GlobalResearch
Center for Research on Globalization

The greatest outpouring of money and credit from central banks and governments in history

By Bob Chapman
Theme: Global Economy
Global Research, December 18, 2009
International Forecaster 18 December 2009

The past two years have seen the greatest outpouring of money and credit from central banks and governments in history. In most countries interest rates cannot fall much lower being presently under 1% or close to zero. You might call this an attempt at fiat money recovery. As a result of pump priming for the past six months or more investors have returned to the same gambling and risk taking they engaged in before, the losses of which caused the world economy to come to the edge of the financial abyss. All sectors of investment are again affected by a casino mentality.

We see $12.7 trillion donated without their consent of the lender taxpayers to the top world economies, or about 20% of world GDP. These funds, a good part of which will never be retrieved, have been stuffed into the pockets of bankers, Wall Street, insurance companies and GM and AIG. 80% of the problems we have had to face were caused by these very same entities, which along with the Fed, propose to solve the problem they created. It is as if they are the only ones in the world who know best what is good for our system and for us. They as well continue to play in the giant casino as if nothing ever happened. While this transpires there are still trillions of dollars in bad debt and impaired assets on the books that have to be written off. The solution to that is to not truthfully report companies' financial conditions. If you can believe this, the Chairman of the Board of the Financial Accounting Standards Board, the FASB that sets American accounting standards has called for the "decoupling" of bank capital rules from normal accounting standards. His proposal would encourage bank regulators to make adjustments as they determine whether banks have adequate capital while still allowing investors to see the current fair value. In order words it is ok to have two sets of books and to mark assets to model, which is marking assets to fantasy. Telling investors the truth is secondary. For almost 20 years banks have had to use GAAP for the basis for capital rules. If banks had their way there would be no rules. The FASB has been compromised and resides in the back pocket of the bankers. There you have it. Bankers are more equal than others. Their balance sheets are worthless. This should not be allowed to happen in America.

At first the G-20 nations wanted to remove monetary stimulus and now they say it is too early to do so. What they do not tell you is if they did remove trillions from their economies they would collapse. Europe, the UK and US have losses of $1.7 trillion they haven't written off of yet. In addition, they have hundreds of billions in losses for foreclosed loans that are still flowing in, to further befoul their balance sheets. We have to laugh when central bankers talk about draining trillions from the system. If they pull liquidity the system collapses. Other than feeding money and credit into the system the bankers have no solution. Keeping them in charge is like giving a pyromaniac matches. Even if $500 billion more in stimulus is added to the system from TARP funds or from Congress, it is only going

to keep growth in place until the end of next year. As a result inflation is going to soar. There is no real recovery. All we have seen is the Fed pouring trillions of dollars into the US and world economy.

There are two basic schools of thought regarding the economy. One is buying bonds for safety and the other with virtually no interest money is gambling in the markets. As a result we have a bull market in bonds and a bear market rally in the stock market. These factors lead investors and the public to the perception that a recovery is underway when nothing could be further from the truth. If it was true someone has to explain to us why consumer spending is off 20% yoy, which makes up 69.3% Of GDP? It is no wonder households are not spending. They have just lost $13 trillion in home equity and the housing bubble still has 20% to go to the downside. Quantitative easing has been a failure. We are still in a prolonged period of credit contraction that has been subdued temporarily by massive does of liquidity. Those hardest hit are small businesses and homeowners. All that retirement money is gone, because the Fed created a housing bubble. In 2009, homes lost 40% of their value and they have 20% to go and who knows how long the housing market will bump along the bottom. Reducing debt and spending is the new mantra. This will certainly reduce demand and economic growth. Blatant market manipulation in the long run will not be successful. 2.8% GDP growth is non-existent. The stock market may be booming on zero interest Fed funds, but as we pointed out last February middle America is in depression. In order to keep this façade going and the bubble in tact, the Fed has no choice but to inflate. They want to withdraw funds, but they cannot. They are recalling TARP funds, which will be quickly gobbled up by a new stimulus program and a call from the Treasury to buy more Treasuries, Agencies and toxic waste. Bernanke has to be running around in circles as members of Congress grill him on poor performance and the House passes HR1207, the Bill to audit and investigate the Fed. In addition bank lending is off 16.2% yoy and there are no signs of any loosening. We are looking at object failure by the Fed, which we reflected almost three years ago. There is no normality and no recovery. You cannot spend your way into recovery. It just doesn't work. Look at the 1930s. It didn't work then and it won't work now. Government guarantees challenge reality and reality always wins. As a result of fed policy we have corporatist fascism at its worst. Day by day we attract less foreign capital and that is because any semblance of free markets are gone. All the Fed has done is rescue its owners and other connected elitists and such a plan is doomed to failure.

We started in the gold markets in 1960. We were the largest gold and silver stockbrokers of that time. We recommended stocks that ran from $0.25 to hundreds of dollars a share. It has been 29 years since June 1980 when we exited the market. Since then these markets have been difficult even though the last ten years have been very rewarding. Had it not been for the powers behind government manipulating the markets, it would have been far more rewarding. This is what happens when an uninterested public allows a criminal enterprise to run their lives. Most people born after 1960 know little about the gold and silver bull markets of the late 1970s. They are only told of the great bull market we have seen since 1983. Those in their 40s and younger are about to get an education in how real life works. Not the life created by Wall Street and the Fed, because that era is about to end and with it the fairy tale life they have been used too. Gold's current price of over $1,000 an ounce is only the beginning. We spent ten years moving from $252 to $1,224. Now the advance is going to accelerate and could more than double in 2010. It should also be noted that during this past ten year period the dollar has lost 80% of its purchasing power, which shows gold is an excellent inflation hedged, as well as a deflation hedge. For the past 6-1/2 years all currencies have fallen versus gold and that is because they have had the same

Keynesian monetary policies as the Fed. As a result gold has maintained its purchasing power.

It had been fashionable for the past ten years to say gold does not pay interest. This is the argument Gordon Brown, now UK PM used in 1999, when he sold the British citizens' gold at $275.00 and leased a large part of what England had left. That masterstroke cost British citizens close to $10 billion. He did this when he was Secretary of the Treasury. Which would you rather have had, 5% interest or a capital gain of more than 200%? This experience certainly destroys the pays no interest theory. Owning gold and silver related assets is not speculation; it is wealth preservation. The great gold and silver bull markets of the last 1970s should have been seminal events, but they were not. Only 15% of the public participated, the remainder were buried in the stock market. Over the past ten years it has been worse. Only 2% to 3% of investors have been involved. In a way that is good, because it leaves lots more potential buyers to assist in pushing gold and silver higher. This is why we believe gold and silver have a long way to go on the upside.

There is no question that another bout of inflation is on the way and that the dollar will continue to fall in value. We do not believe gold and silver are today reflecting reflation. They are reflecting a flight to quality because professionals and a minority of other investors have lost faith and trust in the top 20 central banks. Thus, today we are witnessing a flight to quality and safety. Gold and silver are the only real way to protect against financial calamity and offer possibilities for profit simultaneously.

If you add in the fact that the US government has been manipulating the gold and silver prices, you can see the power that they will have to the upside. Wall Street has known for years gold and silver prices have been suppressed, but that scheme is about to end. The power of the elitist forces behind government to rig these markets has been faltering over the past six months. They no longer have the bullion for sale and are forced to use futures and derivatives to manipulate prices. That lasts for several days, then it is over, and then prices rise again. If HR1207 and S604 are passed and the Fed is audited then several months from now we will know exactly what the "Working Group on Financial Markets" have been doing. Audit will show how the Fed and the Treasury have rigged these two markets for years. It will also show how all markets have been manipulated and it will be game over. Gold and silver will make up for lost time shooting up to their fair values, and even if Ron Paul's bill is not passed the influx of investment funds into these metals will eventually overwhelm their markets. Real inflation since 1980 would see gold between $6,700 and $7,150 an ounce. Even official inflation would price gold at $2,400 an ounce. People are going to finally realize that as their purchasing power and investments have fallen in value gold and silver have risen. Two years ago we had real inflation at 14%. We could easily return to that level in 2010. That cuts a regular stock portfolio in half in five years.

In the pipeline is $12.7 trillion created by our government and the Fed to keep our economy and financial system from collapsing. There is absolutely no way it can be withdrawn. The US Inspector General says we are on the hook for potential losses of $23.7 trillion. These kind of problems and the inflation they caused by the Fed adding more fuel to the fire will in and of itself force more investors into the arms of gold and silver. The only things keeping the economy from crashing is government spending and Fed monetization. We have begun the vicious cycle of inflation again along with a falling dollar. If you really want to protect your wealth you had best be in gold and silver related assets. They are the only protection you have.

Revisiting the other side of the equation it should not be forgotten that the Fed has created out of thin air $1.75 trillion to purchase $300 billion in Treasuries and $1.45 trillion in toxic waste and Agency securities. All of that money has been monetized, fed into the system, except that held on deposit by banks at the Fed. Part of these funds and TARP funds were used to run the stock market up some 54% in six months. That has only happened six times in 100 years. It is no secret as to why the stock market rose, but at the same time unemployment rose 22.2%. The Dow is 2,000 points higher than it should be under the circumstances. This is a propaganda setting to give the illusion that all is well.

We believe that the US dollar will be officially devalued in a year to 1-1/2 years from now to be replaced with an international trading unit. That will cause another flight to quality to gold and silver.

One of our contacts in Aussieland has a close contact in Guangzhou, China, who he has known for a number of years. When our contract told his friend that the US could default on its debt and devalue a year or more from now. The friend in China said, a high level Chinese government official who attended a business meeting on December 7th said the following: 2010 inflation will kick in both in China and the US, that would make it very bad for business in China and that the Chinese currency would strengthen to 6 to the US dollar. As you can see America's problems are going to affect the entire world.

We continue to see the dollar hit lower lows. Yes, we currently are well aware of the dollar rally. Another government sponsored rally calculated to keep the rest of the world's dollar holders happy and prove the US has a strong dollar policy. If you looked at the long positions of Goldman Sachs, JPMorgan Chase and Citigroup you will find that at the end of the third quarter they were very long the dollar, short gold and silver and the shares. This is another temporary dollar rally and a temporary gold and silver take down. Next the dollar will be allowed to hit lower lows, ostensibly to increase the US trade advantage, which is laughable. It could add ½% to GDP at 71.18 and 1% at 65 on the USDX, which is not a solution for the American economy. Always left out of the reporting is that a lower dollar means higher prices for commodities and goods imported into the US and considerably more inflation. It will not encourage more foreign investment, because investors do not know how low the dollar will fall and it will not appreciably increase job opportunities. Jobs are still moving offshore to bolster 3rd world economies and to make giant untaxed profits for transnational conglomerates. Free trade, globalization, offshoring and outsourcing were created to destroy the economies of the US, Europe and Canada and that is exactly what has happened and will continue to happen, because our purchased Congress won't legislate the solution, which is tariffs on goods and services. We are well on our way to joining the third world and if you do not let Congress know you know what they are up too, then you will eventually live in a slum reminiscent of Calcutta, either that or in some US detention camp. The bottom line is a lower dollar is disastrous for the US economy. The US is being slowly strangled to death. Who wants to invest in a country that is on the edge of real trouble, plus all the environmental laws and onerous taxes? Readers, most people do not have a clue as to how bad it is.

Last week the Dow added 0.8%; the S&P was unchanged, the Russell 2000 fell 0.4% and the Nasdaq 100 was unchanged. Cyclicals rose 0.5%; transports fell 0.2%; consumers fell 0.3% and utilities rose 4%. Banks fell 1.5%; broker/dealers fell 2.5% and high-tech fell 0.6%. Semis were unchanged; Internets fell 0.3% and biotechs rose 0.1%. Gold bullion ended the week off $47.00 and the HUI fell 5.8%. The dollar rose 0.8% to 76.53.

Two-year T-bills fell 2 bps to 0.73%, the 10's rose 8 bps to 3.55% and the 10-year German bund fell 3 bps to 3.21%.

Freddie Mac's 30-year fixed rate mortgage jumped 10 bps to 4.81%; the 15's rose 5 bps to 4.32% and one-year ARMs fell 1 bps to 4.24%. the 30-year jumbos fell 17 bps to 5.82%.

Fed credit declined $19.3 billion to $2.168 trillion. That is down $78.7 billion ytd, and $73.7 billion yoy. Fed foreign holdings of treasury debt gained $12.1 billion to a record $2.944 trillion. Custody holdings for foreign central banks expanded at an 18% rate ytd, up $450 billion yoy.

M2, narrow money supply leaped $22.6 billion to a record $8.414 trillion, up 29% ytd and 4.5% yoy.

Total money market assets added $1.1 billion to $3.320 trillion. They have declined $520 billion ytd, or 14.1% annualized. They fell $457 billion, or 12.1% yoy.

A record 37.2 million people, or about one out of every eight Americans, received food stamps in September, as the recession drove a surging jobless rate, according to a government report.

Recipients of the subsidy for retail-food purchases climbed 18 percent from a year earlier, according to a statement posted today on the U.S. Department of Agriculture's Web site. Participation has set records for 10 straight months.

The government boosted food aid as unemployment soared, heading to a 26-year high of 10.2 percent in October. The jobless rate cooled to 10 percent last month, the Labor Department said on Dec. 4.

"We've been working to get that money out the door" to families that need assistance, Deputy Agriculture Secretary Kathleen Merrigan said last week in an interview.

Nevada had the biggest increase in food-stamp participation rates from a year earlier, surging 54 percent, followed by a 46.5 percent jump in Utah, according to the USDA. Texas had the most recipients at 3.1 million, followed by California with 2.9 million and New York with 2.6 million.

Recipients increased in every state and the District of Columbia, except Louisiana. Because of a sharp rise after Hurricanes Ike and Gustav in 2008, the number of people in Louisiana getting food stamps fell 65 percent in September from a year earlier. Gains of more than 30 percent from 2008 were reported in 18 states.

About 35 million people are expected to receive food stamps each month through the Supplemental Nutrition Assistance Program in the fiscal year that began Oct. 1, according to the budget that President Barack Obama sent to Congress in May.

"In this economic time, SNAP has been essential," Merrigan said. The participation rate of state residents who are eligible for food stamps varies widely, the USDA said last month in a report based on 2007 data.

In Missouri, about 100 percent who were eligible that year took advantage of the program,

the highest rate in the nation, followed by residents of Maine and Michigan, at 91 percent and 89 percent, respectively, the USDA said. Wyoming's participation rate of 47 percent was the lowest in fiscal 2007, followed by California and Idaho at 48 percent and 50 percent, according to the study.

Nationwide, participation in the food-stamp program was 66 percent of those eligible for the aid in 2007, the USDA said. The department has budgeted for a rate of 68 percent in the current 2010 fiscal year.

"We know of a lot of people who are SNAP-eligible who are not participating in the program," Merrigan said. "We are working with states to improve participation."

Colonial BancGroup Inc.'s collapse in mid-August could cost the Federal Deposit Insurance Corp. more than double the amount it originally projected.

Colonial, which was deemed the sixth largest bank failure in U.S. history after its seizure four months ago, had a current net worth of negative $5.8 billion by the end of the third quarter. That's far worse than its original estimate of $2.8 billion to its insurance fund, according to recent data released by the FDIC.

"It basically says Colonial was a lot worse off than everybody thought it to be," said Bert Ely of Alexandria, Va.-based bank consulting firm Ely & Co.

Also, the FDIC possesses more than $4.2 billion of the Montgomery-based bank's assets currently in liquidation. However, the FDIC also expects to loss more than $3.1 billion on those assets, according to a balance sheet posted by the FDIC.

Citigroup Inc. reached an accord with the Treasury Department and regulators to repay $20 billion of the bailout it received from U.S. taxpayers.

The lender will sell $20.5 billion of capital and debt, the New York-based bank said in a statement today. The bank will sell $17 billion of common stock, with an over-allotment option of $2.55 billion, and $3.5 billion of tangible equity units. The U.S. Treasury will concurrently sell as much as $5 billion of common stock it holds. The bank said it will also substitute "substantial common stock" for cash compensation.

Chief Executive Officer Vikram Pandit has pressed for an exit from the Troubled Asset Relief Program to avoid being the only large bank left on "exceptional assistance," a Treasury designation reserved for companies including American International Group Inc. and General Motors Corp. that are surviving on taxpayer aid. Bank of America Corp. exited last week after paying back $45 billion of bailout funds.

The cost of protecting investors against Dubai defaulting on its debt tumbled the most since February after Abu Dhabi pledged $10 billion to help the emirate meet its obligations.

Five-year credit-default swaps on Dubai's debt fell 115 basis points to 425.5, according to CMA DataVision prices at 11:40 a.m. in London. The Markit iTraxx SovX Western Europe index of swaps on 15 governments dropped 4.75 basis points to 62, according to JPMorgan Chase & Co.

Funds from Abu Dhabi, the capital of the United Arab Emirates and owner of the world's biggest sovereign wealth fund, will help Dubai World unit Nakheel PJSC pay investors the

$4.1 billion it owes on Islamic bonds maturing today. State-owned Dubai World roiled markets worldwide when it said Dec. 1 it was in talks with creditors to restructure $26 billion of debt.

How about this warning from the Census Department about their 'estimates': The margin of sampling error, as used on page 1, gives a range about the estimate which is a 90 percent confidence interval. If, for example, the percent change estimate is +1.2 percent and its estimated standard error is 0.9 percent, then the margin of sampling error is ±1.65 x 0.9 percent or ±1.5 percent, and the 90 percent confidence interval is –0.3 percent to +2.7 percent…

Non-sampling error encompasses all other factors that contribute to the total error of a sample survey estimate. This type of error can occur because of nonresponse, insufficient coverage of the universe of retail businesses, mistakes in the recording and coding of data, and other errors of collection, response, coverage, or processing. Although non-sampling error is not measured directly, the Census Bureau employs quality control procedures throughout the process to minimize this type of error.

We must interject once again that in a severe economic downturn numerous firms disappear, and this perverts sampling and surveying.

The U.S. Census Bureau announced today that advance estimates of U.S. retail and food services sales for November, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were $352.1 billion, an increase of 1.3 percent (±0.5%) from the previous month and 1.9 percent (±0.5%) above November 2008. Total sales for the September through November 2009 period were down 2.1 percent (±0.3%) from the same period a year ago. The September to October 2009 percent change was revised from +1.4 percent (±0.5%) to +1.1 percent (±0.2%).

http://www.census.gov/retail/marts/www/marts_current.pdf

Please note that the retail sales are seasonally adjusted for holiday and trading-day – even though every November contains the exact 30 days with 1 Thanksgiving and retailers are open every day!!!

The number of federal workers earning six-figure salaries has exploded during the recession, according to a USA TODAY analysis of federal salary data.

Federal employees making salaries of $100,000 or more jumped from 14% to 19% of civil servants during the recession's first 18 months — and that's before overtime pay and bonuses are counted.

Federal workers are enjoying an extraordinary boom time — in pay and hiring — during a recession that has cost 7.3 million jobs in the private sector.

Goldman Sachs Group Inc. played a bigger role than has been publicly disclosed

in fueling the mortgage bets that nearly felled American International Group Inc….A Wall Street Journal analysis of AIG's trades, which were on pools of mortgage debt, shows that Goldman was a key player in many of them, even the ones involving other banks.

Goldman originated or bought protection from AIG on about $33 billion of the $80 billion of

U.S. mortgage assets that AIG insured during the housing boom.

Taylor Bean was shut down by the Federal Housing Administration, citing possible mortgage fraud. According to people briefed by those winding down Taylor Bean's operations, who requested anonymity in order to preserve professional relationships, there are signs that the company sold some of its loans to more than one buyer. Lawyers representing Taylor Bean did not return phone calls seeking comment.

In any event, Ocala says mortgages worth more than half a billion dollars are missing. And the F.D.I.C. is withholding the release of mortgages worth hundreds of billions held at Colonial that Ocala investors say are theirs. The government contends that it is not clear that Bank of America — as a representative for Ocala — paid for them.

BNP and Deutsche Bank have sued Bank of America in federal court in Manhattan. Both accuse Bank of America of breaching its custodial and trustee duties to Ocala. The suits shed light not only on the complexities of the mortgage machine but on how failsafe mechanisms in these byzantine structures didn't work. But this much is clear: The mortgage machine that created so many loans amid the mania seems riddled with flaws. And until investors are satisfied that those problems have been solved, the mortgage market is likely to remain in its current depressed state.

The Rasmussen Reports daily Presidential Tracking Poll for Sunday shows that 23% of the nation's voters Strongly Approve of the way that Barack Obama is performing his role as President. Forty-two percent (42%) Strongly Disapprove giving Obama a Presidential Approval Index rating of -19.

Today is the second straight day that Obama's Approval Index rating has fallen to a new low.

Foreign ministers of the Gulf Cooperation Council (GCC) states have reached agreement on a time frame for the planned Gulf single currency, a Kuwaiti official said on Monday.

"An agreement has been reached on a time frame for the Gulf single currency," by the ministers, said Kuwaiti foreign ministry undersecretary Khaled al-Jarallah, cited by the official KUNA news agency. He provided no details.

The foreign ministers ended a meeting early Monday to prepare the agenda for the Gulf annual summit due to start later in the day, where the Gulf monetary union pact is expected to be launched.

The six-nation bloc has been vying to issue the single currency in 2010 but is way behind schedule, having failed to hammer out essential technical convergence preconditions.

In June, four of the six countries — Saudi Arabia, Kuwait, Bahrain and Qatar — signed the Gulf monetary union pact, which stipulates the establishment of a monetary council early in 2010.

The council will eventually develop into a central bank which will take all necessary procedures to issue the single currency.

Oman withdrew from the monetary union saying it cannot meet convergence prerequisites, while the United Arab Emirates pulled out after the GCC picked the Saudi capital Riyadh as

the base for the future central bank.

The Federal Reserve, which has more than doubled its balance sheet during the past 15 months to $2.19 trillion, should consider buying another $2 trillion in assets to reduce unemployment, Nobel Prize-winning economist Paul Krugman said. 'Such a program could do a lot to promote faster growth, while having hardly any downside.' Krugman wrote… He cited research by Joseph Gagnon, a former Fed staffer now at the Peterson Institute for International Economics… as 'the most specific, persuasive case I've seen for more Fed action.

Wall Street Journal (Aparajita Saha-Bubna): "As home loans sour at a rapid clip, mortgage-finance giants Fannie Mae and Freddie Mac are aggressively bouncing back defectively underwritten loans to lenders. The result: higher loan-loss reserves for the lenders and new headwinds for banks trying to escape the housing downturn. For lenders such as Wells Fargo & Co., Bank of America Corp., J.P. Morgan Chase & Co. and Citigroup Inc., which are among the largest sellers of mortgages to Fannie and Freddie, this could mean buying back souring loans at a loss… Through Sept. 30, Freddie Mac put back about $2.7 billion of single-family mortgages to lenders, more than double the $1.2 billion of a year earlier.

New budget gaps totaling $28 billion have opened in 36 U.S. states since July 1 as recession-battered tax collections declined and health-care spending increased, the National Conference of State Legislatures said. The chasm marks the second consecutive year states will be forced to change course in mid-stream, and will drive spending to decade-low levels, the conference said… 'Even if the recession is over, state budgets are in appalling conditions and are going to be that way for quite a while,' Corina Eckl, the conference's fiscal director, said…"December 9 – Bloomberg (Michael McDonald): "U.S. state government collections fell 16% to almost $1.7 trillion in fiscal 2008 from a year earlier, while spending increased 6.2%, according to the U.S. Census Bureau. The biggest drop came in so-called insurance trust revenue, which slid $377.7 billion, or 73%…"

New budget gaps totaling $28 billion have opened in 36 U.S. states since July 1 as recession-battered tax collections declined and health-care spending increased, the National Conference of State Legislatures said. The chasm marks the second consecutive year states will be forced to change course in mid-stream, and will drive spending to decade-low levels, the conference said… 'Even if the recession is over, state budgets are in appalling conditions and are going to be that way for quite a while,' Corina Eckl, the conference's fiscal director, said…"December 9 – Bloomberg (Michael McDonald): "U.S. state government collections fell 16% to almost $1.7 trillion in fiscal 2008 from a year earlier, while spending increased 6.2%, according to the U.S. Census Bureau. The biggest drop came in so-called insurance trust revenue, which slid $377.7 billion, or 73%…"

No encouraging news on the fiscal front. Third quarter Federal government Receipts were down 11.2% from a year ago to $2.212 TN SAAR. Federal Expenditures jumped 12.7% to $3.555 TN SAAR. Compared to three years ago, Receipts were down 12% while spending was up 29%. State & Local Receipts were up 0.7% from Q3 2008 to $2.002 TN. State & Local Expenditures were down 1.3% y-o-y to $2.019 TN.

The situation in California continues to deteriorate despite all the preventitive measures employed. John Chiang, State Controller, just came out with his most recent report. In that report, he went into detail as to the current status of the emergency IOUs issued.

Chiang notes that the IOUs issued between July 2 and September 4, 2009, totaled 450,000 – worth $2.6 billion. He further reports that they have STOPPED accruing interest as of September 4th, the maturity date. The interest had been a rather paltry 3.75% to begin with!

Hurt by heavy investment losses over their last fiscal years, giants CalPers (California Public Employment Retirement System) and CalSTRs (California State Teachers Retirement Systems) were affected by downgrades from Moody's, a highly recognized credit rating agency. Moody's specifically noted the lowered possibility of these funds to meet future obligations to pensioners.

The two funds together STILL hold a staggering $338 billion in assets despite losses of more than 25% in their last fiscal years. CalPers remains the single largest pension fund.

According to the LA Times, the California State University System which incorporates 23 campuses and 450,000 students, has been subject to budget cuts of more than $500 million. As a result, "Cal State" has been unable to avoid staff and faculty furloughs, steep student fee hikes and severe reduction in enrollment.

Currently, according to a variety of analysts, California faces a $21 billion deficit for the current fiscal year, ending June, 30th. Futhermore, the deficit for the subsequent two fiscal years is projected to rise to ANOTHER $44 billion!

On the plus side, the news is rather scant. In October, for example, prices of homes actually up-ticked, although being driven by the Federal tax credit for first-time buyers. In addition, the state ADDED 26,000 new jobs. So, if these sources are correct, California is firing teachers and hiring more adminstrators. Talk about the left hand not knowing what the right hand is doing! Whodda thunk it?

Meanwhile, leading Republican candidates to replace the current governor, former Ebay head Meg Whitman and Steve Poizner, have offered no solutions to the fiscal gap on their own. What's a mother to do?

As you can clearly infer, California appears to be entering some sort of "death spiral". But, fortunately this only represents 1/10th of the population of the United States!

I hope you find this essay useful and informative. I welcome comments, both pro and con. I will continue to cover California over the ensuing weeks and months as new issues surface.

A Pennsylvania staffing company gamed the US visa program by obtaining hundreds of work visas under names culled from a Mexican telephone directory and supplying the paperwork to illegal immigrants placed in landscaping and other seasonal jobs, authorities said yesterday.

"They were almost like a shadow government, because they procured all these visas, and they were the ones able to control who's getting them,'' Assistant US Attorney Kevin R. Brenner said.

International Personnel Resources Inc. had dozens of clients, many of them landscapers, builders, and golf courses in the mid-Atlantic. In some cases, undocumented workers were sent home and given stockpiled visas to reenter the country and return to their jobs, authorities said. International Personnel would coach them to tell immigration officials they

had never been in the country illegally, according to the 11-count federal information.

The workers came from Mexico and Central and South America. International Personnel kept a Mexican phone book at its office in West Chester and used it to choose names for visa applications, prosecutors said. It accumulated hundreds of the visas from 2003 to 2008, the government said.

H-2B visas are designed for firms that cannot find Americans willing to work as seasonal laborers. Given the nation's cap on H-2B visas, the scheme left fewer available for companies trying to bring in workers lawfully, prosecutors said.

The International Council of Shopping Centers and Goldman Sachs Retail Chain Store Sales Index rose 0.4% in the week ended Saturday from its level a week before on a seasonally adjusted, comparable-store basis.

On a year-on-year basis, the reading rose 2.4%.

The jump came as consumers started to make their final shopping push for the 2009 holiday season, and Hanukkah came earlier this year than last.

"But with consumers still behind last year's holiday-gift buying completion rate, the industry is poised to have a bigger last-minute surge in holiday-gift buying this year," said ICSC chief economist Michael Niemira.

Meanwhile, the group still expects December same-store sales to rise about 2% from last year. That follows an unexpectedly weak November.

The International Air Transport Association, or IATA, Tuesday said it expects the global aviation industry to make a $5.6 billion net loss in 2010, wider than its previous forecast for a $3.8 billion loss, because of low yields and rising costs.

"The world's airlines will lose $11.0 billion in 2009. We are ending an Annus Horribilis that brings to a close the 10 challenging years of an aviation Decennis Horribilis. Between 2000 and 2009, airlines lost $49.1 billion, which is an average of $5.0 billion per year," Giovanni Bisignani, IATA's director general and chief executive, said.

However, he said the worst was now behind the aviation industry.

"Demand will likely continue to improve and airlines are expected to drive down non-fuel unit costs by 1.3%. But fuel costs are rising and yields are a continuing disaster," Bisignani added.

IATA, which represents some 230 airlines comprising 93% of scheduled international air traffic, said it expects revenue in 2010 to rise by $22 billion to $478 billion compared with 2009 levels, but added that's still lower the $535 billion peak seen in 2008 and still $30 billion below 2007 levels.

The federal government continued to wind down its bailout of the nation's biggest banks on Monday, reaching an agreement to eliminate its stakes in Citigroup and Wells Fargo.

The willingness of banking regulators to strike a deal with the two firms — both of which continue to face serious problems — underscored the eagerness of both sides to end an

extraordinary period of federal support for the financial industry. Banks have chafed at some of the conditions placed on the federal rescue money, such as limits on executive pay, while the administration has been criticized for using taxpayer funds to bail out Wall Street.

All nine of the major banks that took bailout funds in October 2008 have repaid their federal loans.

Citigroup's departure will come in two phases. First, the company will raise money from investors to repay $20 billion in government loans as soon as possible. Then the Treasury Department plans to sell the shares it holds in Citigroup, which it bought for $25 billion, in chunks over the next year.

The government required Citigroup to replace its federal aid dollar for dollar with money from private investors, a much tougher condition than was imposed on other banks, to ensure that the company has enough money in reserve to weather its problems, a government official said.

Even so, Citigroup's ability to reach an agreement on any terms came much earlier than financial analysts had expected, and amounts to a significant triumph for chief executive Vikram Pandit, who had pushed hard to close a deal by the end of the year. Beginning in 2010, Citigroup no longer will be subject to special federal supervision, including limits on compensation for top executives.

"We owe the American taxpayers a debt of gratitude," Pandit said in a statement Monday, "and recognize our obligation to support the economic recovery through lending and assistance to homeowners and other borrowers in need."

Just hours after that announcement, Wells Fargo stated it would repay its $25 billion in federal aid partly by raising $10.4 billion in a stock offering. Executives stressed that the company has delivered $1.4 billion worth of dividends to the government.

Wells Fargo has been one of the most vocal critics of the Troubled Assets Relief Program. In March, Wells Fargo Chairman Dick Kovacevich accused regulators of forcing the company to take federal aid and called their approach to rescuing the financial system "asinine." On Monday, Wells Fargo executives were much more cordial.

"TARP stabilized our country's financial system when confidence in financial markets around the world was being tested unlike any other period in our history," chief executive John Stumpf said. "Now we're ready to fully repay TARP in a way that serves the interests of the U.S. taxpayer."

The moves will put pressure on the large regional banks, such as Sun Trust and PNC Bank, to repay their TARP funds, analysts said.

Slightly more than a year has passed since the Bush administration began the unprecedented program to shore up the banking industry through direct aid. At the time, those investments were expected to last three or more years. But Treasury Secretary Timothy F. Geithner said Monday that 75 percent of the money has been repaid with a "healthy profit."

The government, however, may see major losses on its injections into American International Group, General Motors, Chrysler, and their finance companies.

“The United States never intended to be a long-term shareholder in private companies,” Treasury said in a statement. “As banks replace Treasury investments with private capital, confidence in the financial system increases, government’s unprecedented involvement in the private sector diminishes, and taxpayers are made whole.”

The timing of the deals derives in part from the rhythms of the capital markets, which begin to shut down for the winter holidays in mid-December. Citigroup needed to reach a deal with the government now to be sure it could sell the necessary shares by the end of the year. And Wells Fargo faced enormous pressure once Citigroup’s deal was announced.

Treasury said Monday that it would sell its stake in Citigroup in 2010, beginning with the sale of about $5 billion in common shares.

Citigroup got more than $45 billion in federal aid in October and November last year. Treasury later reached an agreement with the company to accept $25 billion in stock in lieu of repayment of some of that aid, leaving Citigroup $20 billion in the government’s debt.

Citigroup also will end a deal under which the government agreed to limit the company’s losses on a portfolio now containing about $250 billion in troubled assets, largely real estate and credit card loans, and investments derived from those loans.

The company also agreed to pay bonuses to executives this year with $1.7 billion in stock rather than cash, tying ultimate compensation to the company’s performance over time.

Wells Fargo said it will raise an additional $1.35 billion by issuing stock to the company’s benefit plans in place of compensation that was supposed to be paid to employees. After the repayment, Treasury will still hold warrants, a contract that gives the government the option to purchase about 110 million shares of the bank’s stock at $34.01 per share. [As we forecast just two weeks ago; we said TARP money would be pulled in to be removed from the system. In the meantime the Treasury said they wanted part of it in the form of Fed buying Treasury paper and the administration wants the rest for stimulus. If that holds forth there will be lots of inflation in 2010. Bob]

Wholesale prices in the U.S. increased more than anticipated in November, led by a jump in fuel costs and a rebound in truck prices.

The 1.8 percent increase in prices paid to factories, farmers and other producers was more than twice as large as anticipated and followed a 0.3 percent gain in October, according to Labor Department data released today in Washington. Excluding food and fuel, so-called core prices also exceeded the median estimate of economists surveyed by Bloomberg News.

Near-record excess capacity and a jobless rate that is projected to average 10 percent in 2010 may prevent suppliers from passing on a rebound in commodity costs even as the economy recovers. Federal Reserve policy makers, meeting this week, have said they expect inflation to remain “subdued” in coming months, allowing them to keep interest rates low.

Factories in the New York region unexpectedly expanded at the slowest pace in five months in December, indicating manufacturing may provide less of a thrust for the economy in coming months.

The Federal Reserve Bank of New York’s general economic index fell to 2.6 from 23.5 in

November, the bank said today. Readings above zero signal manufacturing expansion in the state and parts of New Jersey and Connecticut. In October, the index jumped to 34.6, the highest since May 2004.

Measures of orders, sales and employment all declined during the month.

One in five people who took out federal student loans to attend for-profit colleges defaulted within three years of leaving school, according to U.S. government data released today.

The report issued by the Education Department provides a preview of how colleges may fare under a 2008 law that will require default rates to be calculated over three years, instead of the current two, starting in 2012.

“We’re hopeful that by providing this three-year information, schools will take a look and see where they are and see some of the things that they’ll need to do,” Dan Madzelan, the department’s acting assistant secretary for postsecondary education, said today in an interview.

Starting in 2014, schools that have had three-year default rates of at least 30 percent for three consecutive years, or 40 percent in any one year, would lose federal funds under the new law, Madzelan said.

U.S. industrial output rose firmly in November as the manufacturing sector extended a recovery that economists hope will help turn around the ailing labor market.

Production climbed 0.8 percent, the Federal Reserve said on Tuesday, well above forecasts for a 0.5 percent gain. The strides were powered in part by the automotive sector, and came despite a sharp drop in utility output.

Capacity utilization, the amount of the nation’s industrial capacity being put to use, rose to 71.3 percent in November from a revised 70.6 in October, its highest level since last December but still well below the long-range average.

The October production figure was revised to no change from an 0.1 percent gain.

If there is one thing we can be sure of as we approach the end of the 2009, it is that government bonds, having hugely outperformed equities over the past 10 years, most definitely won’t be doing the same again over the next 10. The reason we can be so confident is that though capricious and volatile on a short-term basis, asset classes tend to conform to fairly predictable cyclical patterns over much longer time frames.

An extended period of out-performance for one asset class over another will eventually and inevitably be wholly reversed. The difficult bit is spotting the turn. It is easy with the benefit of the rear-view mirror to see why things change, but much harder to see them on the road ahead. Even so, you don’t need an expert on the history of asset markets to realize that the current, 15-year bull run in government bonds is nearing its conclusion. Indeed, for many countries it has already ended.

The Federal Deposit Insurance Corp. on Tuesday agreed to nearly double the amount of capital in its 2010 budget used to deal with bank failures and plans to add more than 1,600 staffers. The agency released a $4 billion operating budget, of which $2.5 billion has been set aside to fund the takeover of failed banks. The 2009 operating budget was $2.6 billion.

"It will ensure that we are prepared to handle an even larger number of bank failures next year, if that becomes necessary, and to provide regulatory oversight for an even larger number of troubled institutions," FDIC Chairman Sheila Bair said in a statement. The additional staff members will be needed to help the agency unwind failed banks. Many of the new staffers are expected to be added permanently at a later date.

The US saw a net capital outflow of $13.9 billion in October after inflows of $127.6 billion in September.

US homebuilder sentiment unexpectedly fell in December. The NAHB/Wells Fargo Housing market Index fell to 16 from 17 in November.

CapitalOne said annualized net charge-rates for uncollectible debt for credit cards rose to 9.60% in November from 9.04% in October.

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.

The original source of this article is International Forecaster
Copyright © Bob Chapman, International Forecaster, 2009

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Bob Chapman**

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca