rose to 8.73 percent from 7.92 percent, while smaller Discover Financial Services said its rate rose to 9.16 percent from 8.43 percent.

American Express Co's default rate fell to 8.5 percent from 8.9 percent as the company increased its lending portfolio.

The average cost of a family policy offered by employers was $13,375 this year, up 5% from 2008, the Kaiser Family Foundation and the Health Research & Educational Trust survey found. By comparison, wages rose 3% over that period, the study said. [We bet the BLS will show a much smaller increase in today's CPI!]

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