The U.S. Economy is Falling. Towards another Credit Collapse?

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The Fed says US unemployment is likely to stay high for a long time, and that justifies zero interest rates indefinitely.

The June Chicago Purchasing Managers Index was 59.1 vs. 59.7 in May. The employment component rose to 54.2 from 49.2 in May. New orders fell to 59.1 from 62.7.

Homebuilder Lennar is cutting new home prices 15% as new orders fell 10%. KB Builders said new orders fell 23%, as new home sales fell 32%.

The MBA Purchasing Applications Index fell another 3.8% week-on-week and was 36% lower year-on-year.

The housing market is in serious freefall with builders scheduled to increase units by 535,000 this year. As sales fall so will big bank balance sheets. That means we are facing another credit collapse.

The US stock market seems to have a case on indigestion. The Dow continues to struggle just above 10,000 and is getting ready for another test of recent lows, which we believe could very well be broken. Markets worldwide share the downward pressure. We predicted a lower Chinese market in September and it has since fallen 23%, as China prepares for the bursting of their recent real estate bubble caused by the injection of $1.8 trillion into the economy. It could be that debt restructuring could be needed by the five PIIGS of the euro zone. The elitists are talking in terms of five years when that problem may have to be faced over the next six months to a year. There is the call for great fiscal centralization and the final death of sovereignty. Europe did not do well for ten years; they just hid their problems, much as other nations have. The euro has proven to be another unnatural creation engineered to bring about a world currency.

As sovereign debt problems rage across the world financial scene, the prices of stocks and commodities are fading and bonds could be topping out. Who would be willing to accept a yield of slightly under 3% for a US Treasury note? In addition, commodity currencies are under pressure. The dollar remains relatively firm after having fallen to 85.42 on the USDX from a recent high of 89. In that process the dollar cold be completing a head and shoulders, which could in time portend a much lower dollar. There are certainly lots of uncertainties out there, as volume increases each time the market falls, a sign that the natural direction is downward. AAA companies have done well in the recent past in part due to plenty of cheap money. In the second half of the year their earnings should begin to fade as GDP falls into the minus column. That fall can be stopped if more stimulus is added or if the Fed injects $2 trillion more into the economy.

The unemployed won't get extended benefits, but the bankers and Wall Street got most of what they wanted in the financial reform package. That includes making the Fed, which is privately owned, into a tyrannical, financial monopoly. The unemployed don't contribute to campaigns, Wall Street and banking does. The reality is special interest money controls our House and Senate, and that is why incumbents have to be kicked out of office in November.

The $8,000 real estate stimulus is gone and sales are falling in spite of 30-year fixed rate loans at 4.69%. Inventory and shadow inventory grows with each passing day. It should be noted that Fannie, Freddie, Ginnie and FHA are buying and guaranteeing 95% of mortgages, a good part of which are subprime. The $860 billion stimulus looked good and sounded good, but in part it was neutralized by cutbacks in state spending. It simply wasn't strong enough to overcome underlying negative factors. That left the Fed with the job of keeping the recovery going. Even spending more than $2 trillion couldn't ignite a permanent stage of growth. Worse yet, the refusal of the Senate to extend unemployment benefits will put 1.3 million Americans in a dire situation. It's food stamps and nothing else. Americans for years have been just weeks from being broke. Now many of then are broke. Finding a place under a bridge is going to become more difficult.

GDP for the first quarter was 2.7%. That is half of the 5.6% posted in the 4th quarter and 1.7% of that 2.7% gain was due to stimulus. Final sales were 0.8% of that 1%. YOY real final sales grew only 1.2%, making this the weakest recovery in 100 years. The foundations of the economy are trembling. The 2nd quarter's official GDP growth should be ½% to 1-1/2%, the 3rd quarter could be even and the 4th quarter zero to minus 2%. The Congress and Senate probably won't approve more stimuli, so the Fed now has the entire job of keeping the economy in 2011 from collapsing. If the G-20 meeting told us anything it's that it is now every man for himself. Europe is at least for now not cooperating with the US. In Europe it's austerity and bailouts along with higher taxes. That will bring on depression and bankruptcy. In the US it's the Fed injecting money and credit and higher taxes that will bring on higher inflation and then collapse and that won't work either.

The US should cut taxes and have government cut costs 30%. Yes, we know unemployment will rise, but it is going to rise anyway. This would cause a much slower slide into depression, which would be far more manageable. That may be small consolation, but it beats plunging. Under classical economics the system has to be purged and so it will be. The trick is to make it as palatable and less damaging as possible. We have to laugh watching the "experts waving their magic wands and blaming the austere Europeans for the wavering in the US economy. Most of these pundits are legends only in their own minds. What is absent is dissenting opinion and that is the way it will always be until GE goes under and with it CNBC. Then we can return to the framework of FNN and get objective reporting instead of an elitist controlled cheering section. Some of the players are now doing ads for the Council on Foreign relations. The experts and CNBC are all well aware of what the message is and that is propaganda. All are nothing but word merchants. This attempt at recovery was vastly different than a normal manufacturing recovery. It is a financial recovery. Incidentally, if you didn't notice we have hardly any manufacturing left. That became the victim of free trade, globalization, offshoring and outsourcing. That has caused us the loss of 8 million jobs and has allowed transnational conglomerates to hide $1.4 trillion in profits offshore depriving America of taxing those slave labor profits, which aggregate about $500 billion. Remember readers that this exercise is to enrich these companies and the financial sector and to keep Illuminist companies solvent. The economy is rolling over and even the public realizes it. Consumer confidence figures just fell from 62 to 52, so that should tell you something. The FOMC is running in circles not knowing what new trick to pull out of the hat. We have just experienced almost three years of de-leveraging and the problem is yet to be solved. All the Fed has done is give companies money to keep them solvent. The problem is still there and the economy is more fragile than before. CNBC parades their guru's across the stage telling us how everything will be all right. Last Wednesday they had on Jon Corzine, former CEO of Goldman Sachs, who as governor of New Jersey left the state in a shambles, after being ejected from office due to his involvement with unions and disgusting personal affairs. These are the kind of people the elitists want us to listen to and follow. The stock market is finally figuring out what is going on and is heading down with giant justification. The corporate earnings will fall and economic activity will slow dramatically.

It wasn't long ago we saw the US 10-year T-note at 4%. It was then apparent to professionals that the market was in trouble and that funds would be escaping into bonds and gold. That is what has happened. We do not find this a reason to buy dollar denominated bonds. We expect the dollar to fall in value against other currencies and gold. For those who follow technical patterns the dollar USDX chart is in a massive head and shoulders, which will prevail to the downside in the intermediate future.

May saw $1 trillion in the value of stocks wiped out in minutes. The market action has been so volatile over the last 1-1/2 years that once the market rallied back the public began to leave. Millions began an exodus that has since been filled by black box trading and government's blatant intervention. As we write the S&P and Dow are in the process of breakdown, which should soon carry them lower. During May we saw the largest outflow in 18 months. Who can blame them shares have lost 55% of their value in 22 months despite the bear market rally of the past year. We are sure the game that was being played by Wall Street and banking, which on May 8th, plunged the market almost 1,000 Dow points in a half hour, had to have terrified investors. $1 trillion was lost in 30 minutes and regulators are still "investigating." We spent 28 years on Wall Street; they knew within 5 minutes what was going on.

Another factor pulling the market lower is not only lower GDP and earnings, but also the specter of higher taxes in 2011, particularly an increase of 5% in long term capital gains taxes from 15% to 20%. It is insanity the Democrats want to go ahead with the increases.

Weakness is becoming more apparent in the US economy. Retail sales fell 1.2% in May. Business conditions in NYC from ISM fell to 69.3 from 89.9 in May, the largest one-month decline on record. The six-month outlook fell to 69.6 from 84.2. NYC debt and deficit are very high as are those of many cities and states.

As the market falls the opportunities for capital gains disappear and with them the chance for business investment. Business is in fear and are not hiring. Why should they as productivity increases 3% to 6%. Besides getting money from banks is very difficult if not impossible. The lenders and financial institutions have been bailed out, but the citizen hasn't been. If Main Street doesn't prosper neither can Wall Street.

On the exterior we see the BP false flag operation and all the negativity it engenders. Hundreds of thousands have lost their jobs and businesses. State, County and cities are broke. After doing little or nothing about the BP episode the President pushes hard for carbon taxes and Cap & Trade. We have the pending passage of financial reform, which makes the Federal Reserve a financial dictatorship. A planned unnecessary war that will

engulf the whole world is about to begin in the Middle East. Unless the Fed soon re-liquefies the economy it will collapse into deflationary depression.
We need not tell you about US residential and commercial real estate, which is still falling.

Unemployment increases relentlessly. These warning signs cannot be missed, they are all around you. Do not be fooled by smoke and mirrors, stick with reality.

The federal debt will represent 62% of the nation's economy by the end of this year, the highest percentage since just after World War II, according to a long-term budget outlook released today by the non-partisan Congressional Budget Office.

Republicans, who have been talking a lot about the debt in recent months, pounced on the report. "The driver of this debt is spending," said New Hampshire Sen. Judd Gregg, the top Republican on the Senate Budget Committee. "Our existing debt will be worsened by the president's new health care entitlement programs…as well as an explosion in existing health care and retirement entitlement spending as the Baby Boomers retire."
At the end of 2008, the debt equaled about 40% of the nation's annual economic output, according to the CBO.

The report comes as the National Commission on Fiscal Responsibility and Reform meets today. The group, created by President Obama, is expected to issue recommendations in December to curb the debt – a point Democrats raised today.

The CBO report "reinforces the importance of the work being done right now by the president's fiscal commission," said Sen. Kent Conrad, D-N.D., who chairs the Senate Budget Committee. "We simply cannot allow the federal debt to explode as envisioned under CBO's projections. The economic security of the country and the quality of life for our children and grandchildren are at stake."

Thirty minutes after the NYSE open the Confidence Board reported that US consumer confidence plunged to 52.9 in June from May's 62.7; 62.5 was expected. But that's not the entire story. May consumer confidence was revised lower, to 62.7 from 63.3. So the June decline is dramatic.

The magnitude of the confidence decline shocked investors and traders on Tuesday. Hopefully the Confidence Board didn't miscalculate previous US consumer confidence like they did with China.
Consumers' short-term outlook, which had improved significantly last month, turned more pessimistic in June. Those anticipating an improvement in business conditions over the next six months decreased to 17.2 percent from 22.8 percent, while those expecting conditions will worsen rose to 14.9 percent from 11.9 percent.

Today's ADP Report does not include the effects of federal hiring for the 2010 Census. Hiring for the census may have peaked in May. For this reason,

Friday's figure for the change in nonfarm total employment reported by the BLS might be weaker than today's estimate for nonfarm private employment in the ADP Report.

If final demand is lacking, the inventory buildup that accounted for 69% of Q1 GDP will drag the economy lower in Q2 and perhaps Q3.

The NY Time's Gretchen Morgenson and Louise Story: Unknown outside of a few Wall Street legal departments, the A.I.G. waiver was released last month by the House Committee on Oversight and Government Reform amid 250,000 pages of largely undisclosed documents…

The documents also indicate that regulators ignored recommendations from their own advisers to force the banks to accept losses on their A.I.G. deals and instead paid the banks in full for the contracts.
On Nov. 6, 2008 after a New York Fed official spoke with Lloyd C. Blankfein, Goldman's chief executive, about the Fed's A.I.G. plans, the official noted in an e-mail message to Mr. Blankfein that he appreciated the Wall Street titan's patience. "Thanks for understanding," the regulator said.

For its part, the Treasury appeared to be opposed to any options that did not involve making the banks whole on their A.I.G. contracts. At Treasury, a former Goldman executive, Dan H. Jester, was the agency's point man on the A.I.G. bailout. Mr. Jester had worked at Goldman with Henry M. Paulson Jr., the Treasury secretary during the A.I.G. bailout.
Mr. Jester, according to several people with knowledge of his financial holdings, still owned Goldman stock while overseeing Treasury's response to the A.I.G. crisis. According to the documents, Mr. Jester opposed bailout structures that required the banks to return cash to A.I.G.

In the end, the Fed successfully kept most of the details about its negotiations with banks confidential for more than a year, despite opposition from the media and Congress.
But two people with direct knowledge of the negotiations between A.I.G. and the banks, who requested anonymity because the talks were confidential, said the legal waiver was not a routine matter — and that federal regulators forced the insurer to accept it.

Unless A.I.G. can prove it signed the legal waiver under duress, it cannot sue to recover claims it paid on $62 billion of about $76 billion of mortgage securities that it insured. It was not until a Congressional committee issued a subpoena in January that the New York Fed finally turned over more comprehensive records. The bulk remained private until May, when some committee staff members put them online, saying they lacked the resources to review them all.

http://www.nytimes.com/2010/06/30/business/30aig.html?th&emc=th

U.S. private-sector firms created 13,000 more jobs in June, according to the ADP employment report released Wednesday. Job growth was "disappointingly weak," said Joel Prakken, chairman of Macroeconomic Advisers, which produces the report from anonymous payroll data supplied by ADP. Private-sector job growth was revised higher in May to 57,000 from 55,000 earlier. Economists are expecting nonfarm payrolls to fall by 130,000 when the government reports its estimates on Friday, including the loss of some 250,000 temporary workers at the Census Bureau. Private-sector employment has increased five months in a row.

Homebuyers would get an extra three months to complete their purchases and qualify for a generous tax credit under a bill overwhelmingly passed by the House yesterday.

Under current law, buyers who signed purchase agreements by April 30 have until today to close on the sale to qualify for tax credits of up to $8,000. The bill would give buyers until Sept. 30 to complete their purchases.
The extended deadline only applies to people who signed purchase agreements by April 30.

The National Association of Realtors estimates that about 180,000 home buyers who already signed purchase agreements are likely to miss today's deadline.

"We owe this to the people who have essentially followed the rules who are caught by a closing date,'' said Representative Sander Levin, Democrat of Michigan and chairman of the House Ways and Means Committee.

The bill passed 409 to 5. It now goes to the Senate, where majority leader Harry Reid, Democrat of Nevada, has sponsored a similar measure.

The popular tax credit has helped to stabilize the nation's slumping housing market.

We are now at the point where one can only sit back and cackle as the insanity unravels. The president earlier agreed with his supervisor that the Economy is doing swell on a day when the market posted the 5th highest TRIN rating in history, the ECB is saying all is well even as Europe is about to implode, and now, S&P has just announced it has put Moody's on credit watch negative, the reason: "We believe there may be added risk to U.S.-based credit rating agency Moody's business profile following recent U.S. legislation that may lower margins and increase litigation related costs for credit rating agencies." Just so you understand what is going on here – S&P: a credit rating agency, is downgrading Moody's, a credit rating agency, on concerns financial regulations will impair credit rating agencies. Well, if "suiciding" your chief competitor is the best way to approach this situation, whatever works… Next week, Moody's downgrades S&P, followed by another downgrade of Moody's by S&P, until both companies bankrupt each other with a mutual D rating.

The latest IMF Currency Composition of Official Foreign Exchange Reserves report was just released. In the quarter ending March 31, the biggest relative drop occurred in central bank holdings of Dollars, declining as a percentage of total reserves from 62.2% in Q4 2009 to 61.5% in Q1 2010. This is the lowest ever relative holding of US Dollars by foreign banks. Oddly enough, the euro was not the biggest beneficiary of this loss of confidence in the dollar (it also declined on a relative basis by 0.1% as a % of total holdings to 72.2% in Q1), but the "Other" currency category. We assume that the Chinese Yuan is the dominant currency in this particular basket. Other reserves increased from 3.1% of total to 3.7% in just one quarter. Central banks are starting to rotate holdings out of Dollars (and after this quarter, certainly out of euros) and into non-traditional, non-developed currencies. Are China and Russia slowly becoming reserves?

Crunchtime for mutual funds has arrived. On one hand they are getting slammed with the S&P now almost -8% YTD causing a collapse in the funds' own equity values. On the other hand, investors have now withdrawn $30 billion in cash, forcing a feedback loop where selling begets selling, and even more redemptions. Ah, the beauty of a Keynesian system falling apart. And let's not forget that fund cash levels are at all near record lows to begin with. If the market slide can not be contained, and if consumers who already have zero faith in the market retrench even more, it could be the beginning of the end for the fund industry. More relevantly, ICI has just reported $1,248 million in outflows from domestic equity mutual funds: this is the eighth sequential week of outflows since the Flash Crash, and a period during which $32 billion has been redeemed.

Stephen Friedman, a former Goldman chairman who was then head of the audit committee of its board of directors. Goldman's stock was down 65 percent from its 52-week high during an accelerating global financial breakdown.

Friedman, 72, who is still a Goldman director, bought 37,300 shares at an average of $80.78 each on Dec. 17. Five weeks later, he picked up 15,300 more at an average of $66.61. By yesterday, the stock had doubled to $133.76, giving Friedman a paper profit of $3 million.

Now, the U.S. House Oversight and Government Reform Committee is investigating Friedman's stock purchases. It wants to know why he was permitted to buy stock in a bank he was regulating as chairman of the New York Fed.

Friedman held both that post and his Goldman board seat when the firm became a bank holding company in September 2008. The Federal Reserve Act forbids an official at the New York Fed in his position from also being a director of a bank or buying its stock.

The same bankers who sold Massachusetts interest-rate swaps that blew up the debt financing for the so-called Big Dig road and tunnel project in Boston costing taxpayers $100 million are getting even more money to fix what they broke.

UBS AG bankers showed up at the Massachusetts Turnpike Authority in 2001 with a solution to a growing deficit at the state agency overseeing the $15 billion project. The bank gave the authority $29.1 million for an interest-rate swap linked to $800 million of Big Dig bonds, an agreement meant to cut the cost of paying back the debt and cover part of the budget shortfall. JPMorgan Chase & Co. and Lehman Brothers Holdings Inc. made similar deals.

The deal with UBS backfired as credit markets faltered two years ago, costing toll payers $36.3 million in extra interest and leading the Zurich-based bank to demand as much as $400 million to end the arrangement when the Big Dig bonds' insurer lost its top credit ratings.

"There was really no mention of any downside of these swaps," said Christy Mihos, a turnpike board member from 1999 to 2004 who voted for the UBS agreement. "It was portrayed as a no-brainer that we could not lose."

Unemployment is likely to stay high for a long time, two Federal Reserve officials said on Wednesday, suggesting the U.S. central bank is in no rush to raise its ultra-low interest-rate policy.
The dovish comments, from Chicago Federal Reserve President Charles Evans and Federal Reserve Governor Elizabeth Duke, came two days before a government report expected to show that U.S. non-farm payrolls fell in June. If that occurs, June will mark the first decline in monthly non-farm payrolls this year.

The Chicago Fed's Evans said the economic recovery is "definitely on," with growth expected at 3.5 percent this year.

But inflation is dropping, and he expects it to run below his guideline of 2 percent for the next three years or more.

Meanwhile, unemployment is at 9.7 percent, "and it's going to be a number of years before it's going to get down to any type of rate that we might almost say is acceptable," he said in a rare 30-minute live interview on CNBC.

Taken together, low inflation and high unemployment mean that the Fed's current accommodative monetary policy is still needed, he said.

The Fed cut interest rates to near zero in December 2008 to help reverse the worst economic downturn in decades, and pumped more than $1 trillion into the financial system with purchases of mortgage-backed assets. Last week, it reiterated a vow to keep interest rates low for “an extended period.”

Just before sunset on April 10, 2006, a DC-9 jet landed at the international airport in the port city of Ciudad del Carmen, 500 miles east of Mexico City. As soldiers on the ground approached the plane, the crew tried to shoo them away, saying there was a dangerous oil leak. So the troops grew suspicious and searched the jet.

They found 128 black suitcases, packed with 5.7 tons of cocaine, valued at $100 million. The stash was supposed to have been delivered from Caracas to drug traffickers in Toluca, near Mexico City, Mexican prosecutors later found. Law enforcement officials also discovered something else.

The smugglers had bought the DC-9 with laundered funds they transferred through two of the biggest banks in the U.S.: Wachovia Corp. and Bank of America Corp., Bloomberg Markets magazine reports in its August 2010 issue.
This was no isolated incident. Wachovia, it turns out, had made a habit of helping move money for Mexican drug smugglers. Wells Fargo & Co., which bought Wachovia in 2008, has admitted in court that its unit failed to monitor and report suspected money laundering by narcotics traffickers — including the cash used to buy four planes that shipped a total of 22 tons of cocaine.

The admission came in an agreement that Charlotte, North Carolina-based Wachovia struck with federal prosecutors in March, and it sheds light on the largely undocumented role of U.S. banks in contributing to the violent drug trade that has convulsed Mexico for the past four years.

Refinancing drove total U.S. mortgage applications to an eight-month peak, as loan rates fell to or near record lows, but demand to buy homes sank toward 13-year lows last week, the Mortgage Bankers Association said on Wednesday.

The U.S. housing market continued to deflate after a spring sales spree, fueled by now-expired federal tax credits of up to $8,000, robbed from summer home buying.

The upside is now limited by unemployment stuck near 10 percent, heavy foreclosure supply and pent-up selling from owners just waiting for the right time to put their homes back on the market.
Mortgage refinancing requests jumped 12.6 percent in the week ended June 25 to the highest level since May 2009, as average 30-year mortgage rates slid 0.08 percentage point to 4.67 percent, the industry group said.

In its just released Long-Term Budget Outlook, the CBO has come out with the most dire warnings on the US projected debt to date. In summary, the healthcare spending and the Social Security will consume an increasing portion of the budget and will push the national debt up sharply unless lawmakers act, CBO Director Douglas Elmendorf warned. “CBO projects, the aging of the population and the rising cost of health care will cause spending on the major mandatory health care programs and Social Security to grow from roughly 10 percent of GDP today to about 16 percent of GDP 25 years from now if current laws are not changed.” While this does not sound too dramatic, the way it is attained is with the following ludicrous assumptions (which Paul Krugman would certainly call perfectly normal): “government spending on everything other than the major mandatory health care programs, Social Security, and interest on federal debt—activities such as national defense and a wide variety of domestic programs—would decline to the lowest percentage of GDP since before World War II.” Good luck with that. In the more realistic, alternative fiscal scenario, the CBO observes that “with significantly lower revenues and higher outlays, debt would reach 87 percent of GDP by 2020, CBO projects. After that, the growing imbalance between revenues and non-interest spending, combined with spiraling interest payments, would swiftly push debt to unsustainable levels. Debt as a share of GDP would exceed its historical peak of 109 percent by 2025 and would reach 185 percent in 2035.” The CBO’s conclusion is a nightmare to each and every hard-core Keynesian fundamentalist (you know who you are): “the sooner that long-term changes to spending and revenues are agreed on, and the sooner they are carried out once the economic weakness ends, the smaller will be the damage to the economy from growing federal debt. Earlier action would require more sacrifices by earlier generations to benefit future generations, but it would also permit smaller or more gradual changes and would give people more time to adjust to them.”

A month ago, Sarkozy was disturbed that Merkel had dared to take the initiative over him and to ban naked CDS trading. Being a stubborn reactionary, this action only prolonged his inevitable decision to do the same (because politicians, being the wise Ph.D’s they are, realize fully all the nuances of screwing around with the financial ecosystem). However, looking at this week’s DTCC data, we have a feeling he may accelerate his decision to join the CDS-ban team. With a total of 456 million in net notional de-risking, France was the top entity in which protection was sought in the past week. In a very quiet week, where the 5th most active name did not even make it past the $100 mm threshold, France was more than double the number two sovereign – Mexico (we are unclear if this is some sort of contrarian move to the Yuan, which Goldman was pitching as MXN positive, which means traders likely hedged by loading up on Mexican CDS). But what is probably most notable, is the sudden and dramatic appearance of China in the top 3rd position. Welcome China! And after tonight’s surprise PMI miss and the resulting market drubbing, we are confident within a week or two, China will promptly become a mainstay of the top 3, and will quickly rise to the top position, where it rightfully belongs. We are also confident those perennial Eastern European underdogs, Romania and Bulgaria will shyly make an entrance in the top 10 next week.

Some interesting action was also seen on the re-risking end, where Italy saw a whopping $1 billion+ in bearish positions get unwound. This is probably the single biggest weekly sovereign re-risking we have seen in months. Nonetheless, without any concrete news out of the boot, we assume this is merely profit taking after numerous week of consistent de-risking. Greece, which nobody cares about, continues to see re-risking, which however in light of this week’s new record widened in 5 Year CDS, was somewhat unexpected.

Not shown on the table, but certainly in need of noting, was our very own state of California, which with 377 million in net de-risking, was the 3rd most shorted entity of all. Is the last bastion of “all is well” propaganda about to fall?

In 2004, Bagdikian’s revised and expanded book, The New Media Monopoly, shows that only 5 huge corporations — Time Warner, Disney, Murdoch’s News Corporation, Bertelsmann of Germany, and Viacom (formerly CBS) — now control most of the media industry in the U.S. General Electric’s NBC is a close sixth.

The number of people filing first-time claims for unemployment benefits jumped by 13,000 in the latest week to 472,000, the Labor Department reported Thursday. Economists surveyed by MarketWatch had expected initial claims to fall to 455,000. The four-week average of initial claims — a better gauge of employment trends than the volatile weekly number – rose by 3,250 to 466,500, the highest level since early March.

> "With NY State budget woes garnering headlines, some interesting municipal data arrived from New York City yesterday: ISM Business New York City Conditions Index figures for June showed a nasty decline to 69.3 from 89.9 in May, the largest one month decline on record, with the Six Month Outlook index declining to 69.6 from 84.2 (note that May's figures were unusually strong, in large part accounting for this distortion). The employment index rose for the month while working capital data improved. Last night the NY City Council passed a $63.1B budget including $8.92 of bond issuance and significant capital spending cuts. Debt Services for fiscal 2011 are projected at $5.35B and rising to $6.59 by 2014 with a projected deficit of $5.34B in that year. NYC is the largest individual city municipal issue in the US, and, as the going gets tougher there it reflects the looming national municipal debt issues on the horizon."

As if one needed additional fears about the Chinese bubble popping, with overnight reports that various Chinese provinces are rising minimum wages to quell social unrest, following last night's surprising decline in the China PMI. Here comes CEBM with a very scary outlook on China trade in general, and exports in particular. Well, if nothing else it will sure help the US push its world's worst trade deficit a little higher now that it will have much less to import. From the report: "Our CEBM China export leading indicator has already peaked, indicating that China's exports are likely to peak soon. Our export model suggests that China's exports may decelerate from 3Q due to weakening domestic and foreign demand." And here are some bad news for Obama's plan to double US exports in the next 5 years: "As the government has unofficially adopted normalization strategy away from the stimulus we are likely to see property, infrastructure, and manufacturing investments lose steam in the second half. The deceleration of FAI may put downward pressure on China's imports." Have no fear – with its record budget spending, NASA will soon discover intelligent and wealth life on Mars, which will be more than glad to import all of America's financial innovation and three other things we export.

President Barack Obama will guarantee former Afghanistan commander General Stanley McChrystal a four-star pension despite firing him last week over comments disparaging civilian leaders.
McChrystal was sacked about a year after receiving his fourth star — half the time normally necessary to qualify for a four-star general's retirement income of $12,475 per month, before taxes, according to Pentagon estimates based on his 34 years of service.

"We will do whatever is necessary to ensure that he, somebody who has served the country as ably as he has, can retire at a four-star level," White House spokesman Robert Gibbs told reporters.
It was unclear whether Obama might need to issue a waiver.

McChrystal informed the Army of his planned retirement on Monday, a widely expected move after he and his aides enraged the White House by mocking the president and top civilian advisers in an article in Rolling Stone magazine.

In the piece, McChrystal himself made belittling remarks about Vice President Joe Biden and the U.S. special envoy to Afghanistan and Pakistan, Richard Holbrooke. His aides were quoted calling White House national security adviser Jim Jones a “clown.”

Had Obama not been willing to assist McChrystal, he would have retired on a three star general’s salary of $11,736 per month, before taxes, according to Pentagon estimates, taking into consideration McChrystal’s time in the military.

Obama named General David Petraeus to replace McChrystal. During his confirmation hearing before a Senate committee on Tuesday, Petraeus played down hopes for a swift turnaround after nine years of war.

The Baltic Dry Index has fallen for 25 days, the longest decline since August 2005.

Professor John B. Taylor, the highly respected creator of ‘The Taylor Rule’, which calculates an optimal Fed Funds rate, in a WSJ op-ed: The Dodd-Frank Financial Fiasco – The bill all but guarantees bailouts as far as the eye can see, while failing to address real problems like Fan and Fed and our outdate bankruptcy code.

The sheer complexity of the 2,319-page Dodd-Frank financial reform bill is certainly a threat to future economic growth. But if you sift through the many sections and subsections, you find much more than complexity to worry about.

The main problem with the bill is that it is based on a misdiagnosis of the causes of the financial crisis, which is not surprising since the bill was rolled out before the congressionally mandated Financial Crisis Inquiry Commission finished its diagnosis.

The biggest misdiagnosis is the presumption that the government did not have enough power to avoid the crisis. But the Federal Reserve had the power to avoid the monetary excesses that accelerated the housing boom that went bust in 2007. The New York Fed had the power to stop Citigroup’s questionable lending and trading decisions and, with hundreds of regulators on the premises of such large banks, should have had the information to do so. The Securities and Exchange Commission (SEC) could have insisted on reasonable liquidity rules to prevent investment banks from relying so much on short-term borrowing through repurchase agreements to fund long-term investments. And the Treasury working with the Fed had the power to intervene with troubled financial firms, and in fact used this power in a highly discretionary way to create an on-again off-again bailout policy that spooked the markets and led to the panic in the fall of 2008…

People may be waking up to the fact that the bill does not do what its supporters claim. It does not prevent future financial crises. Rather, it makes them more likely and in the meantime impedes economic growth.
Because this was not expiration week, Bernanke contracted the Fed’s balance sheet by $13.642B by selling $10.534B of MBS.

Goldman Sachs Group Inc. executives sought to defend the firm’s pricing of illiquid mortgage derivatives during two days of hearings as investigators questioned whether the firm accelerated the financial crisis.
Gary Cohn, Goldman Sachs’s president and chief operating officer, and Chief Financial Officer David Viniar argued that the firm’s prices in 2007 and 2008 reflected what it saw in the market. Financial Crisis Inquiry Commission members questioned whether the

investment bank deliberately discounted prices to push markets lower because it had bet on a decline in the value of subprime mortgage-backed debt.

“You guys are net short and you’re driving down prices, are you creating a self-fulfilling prophecy?” Philip N. Angelides, chairman of the FCIC, asked Viniar during yesterday’s hearing. “Were you in fact pushing the market down?”
Viniar, 54, replied that “we never instruct people to mark things down. We mark where the market is.”

Sean Egan, president of Egan-Jones Ratings Co. in Haverford, Pennsylvania, said the episode demonstrates the need for a “neutral, independent source for deriving prices for illiquid securities” that can be accepted by both sides of a transaction and free from the perception that they’re driven by ulterior motives.

Goldman Sachs prices could have been tainted by “subjectivity and self-dealing, because it’s in their interest to mark those prices as low as possible in this case,” Egan said. “Goldman was not only protecting their own position but actually benefiting.”

The federal debt will represent 62% of the nation’s economy by the end of this year, the highest percentage since just after World War II, according to a long-term budget outlook released today by the non-partisan Congressional Budget Office.

Republicans, who have been talking a lot about the debt in recent months, pounced on the report. “The driver of this debt is spending,” said New Hampshire Sen. Judd Gregg, the top Republican on the Senate Budget Committee. “Our existing debt will be worsened by the president’s new health care entitlement programs...as well as an explosion in existing health care and retirement entitlement spending as the Baby Boomers retire.”
At the end of 2008, the debt equaled about 40 % of the nation’s annual economic output, according to the CBO.

Gov. Arnold Schwarzenegger on Thursday ordered about 200,000 state workers to be paid the federal minimum wage this month because the state Legislature has not passed a budget, but the state controller is refusing to comply.

Department of Personnel Administration Director Debbie Endsley sent the order in a letter to the state controller, who refused a similar order two years ago. The matter is tied up in the appellate courts, leading the controller to say he will abide by whatever final ruling emerges, which could be years down the road. He said he can’t follow the order now due to technical and legal issues.

Most state employees will be paid the federal minimum of $7.25 per hour for the July pay period.

Goldman Sachs Group Inc., already under scrutiny from regulators, faced new questions from a congressional commission about whether it aggressively marked down the value of its mortgage-securities positions to benefit a bet Goldman made against the mortgage market.

A bipartisan panel reviewing causes of the financial crisis grilled Goldman executives about valuations of mortgage assets the Wall Street firm provided American International Group Inc. and other trading partners in the mortgage crisis of 2007 and 2008. Documents released by the panel showed Goldman repeatedly valued these securities lower than rivals did, demanding additional money from AIG, which was insuring against losses in the securities. These and other banks' collateral demands strained AIG, which was bailed out by the U.S. government in September 2008.

At the time, Goldman had placed a trading bet with the firm's money against the mortgage market. Lower valuations, or "marks," would have made that bet more profitable. Goldman executives defended their practices. "Our marks were based on actionable prices, informed by market information from comparable transactions," David Lehman, a Goldman managing director, told members of the Financial Crisis Inquiry Commission.
In any case, the questions underscored an unnerving reality in the financial world: Investors have no way of knowing with any certainty the value of many securities. Fewer than half of all securities these days trade on exchanges with readily available price information, making large parts of the U.S. financial markets essentially a hall of mirrors.

Fannie Mae and Freddie Mac, the mortgage financiers seized by the US government during the financial crisis, have paid $635m in fees to banks this year, making them Wall Street's biggest capital markets customers in the first half of 2010, according to recent analysis.

Fannie and Freddie are now providing financing for more than 90 per cent of the US mortgage market, following the collapse of the market for bonds backed by private sector mortgages.

Fannie and Freddie fund their activities in two ways – by selling their own debt and by buying mortgages and packaging them into securities sold to investors. In doing so, they pay underwriting fees to banks, which amounted to $635m in the first half, according to Thomson Reuters analysis.

As a result, Fannie and Freddie ranked first and second respectively in the Thomson Reuters' ranking of payers of underwriting and advisory fees in the debt and equity capital markets.

The two entities have often topped the list of fee-payers in recent years. During 2009, however, Fannie and Freddie had ranked behind banks such as Citigroup, Bank of America and Wells Fargo, Thomson Reuters said.
The way Fannie and Freddie sell debt has not changed in spite of the changes in their status. The US government took control in 2008 but does not explicitly guarantee the debt. Decisions on their longer-term status have been delayed until next year.

The status of Fannie and Freddie remains a politically charged issue. Republicans repeatedly tried to refocus the financial reform debate on the need to bring changes to the two mortgage financiers.
The entities sell longer-dated debt in a similar way to banks or companies by hiring banks to distribute the bonds. This is in contrast to US government bonds, which are sold through auctions.

Reflecting the huge volume of debt sold by Fannie and Freddie, the fees are lower than those paid by other financial institutions or companies. Lam Nguyen at Freeman Consulting, which analyses fees for Thomson Reuters, said the agencies paid an estimated five to seven basis points in fees. Companies paid 20-80 basis points, with banks paying somewhere in between, he said.

Mr. Nguyen said in some cases the actual amounts received by banks might differ from the stated fees because of the prices at which underwriters buy or sell the bonds, but this effect could not be properly estimated.
Freddie said it had not made any changes to its fee structures since being taken over by the government. Fannie declined to comment. The biggest underwriters of Fannie and Freddie debt this year were Barclays Capital, JPMorgan, Bank of America Merrill Lynch, Deutsche Bank and Goldman Sachs.

Federal Reserve Chairman Ben S. Bernanke and then-New York Fed President Timothy Geithner told senators on April 3, 2008, that the tens of billions of dollars in "assets" the government agreed to purchase in the rescue of Bear Stearns Cos. were "investment-grade." They didn't share everything the Fed knew about the money.

The so-called assets included collateralized debt obligations and mortgage-backed bonds with names like HG-Coll Ltd. 2007-1A that were so distressed, more than $40 million already had been reduced to less than investment-grade by the time the central bankers testified. The government also became the owner of $16 billion of credit-default swaps, and taxpayers wound up guaranteeing high-yield, high-risk junk bonds.

Private non-farm payrolls rose 83,000, May was revised to +33,000 from 41,000. Manufacturing payrolls rose 9000 and May was revised from 29,000 to 32,000. Unemployment was 9.5% under U3. Payrolls in the service sector rose 91,000 after rising 20,000 in May. Temporary help rose 20,500, while retail hiring fell 6,600. In the goods-producing sector payrolls fell 8,000 and manufacturing unemployment rose 9,000, down from 32,000 in May. The average workweek fell from 34.2 to 34.1 hours.

NY Attorney General Eliot Spitzer sued Marsh & McLennan Cos., the world's biggest insurance brokerage, alleging the company took "lucrative payoffs' for steering unsuspecting clients to certain insurers.

Spitzer's suit also names insurers American International Group Inc., Hartford Financial Services Group Inc., Ace Ltd. and Munich Re as participants in 'steering and bid rigging.' Two insurance executives pleaded guilty to criminal charges, Spitzer said in a news release. Insurance shares tumbled.

From the American Bankruptcy Institute: Consumer Bankruptcy Filings up 14 percent through First Half of 2010.

U.S. consumer bankruptcy filings totaled 770,117 nationwide during the first six months of 2010 (Jan. 1-June 30), a 14 percent increase over the 675,351 total consumer filings during the same period a year ago, according to the American Bankruptcy Institute (ABI), relying on data from the National Bankruptcy Research Center (NBKRC). The consumer filings for the first half of 2010 represent the highest total since 2005, when Congress enacted the Bankruptcy Abuse Prevention and Consumer Protection Act to try and stem the tide of filings, although the number of monthly consumer filings has been steadily decreasing since March.

"Years of rising consumer debt and low savings rates, combined with the housing and unemployment crises, are causing bankruptcy levels not seen since the 2005 amendments to the Bankruptcy Code," said ABI Executive Director Samuel J. Gerdano. "We expect that there will be more than 1.6 million new bankruptcy filings by year end."

The overall June consumer filing total of 126,270 was 8.5 percent more than the 116,365 consumer filings recorded in June 2009.

Excluding 2005, when the so-called "Bankruptcy Abuse Prevention and Consumer Protection Act of 2005" was enacted (really a pro-lender act), the record year was in 2003 when 1.62 million personal bankruptcies were filed. This year will be close to that level.

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