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# The Credit Crisis is Not Over

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As we look back and this year comes to an end we find two plus years of failure. Even government admits to 1-1/2 years of negative growth – a sorry record after having poured trillions of dollars into the economy. The recent 3rd quarter results supposedly broke that record. If it did it was the result of government stimulus and Fed monetization. If you look back further you will find a stock market that rallied 54% just to reflect the highs of 1999. House prices have decline to 1990s levels as well. Both markets, which were bubbles, next year will fall again. Americans opened their markets to products of Communist China's slave labor and China became the world's biggest exporter. Via free trade, globalization, offshoring and outsourcing, transnational conglomerates have stolen America's destiny and handed it to China. This is what corporatist fascism is all about.

The dollar will soon end its mini-rally and the USDX will test 71.18 in the first quarter as the euro tests $1.62. Interest rates will stay at zero for at least two years, and mega monetization will continue. As you have just seen the Treasury wants TARP funds for Treasury debt and the administration wants the TARP funds to further stimulate the economy. Either way it is very inflationary.

We are told the credit crisis is over and that recovery is underway. We do not believe that. It is projected that as many as 300 more companies will default on debt in 2011. A default rate of 12 to 14 percent. That is up from 1% in 2007 and a long-term average of 4.5%. These are not just small firms, but companies with more than $100 million in assets as well. That doesn't sound like recovery to us. What is very significant is that the 300-figure is based on recovery. Only 116 companies defaulted between 2004 and 2007. One of the groups hit hard will be commercial real estate. The figures are already bad, but companies and lenders have been buying time by using two sets of books, marking to model and refinancing. All that doesn't change the big picture and that is with a recovery the situation will be bad, without recovery it will be dreadful.

Corporate America has lots of problems, but the federal government has many more. It has to finance more than $1 trillion a year in borrowings. Interest rates are the lowest ever, but rates will begin to climb next year; 5% real interest rates would add some $600 billion to the debt service. That is more than the combined costs of Iraq and Afghanistan, energy, education and Homeland Security.

The Fed has been backstopping short-term interest rates and holding down long-term rates. They say they will end their $300 billion program to buy up Treasury bonds and will stop buying mortgage securities by the end of next March.

The administration believes it will have to borrow $3.5 trillion over the next three years, plus

rolling over short-term debt, or another $1.6 trillion. That is a total of $5.1 trillion. Knowing politicians you can increase that number by at least 50%. The wages of sin have caught up with the government as it attempts to replace short-term bills with 5, 7, 10 and 30-year paper. We do not believe the debt is payable and the consequences are not going to be pretty. All the velocity of monetary circulation is not going to change the final outcome.

At the same time the Fed and Wall Street are trying to cover-up, as they did 2-1/2 years ago what became a credit crisis. Last time they ramped up the stock market and they are attempting to do the same thing again. It is a masking of two underlying problems. They are doing what they did before, pushing up the value of shares, of companies that are on the edge of serious problems. In this process they have virtually nationalized banks and given them the funds to re-leverage in the market and take it again to today's heights. The market has again become divorced from economic reality. They are again about to find out printing money and taxing is not going to solve the problem. On the way to the printing press and along the path of monetization the government has forgotten that they are in serious financial conditions and in the coming year will not be able to fund their deficit. The revenues are not to be had and foreigners are more and more reluctant to shoulder America's debt. That means another credit crisis and further monetization of debt. Very simply, the US government is bankrupt. They can either default or lay the burden on future generations. The immediate answer is for government to cut spending on such trivialities, such as Medicaid, Medicare and Social Security. Allow the citizens to live in penury and poverty. These are the people who helped build America into what it is and they are to be cast aside as the Fed rescues its owners, the bankers, who deliberately caused the problem in the first place.

The deficit for fiscal 2010 should be close to $2 trillion, up from $1.4 trillion in 2009. The projection for the next ten years is at least $10 trillion. That means an increase of 150% to be serviced by 60% increase in tax revenue in a world where current receipts are off 30%. Even in better times recently tax revenues only increased by 12% during the biggest real estate and stock booms ever. We are about to find out that the muddle through theory does not work. Just for good measure we will add that unfunded liabilities increased by $9 trillion last year alone. That is ten years of deficits in just one year. Who in their right mine is going to fund and support such profligacy?

Then there is the status of the FDIC. It is $8.2 billion in debt and has already pulled $80 billion additional funds secretly from the Treasury. No one ever told us that FDIC funds were commingled in the general fund, just as Social Security and Medicare have been since their inception. There now is no money set aside for bank failures. The Fed in secret meetings has said the FDIC does not have 552 problem banks, but 2,035 in eminent danger. The cost to bail out these banks would be close to $1 trillion. That would be impossible to fulfill and so we state again, the FDIC will be history by the end of 2010. That will leave $5.120 trillion of deposits and FDIC-guaranteed debt uninsured. The FDIC funds, whatever their number, have been spent on the military, bailouts, other government programs and to pay interest. All three entities have been looted. All that is left is unpayable IOUs. Overall unfunded obligations are: Social Security $15.1 trillion. Medicare $88.9 trillion or a total of $104 trillion. If you add in short-term debt of $114.7 trillion, are you getting the message?

Just to give you an idea of how much debt has been created, the average G-20 budget deficits are 10.2% of GDP, when 3% is normal. Greece, which is on the edge of bankruptcy, will be 12.5% in 2010. Yet, the US is already at 13.5%. Close behind are the UK and Japan at 11.6% and 10.3%. The erosion of confidence and trust will soon manifest itself as lenders

stop lending to these nations. This has already happened to the US with the Fed monetizing more than half of Treasury issuance. This is proof the dollar will crash and be devalued, as debt goes into default. Foreign nations are understandably concerned, as the dollar now only makes up 37% of new foreign reserve holdings. That is about a 50% reduction in holdings. As we reported before it is no wonder oil producers have held secret meetings to dump the petro dollar. Wall Street, Washington and central banks worldwide refuse to heed the lessons of the centuries and so have been damned to oblivion.

In more slight of hand the BLS has let us know that their birth/death model has overestimated the unemployment by some 824,000. These errors will be included in their statistics in February, and may be revised. The private sector number is 855,000. Some would like to call the error incompetence, we call it strategic planning by government to mislead the American people. For months the number of employed had been expanding via these phantom figures when they should have been contracting. We cannot access their data so the incorrect figure could be even higher.

What government has been doing is guessing for the past six years how many jobs had been created or lost by small businesses. In reality it was a totally unsound method of creating jobs that didn't exist.

This miscounting by other methods also distorts the CPI, PPI retail sales, durable goods and, of course, GDP. That means you cannot believe a thing the government says. We have contended this for more than ten years. As an example, how can employment in small businesses be growing when more than 43,000 went under last year? Even if the figures come in late there obviously is never any adjustment. The difference in this case is jobs lost were not 7.2 million, but 8 million. In the second quarter some 16,000 businesses failed, up from about 14,000 quarter-to-quarter, the highest in 16 years. In addition the BLS only looks at unemployment insurance tax records once a year – how convenient. The birth/death model is nothing more than a ruse to present unemployment in a better light. This has been done for the past six years not just over the past two years. Our research shows a bogus set of additions yoy of about 1.7 million.

The fund-less FDIC reports US banks may be making money gambling with leverage using TARP funds, but bank loans fell by $210.4 billion, or 2.8% in the third quarter, the biggest drop since the FDIC started keeping records in 1984. Those same banks booked profits of $2.8 billion reversing a $4.3 billion third quarter loss. Loans to businesses fell 6.5% and those to real estate 8.1%.

Small business cannot borrow and they created 64% of new jobs in the past 15 years says the SBA. We see that figure at 75%.

Non-current loans rose 10% to 5% of all loans to $366.6 billion, the highest rate on record. In the 3rd quarter banks charged off $51 billion in bad loans, the 11th straight quarterly increase, up more than 80% yoy. 66-2/3% of banks set aside $62.5 billion in loss reserves, 22% higher yoy.

124 banks have failed thus far this year, up from 25 in 2008 and we could see more than 2,000 fail in 2010 and 2011.

The FDIC says it has set aside $38.9 billion for losses giving it total reserves of $30.7 billion. They say they have $23.3 billion in cash. They expect to collect another $45 billion by the

end of the year when banks are forced to pay $45 billion, or three years of deposit insurance in advance. That would give them $98.3 billion to cover losses. If they really have those funds, which we doubt, they will need them for 2010's failure onslaught.

It looks like the stock market is finally ready to rollover. It is in a well-defined head and shoulders pattern that began in September. This is what happens when trillions are given to the financial sector and a pittance to the public. This is a control planner's formula for disaster. The present dollar rally could end at 78 or 80 and then the test of 71.18. Our government rigged this rally using the currency swaps they created out of thin air in March.

If banks do not increase lending by 20% in 2010, a second credit crisis will beset markets. Stocks are way over valued having baked in a strong recovery with the help of TARP funds. This market reminds us of the alcoholic who has to have a drink upon rising and says he is not an alcoholic. All Wall Street knows is profits and they could care less about unemployment. The debasement of our currency means nothing. Speculation wages again with no thought of lower financial profits in the first quarter and a distinct chance of a second credit crisis. Ignored is the government's manipulative presence in the market, or market fundamentals. Today's speculation reflects the lack of trust, confidence and lack of fiscal and monetary discipline. The theme is we had better make it while we can, because there may be no tomorrow. As a result the probability of a steep market correction is strong. What we are involved in economically and financially is not a common correction, it is a correction in a bear market and few, even professionals, see this. This happened in the early 1930s and by the end of 1940 we still had not exited depression. We had to arrange a war to extricate ourselves.

Just look around you and you will see contraction as well as higher inflation. New home purchases fell to a 12-year low in November, off 22%, as government expanded the assistance program to include higher-income trade up buyers. Auto sales are fading again as well. Why? Because the markets for big-ticket items are saturated. We still have to face de-leveraging by domestic financial institutions, which few talk about. March values at Dow 6,600 were fair for that time frame. 10,500 is madness even after allowing for a bottom bounce to 8,500. We can assure you 6,600 will be tested again. We see the Dow sweeping into the 6,300 to 6,600 area for a first real test. We cannot tell at this juncture whether it will hold or not.

Few, except for Ron Paul and his fellow sound money adherents, are asking where the trillions of dollars of Fed and government money has been spent, or who got it, and what was the collateral on the loans and how was it priced? The recipients for the most part were the same culprits who caused all the problems in the first place.

In case you have not realized it the US government has to replace $2.5 trillion in debt in 2010, or 35% of their outstanding marketable obligations.

The Chicago Climate Exchange is 10% owned by Goldman's Hank Paulson and former Treasury Secretary, 10% by Generation Investment Management, owned by Al Gore and 10% by Goldman Sachs. The exchange has been operating for several years.

Generation Investment was founded in 2004 by Al Gore and David Blood of London. GIM's investment approach is based on the idea that sustainability factors, economic, environmental, and social and governance criteria will drive a company's returns over the long term.

The focus of GIM is on the key drivers of global change, including climate change and environmental degradation, macroeconomics, poverty and development; water and natural resource scarcity; pandemics and healthcare and demographics, migration and urbanization.

It is our belief that this vehicle could be used in the future for a new carbon currency, as envisioned at Copenhagen by the UN and the World Bank. This is what we think they are shooting for. We know this sounds unusual, but this is where we believe the Illuminists are headed.

In November income taxes withheld fell 10.98% yoy. Individual tax revenues fell 20.36% yoy, with no signs of improvement in sight.

If the US cannot craft a plan in 2010 to get its ballooning debt under control, it will face panic in financial markets. That is why you must be out of US dollar denominated assets. That is all forms of US government, state government debt (municipals), cash value life insurance policies, and annuities and out of the stock market except for gold and silver shares.

Over the next few years' taxes will rise. Fortunately we believe the UN-World Bank climate taxation is dead for now as is Cap & trade, so the elitists will have to find other methods of taxation. If no changes are made debt will be 60% of GDP by 2018. Taxation will be increased by the Illuminists. More taxation or not the American standard of living is going to decrease dramatically.

The national debt has more than doubled since 2001 due to wild government spending and gross incompetence of those in government. There were political tax cuts and a trillion dollar war to assist in the carnage. This has put national debt at 53% of GDP, up from 41% just a year ago. Some believe that figure could be as high as 85% in 2018 and 200% by 2038.

The government now admits to inflation of 2.4%. We see 7.7%.

The MBA mortgage purchase Application Index fell 0.1% in the week of December 11 for a total market index of 0.3%. This compares to 4% and 8.5%, respectively in the prior week. The refi index was 0.9% versus 11.1% in the prior week. The 30-year fixed rate mortgage rose 3 bps to 4.92% and the 15s were flat at 4.33%.

We are getting change you can believe in. The IRS granted another sweetheart deal to Citigroup – a $38 billion tax break. As George Orwell said in Animal Farm, "Some became more equal than others."  This is nothing more than a gift from taxpayers to bail out a bankrupt bank.

Making the President win a Peace Prize for widening a war was an insult to all Americans and citizens of the world.

Now we are again insulted by the elitist-owned media as Time Magazine crowned Ben Bernanke as person of the year, after he deliberately destroyed the American economy. This is akin to naming cheetah Woods as husband and father of the year.

Bernanke has created the biggest Ponzi scheme in history, so he is to be rewarded. This is a world gone mad.

As a result, the Arab states of the Gulf region have agreed to launch a single currency modeled on the euro, hoping to free themselves from a declining petro dollar.

We told you over and over again this would happen and it has come to pass. This is recognition of a failed world reserve currency. As we predicted the new Dinar will be pegged to a global currency basket and will ultimately float as its own currency. Now China, Russia, India, Venezuela, etc. will follow, spelling the end of the US dollar as the world's reserve currency. The next change our government will bring you will be that of a banana republic.

Initial claims for state unemployment climbed 7,000 to 480,000 for the week ended 12/12. The 4-week moving average fell 5,250 to 467,500. The number of workers still collecting benefits rose 5,000 to 5.19 million. This was far above expectations of 5.15 million.

Commercial paper fell again, down $59.6 billion to $1.150 trillion.

The Conference Board's leading indicators rose 0.9% to 104.9 following October's rise of 0.3%. The coincident index, a measure of current economic conditions, rose 0.2%, but the lagging index fell 0.4%.

The Philadelphia Fed Business Activity Index was 20.4 versus 16.7 in November.

Nomi Prins, former managing director of Goldman Sachs and head of International Analytics Group at Bear Stearns in London, is saying what we have been saying "The giant banks are manipulating their books to make themselves look profitable." Prins says, this might be worse than the fraud, which occurred at Enron.

David Rosenberg says: "The government has to roll $2.5 trillion of debt in 2010, or 35% of its outstanding obligations." That means no interest rate hikes, officially anyway. For 2010 he has Japan's debt to GDP at 227%, Italy 120%, the US and UK at 94%, Germany and France at 83% and Canada at 79%. This also means all currencies will continue to fall versus gold.

The Fed has unnerved liquidity bulls by stating that they would accelerate the termination of credit facilities and remove most of the facilities by February 1, just as we reported earlier. We said they wanted to remove $1.5 trillion from the system, privately as we reported. They will monetize $1.425 trillion of Agencies by 3/31/10. Supposedly no more asset-backed commercial paper, Money Market Fund liquidity facility; the commercial paper facility; the primary dealer credit facility and the term securities lending facilities. It will close swap arrangements by February 1, 2010. That means no further major dollar support and explains why the dollar is manipulated upward prior to the end of support. The term auction facility will be scaled back. By June 30, 2010 the term asset-backed securities loan facility for toxic waste will end. Later in 2010 everything will become unglued again and the second credit crisis should begin.

PIMCO's Total Return fund went to cash holdings of plus 7 from minus 7, as Treasury holdings fell to 51% from 63%. They cut holdings of mortgage securities to 12%, the lowest since PIMCO started in 2000, from 16%.

The Treasury says the Fed was responsible for Citigroup's botched attempt to raise funds to pay back its (TARP) federal bailout. Wall Street banks, despite planning to pay sky-high bonuses this year, have yet to turn things around.

Congress voted a $290 billion increase in the debt ceiling, which will last only six weeks.

A $2 trillion increase in the debt ceiling will last 15 months. Next comes the unlimited ceiling. Pretensions will eventually be cast aside. The country is bankrupt.

Then the Senate finance committee voted to reappoint the Chief counterfeiter Ben Bernanke. Wonders never cease. What they should have hired was the monkey from the organ grinder; he couldn't have done any worse. Shame on the committee.

What has occurred in the US could not have happened by ineptness or chance. It has been done by design. There is no such thing as coincidence.

Banks worldwide will get as many as three years to comply with stricter capital requirements, European and Japanese government officials said.

A transition period for tighter capital rules probably won't start until 2012 or 2013, according to the officials who declined to be identified because last week's deliberations by the Basel Committee on Banking Supervision are private. Bank stocks in Asia and Europe rallied.

The delay gives banks longer to repair balance sheets weakened by $1.71 trillion of losses and writedowns during the credit crisis. The Group of 20 Nations agreed in April that banks should be required to hold more and better quality capital to reduce risks to the financial system.

The International Brotherhood of Teamsters is accusing Goldman Sachs Group Inc. of underwriting derivatives trades that would benefit from the bankruptcy of YRC Worldwide Inc., the biggest U.S. trucker by sales.

"The relatively small benefit Goldman would derive for itself in fees or for clients from such a position is unconscionable given the fact that the 50,000 livelihoods could be ruined by a bankruptcy filing," Teamsters President James Hoffa wrote in a letter dated today to Goldman Sachs Chief Executive Officer Lloyd Blankfein.

It begins happily enough, 30 years ago this month, when a Wall Street trader named Steven A. Cohen married his sweetheart Patricia Finke...Some of those millions, Ms. Cohen claims in her suit, were reaped through insider trading in the 1980s.

The federal government quietly agreed to forgo billions of dollars in potential tax payments from Citigroup as part of the deal announced this week to wean the company from the massive taxpayer bailout that helped it survive the financial crisis.

The Internal Revenue Service on Friday issued an exception to long-standing tax rules for the benefit of Citigroup and a few other companies partially owned by the government. As a result, Citigroup will be allowed to retain billions of dollars worth of tax breaks that otherwise would decline in value when the government sells its stake to private investors.

While the Obama administration has said taxpayers are likely to profit from the sale of the Citigroup shares, accounting experts said the lost tax revenue could easily outstrip those profits.

The IRS, an arm of the Treasury Department, has changed a number of rules during the financial crisis to reduce the tax burden on financial firms. The rule changed Friday also was altered last fall by the Bush administration to encourage mergers, letting Wells Fargo cut billions of dollars from its tax bill by buying the ailing Wachovia.

"The government is consciously forfeiting future tax revenues. It's another form of assistance, maybe not as obvious as direct assistance but certainly another form," said Robert Willens, an expert on tax accounting who runs a firm of the same name. "I've been doing taxes for almost 40 years, and I've never seen anything like this, where the IRS and Treasury acted unilaterally on so many fronts."

Treasury officials said the most recent change was part of a broader decision initially made last year to shelter companies that accepted federal aid under the Troubled Assets Relief Program from the normal consequences of such an investment. Officials also said the ruling benefited taxpayers because it made shares in Citigroup more valuable and asserted that without the ruling, Citigroup could not have repaid the government at this time.

"This rule was designed to stop corporate raiders from using loss corporations to evade taxes, and was never intended to address the unprecedented situation where the government owned shares in banks," Treasury spokeswoman Nayyera Haq said. "And it was certainly not written to prevent the government from selling its shares for a profit."

Congress, concerned that Treasury was rewriting tax laws, passed legislation earlier this year that reversed the ruling that benefited Wells Fargo and restricted the ability of the IRS to make further changes. A Democratic aide to the Senate Finance Committee, which oversees federal tax policy, said the Obama administration had the legal authority to issue the new exception, but Republican aides to the committee said they were reviewing the issue.

A senior Republican staffer also questioned the government's rationale. "You're manipulating tax rules so that the market value of the stock is higher than it would be under current law," said the aide, speaking on the condition of anonymity. "It inflates the returns that they're showing from TARP and that looks good for them."

The administration and some of the nation's largest banks have hastened to part company in recent weeks. Bank of America, followed by Citigroup and Wells Fargo, agreed to repay federal aid. While the healthiest banks escaped earlier this year, the new round of departures involves banks still facing serious financial problems.

The banks say the strings attached to the bailout, including limits on executive compensation, have restricted their ability to compete and return to health. Executives also have chafed under the stigma of living on the federal dole. President Obama chided bankers at the White House on Monday for not trying hard enough to make small-business loans.

The Obama administration also is eager to wind down a program that has become one of its largest political liabilities. Officials defend the program as necessary and effective, but the president has acknowledged that the bailout is "wildly unpopular" and officials have been at pains to say they do not enjoy helping banks.

Federal regulators initially told Citigroup and other troubled banks that they would be required to hold on to the federal aid for some time as they return to health. But in recent

months, the government switched to pushing the companies to repay the money as soon as possible. All nine firms that took federal money last October now have approved plans to pay it back.

This urgency has come despite the lingering concerns of many financial experts about the companies' health. These analysts said they worry that the firms could face rising losses next year as high unemployment and economic weakness continue to drive great numbers of borrowers into default.

"They are rolling the dice big time," said Christopher Whalen, a financial analyst with Institutional Risk Analytics. "My fear is that the banks will definitely have to raise a lot more capital next year. The question is from whom and on what terms."

The Citigroup repayment deal required significant sacrifices by both sides, underscoring the mutual determination to get it done. Citigroup was required to replace its federal aid with an equal amount of money from private investors, more than any other bank. The government concluded that Citigroup needed the IRS ruling because a reduction in the value of its tax breaks would have eroded its capital, forcing the company to raise more money, officials said.

Federal tax law lets companies reduce taxable income in a good year by the amount of losses in bad years. But the law limits the transfer of those benefits to new ownership as a way of preventing profitable companies from buying losers to avoid taxes. Under the law, the government's sale of its 34 percent stake in Citigroup, combined with the company's recent sales of stock to raise money, qualified as a change in ownership.

The IRS notice issued Friday saves Citigroup from the consequences by stipulating that the government's share sale does not count toward the definition of an ownership change. The company, which pushed for the ruling, did not return calls for comment.

At the end of the third quarter, Citigroup said that the value of its past losses was about $38 billion, allowing it to avoid taxes on its next $38 billion in profits. Under normal IRS rules, a change in control would sharply reduce the amount of profits that Citigroup could shelter from taxes in any given year, making it much more difficult for Citigroup to realize the entire benefit before the tax breaks expired.

The precise value of the IRS ruling depends on Citigroup's future profitability and other factors, but two accounting experts said it was fair to estimate that Citigroup would save at least several billion dollars as a result.

Treasury acknowledged that the tax break was significant, but a senior official said the benefit was unavoidable. Either the government changed the rules and parted ways with Citigroup or the company kept the government as a shareholder and kept the tax break anyway.

"The choice is whether Treasury sells or doesn't sell," the official said.

Many major Japanese banks opened bid-only early Wednesday in Tokyo, after a report that new capital adequacy rules may be delayed by at least a decade. The Nikkei business daily said in an unsourced report that the Basel Committee on Banking Supervision has agreed to effectively delay the enforcement of new capital adequacy rules for large banks, opting to create a transition period of at least 10 years. The proposed changes include raising the

current 8% minimum capital ratio and focusing on a narrower definition of core capital, the report said.

Builders in November broke ground on more U.S. homes, a sign the recovery in homebuilding may carry through into 2010.

Housing starts rose 8.9 percent to an annual rate of 574,000, the Commerce Department said today in Washington. Building permits, a sign of future construction, climbed to the highest level in a year.

Government tax credits, lower home prices and borrowing costs near record lows may boost sales and construction in coming months. Federal Reserve policy makers today are forecast to reiterate a pledge to keep rates low for "an extended period" to sustain the recovery and lower a jobless rate that economists project will average 10 percent in 2010.

The cost of living in the U.S. accelerated in November from a month earlier, led by higher prices for energy and medical care.

The 0.4 percent increase in the consumer-price index followed a 0.3 percent gain in October, figures from the Labor Department showed today in Washington. Excluding food and energy costs, the so-called core index was unexpectedly unchanged.

The U.S. balance of payments deficit widened sharply in the third quarter to $108 billion from $98 billion in the second quarter, the Commerce Department reported Wednesday.

The increase in the second quarter deficit was due to a larger deficit on goods.

The current account deficit totaled 3.0% of gross domestic product, up from 2.8% in the second quarter, which was the smallest percentage since the first quarter of 1999.

The deficit peaked at 6.5% of GDP in the fourth quarter of 2005.

Global trade is starting to recover from the collapse in the wake of the financial crisis. As a result, further progress on the significant narrowing of the deficit is likely to be harder to achieve.

However, the weaker dollar has boosted U.S. exports. The trade deficit in goods and services unexpectedly narrowed in October.

The current account is the broadest measure of international flows of goods, services and capital in and out of the United States. In essence, the current account measures how much Americans need to borrow from abroad to fund their consumption and investment.

To make more progress, Americans will need to save and invest more and consume less, while Europe, Japan and emerging economies such as China will need to move away from relying on exports to the U.S. to relying on domestic demand to fuel their growth.

Analysts said these changes have to come gradually or there could be sharp shifts in exchange rates.

Although the dollar has rebounded recently, it depreciated 5% in the third quarter on a trade-weighted basis against a group of 7 major currencies, the department said.

U.S.-owned assets abroad rose by $294 billion after a fall of $37.4 billion. Foreign-owned assets in the U.S. increased $332.4 billion in the third quarter after a gain of $14.6 billion in the second quarter.

Foreigners sold $9.2 billion of Treasuries after selling $22.8 billion in the second quarter.

Foreign purchases of other U.S. securities, largely equities and agency bonds, rose to $24.7 billion in the third quarter from $13.9 billion in the second quarter.

Direct investment abroad increased $62.7 billion in the third quarter, following an increase of $47.4 billion in the second.

Unilateral transfers rose to an outflow of $34.4 billion from $33.4 billion in the second quarter.

The U.S. net income surplus increased to $23.7 billion from $16.7 billion in the second quarter.

U.S. investment income on assets owned abroad increased to $139.7 billion from $134.3 billion. Foreign investment income on investments owned in the U.S. fell to $114.2 billion from $115.9 billion.

Net capital account payments were virtually unchanged at $700 million.

The U.S. Department of the Treasury today released Treasury International Capital (TIC) data for October 2009…Net foreign purchases of long-term securities were $20.7 billion.

Net foreign purchases of long-term U.S. securities were $43.4 billion. Of this, net purchases by private foreign investors were $28.8 billion, and net purchases by foreign official institutions were $14.6 billion.

U.S. residents purchased a net $22.7 billion of long-term foreign securities.

Net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been $8.3 billion.

Foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities decreased $43.9 billion. Foreign holdings of Treasury bills decreased $38.3 billion. http://www.treas.gov/press/releases/tg443.htm

No wonder bonds have been in the toilet for the past month. The US must rollover trillions of dollars of debt and in addition the Treasury must issue over $150B of debt per month to finance a projected $1.8B increase its in debt ceiling – and foreigners, which have been The Buyers for years, are now sellers.

And the Fed must sell debt if it tries to reduce its balance sheet…2010 will be very interesting!

All things for all people, everywhere. Or so says the motto of Harrods, the London department store. Except in jewellery, “all things”until recently did not include gold. But the store, heartened by the current rally in the yellow metal, now sells bullion. “Sales are ahead of our expectations,” says Chris Hall, Harrods’ head of gold, as he shows a collection that

ranges from tiny wafers of 5g, costing about $200, to a central bank-style 400 troy ounce bar valued at $480,000 (€329,000, £296,000). "People are buying several at the same time," he says of a bar costing about $38,500. "Not one is coming back to sell."

Across the world, other retail investors – encouraged by a weak US dollar, the financial crisis and fears that central banks printing money will lead to a spike in inflation – have done the same, overwhelming mints and gold refineries. Demand for 1oz American Eagles, the world's most popular bullion coin, has been so strong that the US Mint ran out last month after sales hit a 10-year peak. In the first 11 months of the year it sold about 1.19m oz of Eagles, up almost 75 per cent year-on-year.

Dealers also report unprecedented demand for small gold bars, particularly in centres such as Zurich that handle rich investors.

Although gold coins and small bars account for a smallish portion of the precious metals market, analysts see them as a good indicator of investor appetite. Big investors such as pension funds and hedge funds – including legendary names such as Paul Tudor Jones of Tudor Investment and David Einhorn, founder of Greenlight Capital – have also been enthusiastic. Mr Jones, whose company manages more than $11bn in bonds, equities and commodities, told investors recently that it was time to buy the metal. "I have never been a gold bug," he wrote, but added: "It is just an asset that, like everything else in life, has its time and place. And now is that time."

John Paulson, another well-known hedge fund manager, has adopted a similar view, telling investors he was concerned about the dollar. "So I looked for another currency in which to denominate my assets. I feel that gold is the best currency."

The buying frenzy pushed gold this month to a nominal all-time high of $1,226.10 a troy ounce, up 40 per cent since the start of the year, before shedding about $100. "The level of interest in gold is now higher than at any time of my 25-year career in the precious metals market," says Jonathan Spall, a director at Barclays Capital in London and author of *Investing in Gold: The essential safe haven investment for every portfolio*.

So many constituencies are taking refuge in the classic commodity that its price surge is the symbol of the age: a store of anxiety as well as value. And it is not only gold. Silver, platinum and palladium have also seen strong inflows. Sales of American Eagle silver coins, for example, have hit 26moz, the highest in at least 23 years. Investment vehicles backed by physical deposits of platinum and palladium are swelling, bankers say.

To be sure, the latest gains look rather less impressive if adjusted for inflation. In real terms, bullion would need to be well above $2,000 an ounce to match the price achieved in 1980. But the rise over the last 10 years is almost 400 per cent – bringing concerns that the metal may have become subject to unsustainable speculative demand.

"Gold is in a bubble," maintains Tim Bond, head of asset allocation at Barclays Capital, who says investors should prepare for a correction. Nouriel Roubini, the New York University professor who was among the few to predict the financial crisis, holds a similar view, warning of "significant risks of downward correction". In a new report entitled, "The new bubble in the barbaric relic that is gold", he says: "The only scenario where gold should rapidly rise in value is one where fiat [official] currencies are rapidly debased via inflation." At the moment, however, there are "more deflationary than inflationary forces in the global

economy".

How will gold buyers be able to tell when the top of the market is about to arrive? After all, gold is almost impossible to value beyond the cost of production, which today stands way below the current price. Apart from jewellery and small industrial applications, such as in electronics, gold has no use other than as an investment.

Warren Buffett, the legendary investor who has been a gold agnostic over the years, once said that bullion had "no utility". He added:

"Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it." Mr Buffett's conclusion: "Anyone watching from Mars would be scratching their head."

Investors, bankers, analysts and traders have yet to agree on what is gold's fair value. Conventional methods applied to other commodities, such as crude oil or copper, to reach a valuation fail with gold. One critical piece of data needed to value commodities is inventories – and in the case of gold those are plentiful. The world's central banks keep in their vaults 29,700 tonnes of gold, enough to meet global demand – as measured by last year's consumption – for the next seven and a half years. Other analysts rely on arbitrary ratios between gold and oil or the S&P 500 index.

In the past, when gold backed the US dollar, the valuation that mattered was the ratio between bullion and the amount of fiat currency that the US government had printed. The US – the world's biggest holder – owns more than 8,130 tonnes of gold, while the Federal Reserve's monetary base is about $1,700bn. "So the price of gold at which the US dollar would be fully gold-backed is currently around $6,300 a troy ounce," says Dylan Grice, of Société Générale in London.

Another problem with gold is that, apart from its price appreciation, it yields no return. Bonds pay coupons; equities provide dividends.

But in the current environment of extremely low interest rates, says Michael Jansen, European head of commodities research at JPMorgan, "the opportunity cost of holding gold is very low".

That could change as soon as central banks start raising rates, which will increase the attractiveness of bonds or even cash. "Gold, in normal interest rate circumstances, is a pretty expensive asset to hold," Mr Jansen adds. It costs money in vault fees and insurance premiums.

Losing out against yield-generating assets is one concern now playing on investors' minds, bankers say. Then there is the worry about buying at the top of the market. Veteran gold investors remember how short-lived precious metals rallies can be. Take the last big gold spike in 1980. After a surge from $400 to $850 in just five weeks, bullion prices collapsed to trade as low as $300 a year later. Some investors were badly burnt.

The latest surge looks more robust, however: the price of the metal has hovered between $900 and $1,200 an ounce for the past two years. The rally has also been progressive, with prices gaining about $100 each year since 1999, rather than explosive in just a few weeks. Since the early 1980s, fundamental changes in the gold market have taken hold that suggest higher prices might last longer this time, even if they plateau.

On the supply side, two factors reinforce a bullish view. Mine output hit a peak around 2000 and since then has being on a downward trajectory, interrupted only by small blips. On top of that, production is moving from the easy areas – the big four being South Africa, the US, Canada and Australia – into terrain such as Ghana, Uzbekistan and Papua New Guinea.

Another source of supply – sales from central banks – has almost dried up. GFMS, the London-based precious metals consultancy, estimates that over the past 20 years net sales from the official sector, mostly from central banks in Europe, have run at an annual rate of about 400 tonnes – about 11 per cent of total supply. But sales in Europe have slowed to a crawl and Asian banks have started swapping their dollars for gold.

Kamal Naqvi, head of commodity investor sales at Credit Suisse in London, says the market has seen a “sea change” in central banks’ attitude towards gold, “from a dead asset that should be sold because it does not yield, to a diversification tool”.

The shift is important for the gold market on two fronts: the interest from central banks provides psychological support and, more important, caps a source of supply. When bullion prices hit a 23-year low of $250 an ounce in 1999 it followed large gold sales from the Bank of England and other European monetary authorities.

The demand side has also changed from the last big rally after the emergence of bullion-backed exchange traded funds (ETFs). As these vehicles trade in the same way as normal shares, each representing a fraction of gold held in a vault, investors have a trouble- free way to buy the metal.

The emergence of these vehicles, says Philip Klapwijk, head of GFMS, means that “institutional investors have been more important in this rally than in the early 1980s” when pension funds had difficulties investing in gold. In general, the cash poured into gold ETFs is seen as “sticky money” that should prove resilient in a bear market for gold.

The gold ETFs’ growth has been explosive. Take SPDR Gold Shares, the largest in the sector. From almost nothing five years ago, it has ballooned to more than 1,100 tonnes of bullion – ranking above the holdings of central banks such as those of Japan or Switzerland.

The changes in supply and demand, many bankers say, mean that gold prices should remain high for the foreseeable future, although they are split on whether prices will surge further or have reached a plateau. But there is a more important trend for the long-term future of the metal. For the first time in decades, investors are allocating a fraction of their portfolios to gold on a long-term basis.

That marks a return to normality, some argue. For centuries, gold has been central to savers. “The aberration had been the last 20-30 years in which gold moved out of most investors’ portfolios,” says Mr. Spall.

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Fannie Mae and Freddie Mac's federal regulator is renegotiating the companies' financing plan with the U.S. Treasury Department and may seek an increase to their $400 billion federal lifeline before the end of the year, according to people familiar with the talks.

Most U.S. credit card companies reported charge-offs rose in November after two months of declines in a sign that consumers remain under stress, sending shares down industry-wide.

In a regulatory filing on Tuesday, JPMorgan Chase & Co, the largest U.S. issuer of Visa-brand credit cards, said charge-offs — loans the company does not expect to be repaid — rose to 8.81 percent in November from 8.02 percent in October. It was the largest increase among the biggest credit card issuers, but not the only one.

Capital One Financial Corp said its charge-off rate rose to 9.60 percent from 9.04 percent, and Discover Financial Services said its rate rose to 8.98 percent from 8.54 percent.

Ben Bernanke is widely expected to win Senate approval for a second term as Federal Reserve chairman, but opponents are hoping to use the debate on his nomination to curtail his autonomy at the central bank.

The Senate Banking Committee is poised to clear Mr. Bernanke's nomination on Thursday, sending it to the full Senate for a vote. Several lawmakers plan to use the proceedings to gain momentum for a bill that aims to subject the Fed's monetary-policy making to congressional audits.

The measure, crafted by Sen. Bernie Sanders (I., Vt.), mirrors one written by Rep. Ron Paul (R., Texas) that was included in the House's overhaul of financial-industry regulations passed last week.

Republican Sens. Jim DeMint of South Carolina and David Vitter of Louisiana have vowed to block Mr. Bernanke's confirmation until the full Senate considers the audit legislation, which has been co-sponsored by about a third of the Senate.

Mr. DeMint said Tuesday that he thinks the measure, which has steadily gained support

among lawmakers, would pass if it came to a full Senate vote.

"It would surprise me if very many people would be willing, in public, to vote against the audit," Mr. DeMint said. "Americans don't trust the Federal Reserve," he said. It has expanded its "mission well beyond anything that was ever discussed."

The top Republican on the Banking Committee, Sen. Richard Shelby of Alabama, declined to disclose whether he will back Mr. Bernanke for another term. But he said he would "absolutely" support the audit provision.

"I'm for an independent Fed on monetary policy," Mr. Shelby said, "but they should have nothing to hide."

Mr. Bernanke has fought the audit bill for months, contending that it would constitute a congressional takeover of monetary policy. Most of the Fed's other operations, such as bank supervision and consumer protection, are already subject to audits by the Government Accountability Office, an arm of Congress.

Monetary-policy deliberations, such as interest-rate decisions and related actions, have been excluded from audits since 1978 to prevent political interference at the Fed.

Mr. Bernanke was first appointed by former President George W. Bush and was nominated for a second four-year term by President Barack Obama.

In opposing the movement to audit the Fed, Mr. Bernanke has the backing of some senior lawmakers and numerous academic economists.

Sen. Judd Gregg (R., N.H.), among the Fed's fiercest defenders on Capitol Hill, has vowed to fight the audit legislation. He noted that the measure has not attracted the level of support in the Senate that it has in the House, where two-thirds of lawmakers co-sponsored the provision.

House lawmakers who support broader auditing of the Fed are engaging in "rampant pandering populism," Mr. Gregg said. "I don't think the Senate is at that point. I think there's a much more logical and thoughtful approach over here. And people recognize that having Congress involved in monetary policy is a disastrous idea."

But the audit legislation has drawn backers from across the political spectrum, including Mr. Sanders — among the most liberal lawmakers in Washington — and conservatives such as Messrs. Paul and DeMint.

Grassroots activists from the left and the right are lobbying lawmakers intensely to keep the audit provision alive.

On Tuesday, 17 organizations ranging from the liberal consumer group Public Citizen to the conservative activist group FreedomWorks asked Senate Banking Committee members to delay the panel's vote on the nomination until Mr. Bernanke's record receives further discussion and the audit legislation gets a stand-alone vote in the full Senate.

"We simply cannot go through the worst financial crisis in generations and rubber stamp the nomination of the chairman who was at the helm when the ship hit the iceberg," they wrote.

In 2006, the Senate confirmed Mr. Bernanke for the Fed job by a voice vote. The last time a nominee for Fed chairman drew substantial opposition was in 1983, when 16 senators voted against giving Paul Volcker a second term after he raised interest rates to double digits to thwart inflation.

Meredith Whitney cut earnings estimates for Goldman Sachs Group Inc. and Morgan Stanley through 2011.

The analyst, who runs Meredith Whitney Advisory Group, now projects Goldman Sachs will earn $19.57 a share in 2009, $19.65 in 2010 and $20.60 in 2011. Those were reduced from $19.95, $21.73 and $24.04, respectively.

Morgan Stanley's projection for 2010 was cut to $2.60 a share from $2.63, while the 2011 forecast was reduced to $2.75 from $3.28.

Whitney has "neutral" ratings on both stocks.

Citigroup Inc. will suspend foreclosures and evictions for 30 days in a temporary break for about 4,000 borrowers during the holiday season.

The New York-based bank said Thursday the suspension will run from Friday through Jan. 17. It applies only to borrowers whose loans are owned by Citi. Borrowers who make payments to Citi but whose loans are owned by other investors are out of luck.

Chinese central banker Zhu Min said that the dollar is set to weaken further and it will become more difficult for nations to buy U.S. Treasuries.

"When the U.S. has to fund its deficit through the combination of issuing more Treasuries and printing more dollars, it is inevitable that the dollar will continue to weaken," Deputy Governor Zhu said at a forum in Beijing today.

China, the biggest foreign holder of Treasuries with $798.9 billion of the securities, expressed concern this year at the safety of its dollar assets and central bank Governor Zhou Xiaochuan called for moves toward an alternative global currency. Zhu's comments, which he said were a personal view, focused on the twin U.S. deficits, fiscal and current account.

The U.S. can't expect other nations to increase purchases of Treasuries to fund its entire fiscal shortfall, said Zhu, a former vice president of Bank of China Ltd. Efforts by the U.S. to cut its current-account deficit mean other nations accumulate fewer dollars through trade, leaving them with less money to buy Treasuries, he added.

Today in America most citizens don't even know the difference between a Grand Jury and a Trial Jury. Hardly any know that they have all the authority and duty to form Grand Juries themselves. Are you aware that Judges are not allowed to go anywhere near a Grand Jury? Do you know the Court is not responsible for managing a Grand Jury and neither is the District Attorney? Grand Jury's which predate the Magna Carta are a mandatory part of the Law dictated by the 5th Amendment to the Constitution for The United States of America.

Judges have no place in Grand Juries nor in Criminal Trials! The Founders knew corruption and they gave us all the tools to live lives of liberty free of unwarranted government intrusion. However, none of those liberties will be enjoyed by a populous who does not even

know what the law is and who refuses to stand up with their fellow citizens and be the government that they are. This is a Nation government by we the people not they the government! You form Grand Juries, go out form them and shut down these public servants who have made themselves our sovereigns!

Unemployment decreased in 36 U.S. states in November, with Kentucky and Connecticut posting the biggest declines from a month earlier.

Kentucky's jobless rate dropped to 10.6 percent from 11.3 percent the previous month, the Labor Department said today in Washington. Unemployment in Connecticut dropped to 8.2 percent last month from 8.8 percent. More states reported reductions in payrolls than increases during November.

Benchmark yields on U.S. municipal bonds reached a 10-week low as sales of long-term maturities in the market this week shrank to less than half the previous week's tally.

Anne Phillips Ogilby, a bond attorney at one of Boston's oldest law firms, on Oct. 31 last year relayed an urgent message from Harvard University, her client and alma mater, to the head of a Massachusetts state agency that sells bonds. The oldest and richest academic institution in America needed help getting a loan right away.

As vanishing credit spurred the government-led rescue of dozens of financial institutions, Harvard was so strapped for cash that it asked Massachusetts for fast-track approval to borrow $2.5 billion. Almost $500 million was used within days to exit agreements known as interest-rate swaps that Harvard had entered to finance expansion in Allston, across the Charles River from its main campus in Cambridge, Massachusetts.

The swaps, which assumed that interest rates would rise, proved so toxic that the 373-year-old institution agreed to pay banks a total of almost $1 billion to terminate them. Most of the wrong-way bets were made in 2004, when Lawrence Summers, now President Barack Obama's economic adviser, led the university. Cranes were recently removed from the construction site of a $1 billion science center that was to be the expansion's centerpiece, a reminder of Summers's ambition. The school suspended work on the building last week.

"For nonprofits, this is going to be written up as a case study of what not to do," said Mark Williams, a finance professor at Boston University, who specializes in risk management and has studied Harvard's finances. "Harvard throws itself out as a beacon of what to do in higher learning. Clearly, there have been major missteps."

The U.S. brokerage watchdog is probing how Wall Street firms, including JP Morgan Chase and Citigroup Inc, offer stock research, two people familiar with the probe said on Friday.

The Financial Industry Regulatory Authority, which supervises nearly 4,800 brokerage firms, sent letters to more than 10 firms in early November asking for information related to their unpublished research material, one of the people said.

The same person said FINRA is eyeing the firms' policies related to their delivery of the unpublished research material. Both sources requested anonymity because the sweep has not been made public.

The news was first reported by the Wall Street Journal, which said Morgan Stanley and Goldman Sachs are also part of FINRA's inquiry.

FINRA is examining the firms' meetings where unpublished research opinions were disclosed to non-research employees or clients, one source said.

FINRA has asked firms how many conference calls the firms have had that included more than 15 people, who attended the meetings and whether any scripts were produced, the source said. The same source said FINRA is currently reviewing the firms' responses.

JPMorgan and Citigroup declined comment. A Morgan Stanley spokeswoman and a Goldman Sachs spokesman also declined comment.

For nearly two months, home buyers with good credit who can make a 20% down payment have enjoyed 30-year mortgage rates below 5%. But as signs of an improving economy increase, the yield on bonds has been edging higher and pulling home-lending rates along as well.

Is the end of the sub-5% era in sight?

Freddie Mac's widely followed rate survey pegged the average 30-year fixed mortgage at 4.94% for the week ended Thursday, up from 4.81% a week earlier. The survey assumes borrowers pay 0.7% of the loan amount in upfront lender fees and discount points.

The low rates have given homeowners another golden opportunity to lower the interest rates on their mortgages. About three-quarters of all home loans written during the first two weeks of December were refinancings, Freddie Mac economist Frank Nothaft said.

The Freddie Mac survey is just one of the tools consumers can use these days to monitor mortgage trends, with data also published by the trade group Mortgage Bankers Assn. and private outfits such as Bankrate Inc. and HSH Associates.

Another entry in the rate-tracking derby, the nonprofit Fair Mortgage Collaborative, also has plans to publish regular updates on the cost of home loans. It will begin providing information the second week of January, said Jeff Lazerson, a Laguna Niguel mortgage broker involved in the effort.

The group, with backing from the Ford Foundation, "will give average loan rates down to the ZIP Code, and all settlement costs, including third party, down to the state level," Lazerson said. "This very accurate, very complete, real-time and consistent bench-marking has never been done before."

Since July, we have noted and warned that Bernanke has been contracting the Fed balance sheet except during expiration week. Then he expands it sharply. Guess what Ben did this expiry? He pumped in $49.382B on the monetization of $46.918 B of MBS...Six months of identical action is not a coincidence.

Morgan Stanley, the securities firm that spent more than $8 billion on commercial property in 2007, plans to relinquish five San Francisco office buildings to its lender two years after purchasing them from Blackstone Group LP near the top of the market.

The bank has been negotiating an "orderly transfer" of the towers since earlier this year, Alyson Barnes, a Morgan Stanley spokeswoman, said yesterday in a telephone interview. AREA Property Partners will take over the buildings. Barnes declined to say when the transfer will occur.

“This isn’t a default or foreclosure situation,” Barnes said. “We are going to give them the properties to get out of the loan obligation.” [This is not a ‘default’ only in the technical sense. We will see more non-defaults defaults in coming months.]

Zero Hedge: What did catch our attention was the following claim made by Goldman spokesman Michael DuVally: “Goldman does not have a position in [YRC], nor are we making markets in the company’s bonds or credit-default swaps.” That we will comment on, because it appears to be an outright lie.

Yesterday, December 16th, at 10:46 am Goldman trader Josh Hershman sent out a Bloomberg run to clients in which Goldman made a market in YRC 5 year CDS as 47-52 (we won’t comment on that bid/ask spread, suffice it to say these kinds of spreads will guarantee Goldman keeps raking in the billions for years to come.) This is a market, and also highlighting that “25MM CASH AND CDS TRADING HERE POST EXTENSION” doesn’t really help your case. DuVally either does not understand what making markets is, or, much worse, is blatantly lying to Bloomberg. Both cases require additional elaboration by Goldman. In either case we suggest Michael go straight to the corner top floor office, with a dunce hat, for a stern reprimand.

[http://www.zerohedge.com/article/goldman-spokesman-michael-duvally-lying-goldmans-47-52-market-yrc-cds-would-indicate-so](http://www.zerohedge.com/article/goldman-spokesman-michael-duvally-lying-goldmans-47-52-market-yrc-cds-would-indicate-so)

Gross increased cash in the $199.4 billion Total Return Fund’s to 7 percent of holdings in November from negative 7 percent in October, according to Pimco’s Web site. The fund can have a so-called negative position by using derivatives, futures or by shorting.

The fund cut government-related debt to 51 percent of assets from 63 percent in October.

Crudele: In a box, highlighted in the Dec. 11 release, was this statement: “Special Notice — The advance estimates in this report are the first estimates from a new sample. The new sample for the Advance Monthly Retail Trade Survey is selected about once every two and a half years.”

The problem is, you actually have to ask the Commerce Department what that means if you want to know. Government bureaucrats aren’t known for clarity. And nobody I could find bothered to ask.

One news organization, which should be ashamed of itself, proclaimed after seeing the release that “consumer spending was solid in November, suggesting that the economy is on sounder footing than previously thought.” Not even close.

Well, here’s the answer. It seems that the Commerce Department surveyed only 2,600 of the same retailers and restaurants in both October and November. The other 2,700 or so were new to the survey and were only asked about business conditions in November.

But this time a lot of the retailers that weren’t questioned in November might have gone out of business because of the economy.

To borrow a tired, old phrase — the Commerce Department was trying to tell us that it was comparing apples in October with oranges in November. And the comparison really didn’t add up to 1.3 percent growth. But there’s more.

That 1.3 percent gain — even if you were to accept it as valid — was seasonally adjusted. That means the Commerce Department's computers changed a number here and there because of what has come to be expected over the last five Novembers. Without the seasonal adjustment retail sales were absolutely flat from October to November — 0.0 percent. Flat. No change.

http://www.nypost.com/p/news/business/the_footnote_that_killed_nov_retail_tBtZHigWt8JO830wPoZk3J

BN: 'Shadow Inventory' of U.S. Homes Climbs, Report Says The number of homes that may be in the pipeline for a sale because of foreclosure and delinquency climbed about 55 percent to 1.7 million at the end of September, according to estimates by First American CoreLogic.

The "shadow inventory" rose from 1.1 million a year earlier. Such properties include those taken over by banks and mortgage companies and those where the loans are at least 90 days delinquent, the Santa Ana, California-based research firm said in a report today. The number of unsold homes listed for sale was 3.8 million in September, down from 4.7 million a year earlier, First American said.

Homeowners with mortgages of more than $1 million are defaulting at almost twice the U.S. rate and some are turning to so-called short sales to unload properties as stock-market losses and pay cuts squeeze wealthy borrowers.

Payments on about 12 percent of mortgages exceeding $1 million were 90 days or more overdue in September, compared with 6.3 percent on loans less than $250,000 and 7.4 percent on all U.S. mortgages, according to data from First American CoreLogic Inc., a Santa Ana, California-based research firm. The rate for mortgages above $1 million was 4.7 percent a year earlier.

As defaults on the biggest mortgages rise, borrowers such as Steve Holzknecht are turning to short sales to exit loans that now are larger than the market value of the house. In such a transaction, the lender agrees to accept less than a 100 percent payoff on a mortgage to expedite the property's sale.

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