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The Financial System in America is on the Edge of Default

By Bob Chapman
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The dramatic and costly undertow of deflation continues unabated, as government via fiscal policy and the Federal Reserve, by creating money and credit out of thin air, proceed to overpower this deflation with massive inflation.

Unbeknownst to most the Fed and the Treasury have been maintaining this program for the past several years, accompanied by most major countries, all of which have taken the path of least resistance rather than address the underlying problems.

The current stage of problems had to be addressed 2-1/2 years ago in what has become known as a credit crisis. This continuing crisis has been accompanied by 22-1/8% current unemployment that has resulted in a perpetual fall in tax revenues and a resultant enlargement of government deficits. We might add that this condition is being experienced by many countries worldwide, which followed America's leadership into this terrible financial and economic morass. These policies have led to massive sovereign debt policies, a hangover of the policies of 1933 and 1971.

The financial system in America is on the edge of default. A recent poll found that 92% of those surveyed wanted to unseat their current representative or Senator in Washington and only 21% believed that government enjoyed the consent of the governed. It's very obvious people are not happy with the political, economic and financial situation presently. Eighty percent believe that government is enmeshed in partisan infighting. Not only between parties, but within parties as well. Politicians are very aware of these numbers and are frantic to get reelected. The public has recoiled in disgust. People are demanding that the power of government be curbed. People are sick and tired of paid off corrupt politicians, more than half of whom have been in office for more than ten years.

It is not healthy for a nation to have $3.3 trillion in Treasury bonds held by foreigners. China holds about $900 billion and Japan about $800 billion. We also understand that hedge funds and others also are fronting both countries, so the figures are not really reflective in their total positions. These nations for the most part are rolling their positions, but have not injected new capital into US Treasuries. That is why the Fed had to fund 80% of new Treasury debt last year.

Presently the Fed is fighting and pulling out all stops to halt legislation to audit the Federal Reserve, a private corporation, which has managed our monetary policy since 1913, under the Federal Reserve Act. On Monday the Treasury held a media conference for financial reporters and bloggers in which the Fed was discussed. The meeting had some very strange conditions. Mr. Geithner, Mr. Krueger and Mr. Sperling could be paraphrased but not quoted

and what was paraphrased could not be connected to a specific official. Again, the element of secrecy to protect the guilty. One blogger said, “Did they get the ground rules from Al Qaeda?” The meeting was a travesty. How can government officials demand secrecy in public briefings? It is no wonder that 90% of the public and 317 members of Congress want more Treasury transparency and an audit and investigation of the Fed. This is the same gang run by Geithner and Bernanke that are currently running the gold suppression scheme. When you have a criminal cabal involved you have no transparency. That is why the audit of the Fed is so important. Such an exercise would expose exactly what both have been doing in the markets. The Fed and Treasury have lied for years about what they have been up too in behalf of their Illuminist friends. It is not only about the actions of the President’s Working Group on Financial Markets, but the funding of Watergate, Saddam Hussein, who they supposedly conveniently hung, the countries that secretly received loans, how much, who got them and what was the collateral? Were currency swaps with foreign control banks used to strengthen the dollar by the Fed and for those foreign control banks to purchase Treasury and Agency paper? How about all the inside information funneled to Wall Street and banking for almost a century from both the Fed and Treasury? Their lies are legion. They both are manipulating every market in the world 24/7 and the American people want it stopped. We also want an audit of America’s gold and the testing of the gold bars held. There is much we want to know, so we can save our country and our freedom.

Investors continue to chase yields, which is a dumb practice. Interest rates are at 80-year lows and can only stay the same or rise. People are grabbing junk bond yields that will come back to haunt them.

At least for now Greece and euro problems are being shuffled into the background. You can imagine this is not the last of the eurozone problems. The PIIGS will be back one by one to cause never-ending problems until they are forced to leave the eurozone. That will cause a eurozone breakup, probably by the end of next year.

This is the first real threat to the eurozone since its beginning ten years ago, and we think they will find that their rules are so restrictive that weak members will be forced to leave. The monetary policy and interest rates may be singular, but fiscal policy is not. Exchange rates for the euro must fit all members, but rates and methods of growth vary widely. With one currency sovereignty has effectively been lost. Public debt to GDP has to be under 3%, while most are over 3%: Greece is at 10.7%. There is also a public debt limit of 60% of GDP, which all nations in the zone have broken. All precepts have not and cannot be met. There is no effective policy because there is no way to enforce the rules. In addition most have current account deficits and the zone effectively has been carried by Germany from this aspect. The bottom line is a few have growth, the rest do not. As a result there is pressure, due to poor growth in some of the nations, for austerity measures to reduce fiscal deficits at the worst possible time. Greece comes first along with Ireland and the rest will follow.

Just as an example, Spain has a fiscal deficit of 10% of GDP that has to fall to 3% within three years, which is virtually impossible just as it is in Greece. Their current account deficit is 4.5% of GDP. In a recessionary/depressionary world getting into the plus column is a tall order. This dilemma is the result in part of the housing collapse caused by Spanish banks and inattention by the Bank for International Settlements. We see consumption continuing to fall in the face of 20% unemployment, which worsens by the day. The PIIGS and a present total of 19 nations are effectively bankrupt. We do not believe they can survive without devaluation and debt default. That is why we expect that to happen next year.

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The decision follows a House ethics probe into an alleged pay-to-play system in which investigators followed a trail of campaign contributions and linked them to earmarks — a provision added to a bill that directs money to a specific project, in this case, a private company. Although the House Ethics Committee cleared members of specific wrongdoing, House leaders remained sensitive to the appearance of a rampant quid-pro-quo system that has stoked outrage around the country.

The decision, which exempts earmarks for nonprofit groups, could significantly affect Massachusetts because the House delegation has proved adept at the political horse-trading required to obtain funding for private companies.

Can Nancy Pelosi Get the Votes?

The Senate bill’s abortion language is not the House Speaker’s only problem.

http://online.wsj.com/article/SB10001424052748703701004575113292688090292.html#printMode

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SEVEN HOUSE members, including Northern Virginia Rep. James P. Moran Jr. (D), collected more than $840,000 in political contributions from employees and clients of a lobbying firm, Paul Magliocchetti and Associates Group (PMA), during a two-year span. In that same period, the lawmakers, strategically situated on the Appropriations defense subcommittee, directed more than $245 million in earmarks to clients of PMA.

If you think those two facts are unrelated, you are qualified to be on the House ethics committee. The panel recently found that “simply because a member sponsors an earmark for an entity that also happens to be a campaign contributor does not, on these two facts alone, support a claim that a member’s actions are being influenced by campaign contributions.”

The ethics committee acknowledged that “there is a widespread perception among corporations and lobbyists that campaign contributions provide enhanced access to members or a greater chance of obtaining earmarks.” Gee, how could anyone have gotten that impression? Maybe because the lawmakers targeted those seeking earmarks for campaign contributions? Sent their key appropriations staffers to fundraisers?

For instance, in 2008, the appropriations director for Rep. Pete Visclosky (D-Ind.) told corporations interested in obtaining earmarks that they needed to submit requests by Feb. 15. On Feb. 27, Mr. Visclosky’s campaign manager sent a letter to companies that had sought his help on defense matters inviting them to a fundraiser on March 12. Mr. Visclosky’s political committees received $35,300 from clients of PMA that month, plus

another $12,000 from the lobbying firm and its employees. A week after the fundraiser, which was focused on defense contractors and attended by his chief of staff and appropriations director, Mr. Visclosky requested earmarks for six PMA clients, totaling more than $14 million.

House leaders understand that voters may not be quite as obtuse as the ethics committee seems to assume, and their extreme embarrassment — over this and other scandals — may lead to useful action. The House is right to ban lawmakers from earmarking government funds for for-profit companies. It should go further, and extend the prohibition to nonprofit and educational institutions as well. Some nonprofit institutions spend enormous sums on lobbyists, who dispense campaign donations in hope of obtaining earmarks. More important, the Senate must follow suit, as much as it appears disinclined to do so. A system that aligns campaign cash and earmarks is inherently unseemly, if not outright corrupt, and the Senate is tainted by this setup as well.

We say this fully aware that the Constitution grants Congress the power of the purse and that earmarks are not close to the biggest reason for out-of-control spending. And that lawmakers have taken steps in recent years to reduce the number of earmarks and make the process more open. And that eliminating earmarks would not end every instance in which private interests lobby for — and make campaign contributions in hope of obtaining — particular favors.

It would, however, eliminate the worst such abuse. The House Ethics Manual cautions members "to avoid even the appearance that solicitations of campaign contributions are connected in any way with an action taken or to be taken in an official capacity." The ethics committee, dismissing that caution and a recommendation by the newly created independent Office of Congressional Ethics to investigate two of the seven representatives, decided there was nothing to worry about in the PMA case. With standards this lax, the only reasonable choice is to end the earmarks that fuel this sleazy process. [This dramatically shows you why campaign contributions have to end.]

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http://www.manpower.com/investors/releasedetail.cfm?releaseid=450330

Though 73% of firms surveyed said they plan on hiring NO employees and 8% intend to fire employees, Manpower is trying to spin the survey as a sign of an improving employment picture. But under multiple extensions enacted by the federal government in response to the downturn, workers can collect the payments for as long as 99 weeks in states with the highest unemployment rates — the longest period since the program's inception.

But complaints that extending unemployment payments discourages job-seeking have begun to bubble into the political debate. "If anything, continuing to pay people unemployment compensation is a disincentive for them to seek new work," Kyl said. "I am sure most of them would like work and probably have tried to seek it, but you can't argue it is a job enhancer."

Shopping blues: Top tax 12%. Chicago's 10.25% highest big-city rate. More Internet tax fights loom. But Vertex Inc., which calculates sales tax for Internet sellers, reports that the

average general sales tax rate nationwide reached 8.629% at the end of 2009, the highest since the Berwyn, Pa., company started tracking data in 1982. That was up a nickel on a taxable $100 purchase from a year earlier and up nearly 40 cents for the decade. http://finance.yahoo.com/taxes/article/109012/us-sales-tax-rates-hit-record-high

The number of Americans filing first-time claims for jobless benefits fell for a second week to a level that indicates companies are nearing the end of payroll reductions as the economy recovers.

First-time jobless applications dropped by 6,000 to 462,000 in the week ended March 6, Labor Department figures showed today in Washington. The number of people receiving unemployment insurance increased, while those getting extended benefits fell.

The labor market in the United States remains fragile with the initial jobless claims declining less than expected and continuing claims increasing against expectations.
From the previous revised data of 468,000. 4-week average was 475,500, 5,000 claims more than previous week average of 470,500.

Continuing claims has been posted as increased of 37,000 in the week of February 27 to 4,558,000 from previous revised data of 4,521,000. Expectations were a decline to 4,500,000

Unemployment tops 20% in eight California counties. The state's jobless rate of 12.5% in January was its worst on record and fifth-highest in the nation.

For many California areas, unemployment rates moved persistently higher in January, indicating that the national economic recovery hasn't yet translated into jobs for the Golden State.

New county-by-county figures released by the state Wednesday showed that in eight counties, more than 1 in 5 people were out of work. Moreover, revised numbers for last year show that fewer people were employed than was previously believed.
The state was one of five, along with Florida, Georgia, North Carolina and South Carolina, that reached their highest unemployment rates since the government began keeping track in 1976, according to the Bureau of Labor Statistics. California's was 12.5% in January, up from 12.3% in December.

"The unemployment rate will be persistently at this high level for at least a few more months," said Esmael Adibi, an economist at Chapman University in Orange.

The unemployment rate for the Riverside-San Bernardino-Ontario metro area reached 15% in January, its highest since 1990, the earliest year for which the state has comparable data available. Unemployment in Orange County reached 10.1%, up from 9.1% in December.

The state's revised data for last year showing elevated unemployment indicate that a recovery could take longer than previously predicted.

"The impact on the labor market was much more severe than what we had estimated," Adibi said. Most counties were still struggling under the burden of joblessness, especially the eight counties where rates were higher than 20%. Merced County, for instance, had an unemployment rate of 21.7% in January, and Imperial County's rate was 27.3%.

The national unemployment rate in January was 9.7%, and the country experienced a strong 5.75% annualized increase in gross domestic product in last year's final three months.

"The real mystery now is why we aren't getting job growth when the GDP has been positive," said Stephen Levy, director of the Center for Continuing Study of the California Economy.

Budget problems in state and local government are expected to further drag down the state's recovery, Levy said. Even if they don't get pink slips, state employees are earning less money because of furloughs and salary reductions, which reduces consumer spending in the state.

The government sector, which includes public education, lost 4,500 jobs from December to January. Nancy Hack lost her job as a gardener with the Los Angeles Department of Recreation and Parks a year ago, and said that finding work has been a challenge at her age, 54.

"I'm like a fish out of water," she said.

Los Angeles County, with an unemployment rate of 12.5%, was hard hit by declines in the trade, transportation and utilities sector, which shed 21,900 jobs, and professional and business services, which lost 16,300 jobs.

The same sectors were hit in the Inland Empire, losing 7,700 and 3,600 jobs, respectively. Orange County lost 5,700 jobs in trade, transportation and utilities and 3,000 in professional and business services.

San Diego County's unemployment rate reached 11% in January, up from a revised 10.3% in December. The unemployment rate in Ventura County was 11.6% in January, up from a revised 10.9% in December.

California's unemployment rate was the fifth-highest in the nation, behind Michigan, Nevada, Rhode Island and South Carolina.

The foreclosure crisis in the U.S. isn't over, but the pace of growth may finally be slowing down.

RealtyTrac Inc. said Thursday that the number of households facing foreclosure in February grew 6 percent from a year ago, the smallest annual increase in four years. On the state level, foreclosures declined on a monthly and yearly basis in the hard-hit states of Nevada, Arizona and California, but still grew rapidly in Florida.

More than 308,000 U.S. households, or one in every 418 homes, received a foreclosure-related notice, the Irvine, California-based foreclosure listings company reported. That was down more than 2 percent from January

Still, fears remain about the hundreds of thousands of homeowners who are still being evaluated for help under loan modification programs. Many analysts say most of those borrowers will eventually lose their homes, sparking a new round of foreclosures later this year.

"It's premature to declare victory just yet," said Rick Sharga, a RealtyTrac senior vice

president. He did, however, allow that, “If this is the beginning of a slowdown in growth rates, that would be a good thing.”

Banks repossessed nearly 79,000 homes last month, down 10 percent from January but still up 6 percent from February 2009.

The RealtyTrac report follows an encouraging report last month from the Mortgage Bankers Association. It said the percentage of borrowers who had missed just one payment on their home loans fell to 3.6 percent in the October to December quarter, down from 3.8 percent in the third quarter.

While that was a surprising piece of positive news, foreclosures were still at record high levels. The number of borrowers who have either missed a payment or are in foreclosure was at 15 percent.

A record 2.8 million households were threatened with foreclosure last year, RealtyTrac said, and the number is expected to rise to more than 3 million homes this year.

The foreclosure crisis forced the federal government and several states to come up with plans to prolong the process so delinquent borrowers can try to find help. But those efforts have barely dented the problem. Case in point: The Obama administration’s $75 billion foreclosure prevention program has helped only 116,300 homeowners in the past year.

After a year of trying to enroll homeowners in the Obama administration’s program, housing counselors are feeling deflated.

At many of the 100 mortgage companies charged with running the program, employees still “don’t really know what the guidelines are — or refuse to adhere” to them, said Cheryl Cassell, manager of housing counseling at the National Community Reinvestment Coalition, a community group in Washington.

Foreclosed homes are typically sold at steep discounts, lowering the value of surrounding properties. Cities lose property tax dollars from homes that sit empty and lower property values.

Economic woes, such as unemployment or reduced income, are expected to be the main catalysts for foreclosures this year. Initially, lax lending standards were the culprit, but homeowners with good credit who took out conventional, fixed-rate loans are the fastest growing group of foreclosures.

Among states, Nevada posted the highest foreclosure rate, though foreclosures there were down 7 percent from January and down more than 30 percent from a year earlier. It was followed by Arizona, Florida, California and Michigan.

The metro area with the highest foreclosure rate in February was Las Vegas.

Apartment vacancies in the U.S., which reached a record high of 7.4 percent in 2009, will fall this year as job losses stabilize and fewer new rental homes enter the market, CB Richard Ellis Group Inc. said.

The vacancy rate will decline to 6.8 percent in 2010, the property broker said in a report today. Effective rents, or what tenants pay after concessions, will end the year less than 1

percent down from the fourth quarter of 2009. Rents fell 4.7 percent in the final quarter of last year from a year earlier.

Apartments could fill up quickly as employers start hiring again and Americans in their 20s and early 30s give up sharing housing with roommates and parents, Bryce Blair, chief executive officer of apartment developer AvalonBay Communities Inc., said in an interview last month. Builders will have to ramp up rapidly to meet demand after cutting apartment starts by 58 percent last year.

“We’re seeing some stabilization in fundamentals for apartments as we do in the broader economy,” said CB Richard Ellis Senior Economist Gleb Nechayev, who expects job growth in the third quarter. “This gives us reason to be cautiously optimistic.”

Manhattan, Boston, Washington D.C., Denver, and Seattle are among the markets where rents will rise, Nechayev said.

In Boston, monthly rates will climb 2.8 percent in the fourth quarter of 2010 compared with a year earlier. Rents will increase about 1 percent in Washington and Seattle and 2 percent in Denver, he said.

The trade deficit in the U.S. unexpectedly narrowed in January as imports fell for the first time in five months, indicating demand is cooling following the fastest pace of growth in six years.

The gap shrank 6.6 percent to $37.3 billion from $39.9 billion in December as refineries imported the fewest barrels of crude oil in a decade, Commerce Department figures showed today in Washington. Exports decreased for the first time in nine months, on fewer shipments of aircraft and autos.

“The somewhat disappointing trade data seem likely to prove a brief pause in a generally improving trend,” said David Resler, chief economist at Nomura Securities International Inc. in New York. “Trade flows are notoriously volatile from month- to-month, but declines in both exports and imports are hardly signs of economic vitality.”

After advancing at a 5.9 percent annual pace last quarter, the world’s largest economy may expand at less than half that pace in the first half of 2010, reflecting smaller gains in business investment and exports, according to economists surveyed this month by Bloomberg News. Another report showed fewer Americans filed claims for jobless benefits, pointing to a gradual recovery in the labor market.

The city’s major hospital network, which runs Miami’s only round-the-clock trauma center and is a safety net for the poor and uninsured, is running out of money and could close, a predicament that illustrates the precarious financial state of many hospitals around the country.

The Jackson Health System will have little cash on hand by the end of March if it does not receive a $67 million advance from the county, said Marcos Lapciuc, treasurer of the Public Health Trust, the institution’s governing board.

“We are very close, if not already in, a health care death spiral,” Chief Operating Officer David Small said.

Jackson could run out of cash and shut by May or sooner, Lapciuc said, and the county mayor said officials were preparing to advance the hospital some money.

"Sadly, it's not all that unique," Larry S. Gage, president of the National Association of Public Hospitals & Health System, said of financial difficulties like the one Jackson is facing.

US debt grew at the slowest pace on record during the fourth quarter, as households and businesses continued to deleverage, nearly offsetting another huge increase in federal debt, according to the quarterly flow of funds report released Thursday by the Federal Reserve. With businesses cutting their outstanding debt the most since 1991, nonfinancial debts increased at a 1.6% annual rate to $34.7 trillion at the end of the quarter, the smallest increase since the Fed began tracking the data in 1952. Meanwhile, household net wealth increased by $683 billion to $54.2 trillion, a 5.1% annual increase, the Fed said. [What they fail to tell you is that these figures are low because banks were writing off debt against the increase in debt growth.]

US households increased their holdings of Treasury securities to the highest level in at least two years, according to data released by the Federal Reserve on Thursday. Households held $795.2 billion in Treasuries at the end of the fourth quarter of 2009, up from $735.5 billion in the third quarter, as Americans continued to find U.S. debt an attractive investment amid continued uncertainty over the strength of the U.S. economic rebound and sovereign-debt problems abroad. That's the highest level of holdings in any quarter since at least the beginning of 2008, according to the flow of funds data. The Fed's household and nonprofit corporations sector include domestic hedge funds. [It is absolute fantasy to believe that American households purchased these securities. This is how the Fed is hiding their purchases of US Treasuries.]

State banking regulators on Thursday evening shut down the troubled LibertyPointe Bank, whose chairman, Shaya Boymelgreen, built more than 2,400 apartments in New York City in the last decade. The failure was the 27th in the nation this year but the first in the city in more than a decade, regulators said.

LibertyPointe, which had one branch in Manhattan and two in Brooklyn, had been struggling under the weight of bad real estate loans for many months. In mid-July, federal regulators ordered the bank to stop lending to developers and to raise cash.

But time ran out for LibertyPointe on Thursday. State regulators seized the bank and turned it over to the Federal Deposit Insurance Corporation, which struck a deal with Valley National Bank. Valley National will assume LibertyPointe's deposits, which totaled about $210 million, and about one-tenth of its outstanding loans.

Valley National, which is based in Wayne, N.J., agreed to share losses on the rest of LibertyPointe's loan portfolio with the F.D.I.C., regulators said. The F.D.I.C. estimated that the rescue would cost its insurance fund $24.8 million.

Gerald H. Lipkin, the chairman and chief executive of Valley National, said in a statement that the three branches would reopen Friday morning as part of Valley National's 201-branch network. LibertyPointe's depositors will be treated as customers of Valley National. "Our primary focus is to assure customers that their deposits are safe and remain readily accessible to them," Mr. Lipkin said.

The recession has caused a wave of bank failures across the country, but only one bank failed in New York State in the last five years. The State Banking Department closed Waterford Village Bank, based in Williamsville, near Buffalo, in July. The last failure of a New York City-based bank occurred in December 1999, when regulators closed Golden City Commercial Bank, a small bank that had an office in Flushing, Queens, and one on Lower Broadway in Manhattan.

JPMorgan Chase & Co. and Citigroup Inc. helped cause the collapse of Lehman Brothers Holding Inc. by demanding more collateral and changing guarantee agreements, a bankruptcy examiner said today in a report.

"The demands for collateral by Lehman's lenders had direct impact on Lehman's liquidity pool," said Anton Valukas, the U.S. Trustee-appointed examiner, in a 2,200-page report filed in Manhattan federal court. "Lehman's available liquidity is central to the question of why Lehman failed."

Former Lehman Chief Executive Officer Richard Fuld, former Chief Financial Officer Erin Callan, former executive vice president Ian Lowitt and former managing director Christopher O'Meara certified misleading statements, the report said. Fuld was "at least grossly negligent," the report said. Lehman collapsed in September 2008 with $639 billion in assets, the biggest bankruptcy in U.S. history.

Commenting on Barclays Plc's purchase of Lehman's North American brokerage, Valukas said a "limited amount of assets" belonging to Lehman were "improperly transferred to Barclays."

Kerrie Cohen, a Barclays spokeswoman in New York, and JPMorgan spokesman Brian Marchiony declined to comment. Citigroup spokeswoman Danielle Romero-Apsilos didn't have an immediate comment. Lowitt, who is now at Barclays, didn't immediately repond to an e-mail seeking comment. Barclays is Britain's second-biggest bank. Citigroup is the third biggest U.S. bank, and JPMorgan is second.

Ezra Levy, a former hedge fund trader and former chief financial officer of Boston Provident Partners LP, pleaded guilty to federal charges he stole about $3 million from the Manhattan-based firm.

Levy, who was arrested in November, pleaded guilty to two schemes to defraud Boston Provident.

In federal court yesterday, Levy admitted he transferred $2.45 million from Boston Provident to his own account. He also said he had the fund buy shares of Atlas Energy Inc. and another stock at inflated prices from an account he controlled, generating a $537,000 profit.

"I used the funds to pay my personal expenses,'' Levy, 32, told US District Judge Kevin Castel.

Boston Provident fired Levy after learning of the scheme.

Levy joined Kramer Spellman LP, which changed its name to Boston Provident in 2004, as an analyst in 2001.

Before that, he worked for Prudential Securities and SG Cowen after starting out as an

accountant in a textiles firm.

Under federal sentencing guidelines, Levy, who is free on bail, faces between 63 and 78 months in prison when he is sentenced for securities fraud and wire fraud.

Sales at U.S. retailers unexpectedly climbed in February as shoppers braved blizzards to get to the malls, signaling consumers will contribute more to economic growth.

Purchases increased 0.3 percent, the fourth gain in the past five months, Commerce Department figures showed today in Washington. Figures for the prior two months were revised down, taking some of the shine off of today's data. Sales excluding autos rose 0.8 percent, exceeding all estimates.

A report last week showing the economy lost fewer jobs than anticipated in February signaled employment is on the verge of accelerating, a development that would spur spending in coming months. Macy's Inc. was among retailers that beat estimates last month as customers overcame the weather to shop for Valentine's Day gifts and spring merchandise, a sign the expansion is broadening beyond manufacturing.

"The storms were apparently not quite as disruptive as anticipated," said Adam York, an economist at Wells Fargo Securities LLC in Charlotte, North Carolina, whose forecast for a 0.6 percent gain excluding autos was the highest of those surveyed. "As we start adding jobs in the spring, employees will gain income and hours and retail sales should follow." [These numbers are impossible. Washington still doesn't get it. We know they are fudging the figures]

The housing market is facing swelling ranks of homeowners who are seriously delinquent but have yet to lose their homes, and this is threatening a new wave of foreclosures that could hit just as the real estate market has begun to stabilize.

About 5 million to 7 million properties are potentially eligible for foreclosure but have not yet been repossessed and put up for sale. Some economists project it could take nearly three years before all these homes have been put on the market and purchased by new owners. And the number of pending foreclosures could grow much bigger over the coming year as more distressed borrowers become delinquent and then, if they can't obtain mortgage relief, wade through the foreclosure process, which often takes more than a year to complete.

As these foreclosed properties add to the supply of homes for sale, they could undercut housing prices, which have increased modestly through December, according to the most recent figures in the S&P/Case-Shiller home prices index. That rise partly reflected a slowdown in the flow of foreclosed homes onto the market.

The rate at which J.P. Morgan Chase seized properties, for example, peaked in the middle of 2008 and fell steadily last year, according to a February investor report. But the bank expects repossessions to increase this year, nearly doubling to 45,000 by the fourth quarter.

Business inventories were unexpectedly flat in January, while sales rose to their highest level since October 2008, government data showed on Friday.

The Commerce Department said inventories were unchanged after falling by a revised 0.3 percent in December, previously reported as a 0.2 percent drop.

Economists polled by Reuters had expected a 0.2 percent rise in January inventories.

Inventories are a key component of gross domestic product changes over the business cycle and a sharp slowdown in the pace of inventory liquidation handed the economy its fastest growth rate in six years in the fourth quarter.

Business sales rose 0.6 percent to $1.05 trillion in January following a 1.0 percent increase in December. The rise in sales left the inventory-to-sales-ratio, which measures how long it would take to clear shelves at the current sales pace, at 1.25 months' worth, the lowest since November 2007.

Manufacturers' inventories rose 0.2 percent in January after falling 0.2 percent the prior month. Inventories at retailers fell 0.1 percent after a 0.2 percent rise in December.

Retail motor vehicle and parts inventories rose 0.5 percent after falling 0.3 percent in December. Excluding autos, retail inventories fell 0.2 percent in January. Inventories at furniture, electronic and appliance stores fell 0.3 percent after a 0.2 percent gain the prior month

BOISE – Idaho may see more budget cuts next year.

At the state of the state address back in January, Governor Otter announced the state faced an 83 million dollar budget shortfall. To pick up the slack, public areas like schools took massive cuts. Now the state is losing even more money.

Idaho has 41 million fewer dollars than Governor Otter projected back in January.

And in an already troubling economic time, that's not a good sign for public institutions.

"The signs are not good. The fact that we're down another 15-million dollars in February in income tax is not a good sign," said Governor Otter. "We've spent most all the rainy day funds. There's no savings like we had last year. We had the opportunity to plug some money back into the system because we had some savings accounts. We've spent the savings accounts."

Confidence among U.S. consumers unexpectedly declined for a second month in March, a sign Americans are discouraged about the labor market.

The Reuters/University of Michigan preliminary consumer sentiment index fell to 72.5 from February's final reading of 73.6. Economists surveyed by Bloomberg News projected the gauge would increase to 74, according to the median estimate.

Illinois Governor Pat Quinn is the latest Democrat to demand a tax increase, this week proposing to raise the state's top marginal individual income tax rate to 4% from 3%. He'd better hope this works out better than it has for Maryland.

We reported in May that after passing a millionaire surtax nearly one-third of Maryland's millionaires had gone missing, thus contributing to a decline in state revenues. The politicians in Annapolis had said they'd collect $106 million by raising its income tax rate on millionaire households to 6.25% from 4.75%. In cities like Baltimore and Bethesda, which apply add-on income taxes, the top tax rate with the surcharge now reaches as high as 9.3%—fifth highest in the nation. Liberals said this was based on incomplete data and that

rich Marylanders hadn't fled the state.

Well, the state comptroller's office now has the final tax return data for 2008, the first year that the higher tax rates applied. The number of millionaire tax returns fell sharply to 5,529 from 7,898 in 2007, a 30% tumble. The taxes paid by rich filers fell by 22%, and instead of their payments increasing by $106 million, they fell by some $257 million.

Yes, a big part of that decline results from the recession that eroded incomes, especially from capital gains. But there is also little doubt that some rich people moved out or filed their taxes in other states with lower burdens. One-in-eight millionaires who filed a Maryland tax return in 2007 filed no return in 2008. Some died, but the others presumably changed their state of residence. (Hint to the class warfare crowd: A lot of rich people have two homes.)

Federal Reserve Bank of San Francisco President Janet Yellen is President Barack Obama's pick for vice chairman of the central bank in Washington, two people with knowledge of the selection process said.

The nomination is pending completion of vetting by the Obama administration, one person said. The vice chairman gets a four-year term, subject to Senate approval, and a separate term on the Fed Board of Governors. The people spoke on condition of anonymity because the selection hasn't yet been announced.

Yellen, 63, would replace Donald Kohn, a 40-year Fed veteran who resigned last week effective June 23. Yellen, who served as President Bill Clinton's chief economist in the 1990s, said last month that the U.S. economy "still needs the support of extraordinarily low" interest rates. She would gain a permanent vote on monetary policy, instead of having a vote one year out of every three as a regional Fed chief. [She is a well-known inflationist.]

The brazenly bogus unemployment data disseminated to the news media each month by the U.S. Bureau of Labor Statistics appears to have tripped up Colorado. Although the state had reported a loss of 89,375 non-farm jobs in 2009, the actual number appears to have been much larger — 106,300, according to the latest revision. Colorado attributes the discrepancy to the Bureau's rosy estimates of the number of businesses that start and fail each year. Until the new numbers came out earlier this week, Colorado's official line was that it had somehow been spared the worst of Great Recession's effects on the labor market. Unofficially, however, the picture was never so bright. "I was surprised when they reported the numbers the first time," Zoltan Mak, a freight-train conductor on furlough since October, told the Denver Post. "I see everybody around me scraping by and having a really hard time. I don't think we're any better off than any other state."

As much could be said of the supposed economic recovery in the U.S. that we keep reading about but which few workers or businesspeople are able to corroborate. In the Rick's Picks chat room, for one, out of the many hundreds who log on each day, there has been only a single person who has reported an upswing in business. He lives in the Michigan rust belt, of all places, and that is why his claims have met with skepticism, to put it mildly. But here in Colorado, the notion that recession has been somewhat less severe than elsewhere is flatly contradicted by a blighted retail landscape that seems to be metastasizing with each passing week. Entire strip malls and even some larger malls in the Denver area have imploded, and in our own neighborhood, a Sam's Club called it quits. At a personal level, nearly everyone we know with a job or a business is working harder than ever just to stay

afloat, and virtually everyone who was in real estate has left the field.

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http://www.bloomberg.com/apps/news?pid=20601110&sid=aH2GbcSnGE9

A one-year probe into the collapse of Lehman Brothers found "credible evidence" that top executives, including the former chief Dick Fuld, approved misleading financial statements and used an "accounting gimmick" to flatter results.

The long-awaited report by the court-appointed examiner Anton Valukas also said that there was enough evidence to claim that Ernst & Young, Lehman's auditors, failed to "question and challenge improper or inadequate disclosures" in the firm's results.

The 2,200-page report found some evidence that JPMorgan Chase and Citigroup might have contributed to Lehman's slide into bankruptcy in September 2008 by demanding collateral from the struggling bank in the run-up to its failure.

Mr. Valukas' report could pave the way for legal action by the Lehman estate, which is charged with recovering as much money as possible for its creditors, and class action lawsuits by investors who bought Lehman's securities before its collapse. http://www.ft.com/cms/s/0/2e412d50-2d6e-11df-a262-00144feabdc0.html

There are other bombshells in Lehman bankruptcy report. Valukas avers that Lehman used accounting gimmicks, specifically Repo 105s, to conceal its true financial condition – leverage and exposure.

Repo 105 transactions were not used for a business purpose, but instead for an accounting purpose: to reduce Lehman's publicly reported net leverage and net balance sheet.

As set forth more fully below, the Examiner concludes that a fact finder could find that Lehman's failure to disclose its use of Repo 105 transactions to impact its balance sheet at a time when both the market and senior Lehman management were keenly focused on the reduction of Lehman's firm-wide net leverage and balance sheet, and particularly in light of the specific volumes at which Lehman undertook Repo 105 transactions at quarter-end in fourth quarter 2007, first quarter 2008, and second quarter 2008, materially misrepresented Lehman's true financial condition.

A trier of fact could find that Lehman's use of tens of billions of dollars of Repo 105 transactions at quarter-end in late 2007 and early 2008 rendered the firm's financial statements and related disclosures materially misleading. http://lehmanreport.jenner.com/VOLUME%203.pdf

We have complained for over a decade and a half that there is blatant manipulation of markets at month end and quarter end to manufacture profits. The practice is pervasive, if

not endemic. Yet the Fed, Treasury and other regulators allow this repeated abuse, which conceals earnings and financial conditions for many entities. PS – Derivatives' marking-to-model is the biggest abuse in generating bogus profits.

The big question is: What other banks, hedge funds, financial subsidiaries of major corporations, insurances companies, etc. are engaged in Repo 105 or similar means to conceal their finances.

The Fed expanded its balance sheet $2.321B for the week ended on Wed by buying $2.344B of MBS and $1.5B of agencies.

The nascent US recovery could falter because businesses are still reluctant to invest in new equipment and technology, the head of global delivery and logistics company FedEx has warned.

"Business investment went up somewhat in the fourth quarter but is far below what it ought to be in a cyclical recovery like this," Fred Smith, chairman and chief executive of FedEx, told the Financial Times… "In my opinion, for consumers to spend you have to get business investment up because that is what creates the jobs," Mr. Smith said. "I don't think you will see substantial increases in employment until you see substantial increases in business investment."

To help encourage businesses to start investing again, Mr. Smith has been urging politicians to change the tax rules on capital expenditures to allow companies to recoup money earlier than in the past.

Illinois is the leader of the pack when it comes to stupidity. They have a $13 billion budget deficit and the moron who is governor, Pat Quinn, says he will only raise taxes 1% for education. He will borrow money and let unpaid bills pile up, a true politician that Illinois surely deserves.

There are an additional 7 million homes eligible for foreclosure that have not been foreclosed on. The banks are hiding them. That is a 3 plus year overhang on the market.

As we reported long ago, but no one would listen, JP Morgan Chase and Citigroup caused the collapse of Lehman Bros. by cutting off their loans. We bet there will be no civil or criminal charges. The Illuminists again devour their own.

On Thursday Citi's volume accounted for 20% of NYSE volume and AIG was second, with Bank of America third. It is great having some 50% of daily volume in what we consider bankrupt entities.

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