August 30, 2010

The first five quarters following the 1981-2 recession averaged growth rates of 6.2%. The first four quarters following 2008-9 recession have averaged 3.0% The fourth quarter out in the first period had growth of 8,1%. Friday we learned the fourth quarter this time had growth of 1.6%   The **WSJ editors** have the story.

To no one's surprise except perhaps Vice President Joe Biden's, second quarter economic growth was revised down yesterday to 1.6% from the prior estimate of 2.4%, which was down from first quarter growth of 3.7%, which was down from the 2009 fourth quarter's 5%. Economic recoveries are supposed to go in the other direction....

... Now that the failure is becoming obvious, the liberal explanation is that things would have been worse without all of this government care and feeding. The same economists who recommended the stimulus are now producing studies, based on their Keynesian demand models, claiming that it "saved or created" millions of jobs, even as the overall economy has lost millions of jobs. The counterfactual is impossible to disprove, but the American people can see the reality with their own eyes. ...

In Euro Pacific Capital, **Peter Schiff** looks back at predictions about the economic recovery.

...The major mental block is that most economists believe that an economy grows as a result of spending. Any policy that encourages spending and discourages savings and investment is considered beneficial. Unfortunately, these policies, which only succeed in growing debt and government, act more as an economic sedative than a stimulant.

On the subject of the "recovery," I'd like to highlight some of my past predictions, and those of my colleague Michael Pento. With the benefit of hindsight, you can see that although these thoughts were widely dismissed as chronic pessimism at the time of their publication, the current situation supports our conclusions. Although some of our predictions, like for higher bond yields, have yet to materialize. ...

Selections from the writings of Michael Pento, Chief Economist at Euro Pacific Capital:

June 30, 2010

"The cause of the Great Depression in the 1930s, and the Great Recession beginning in 2007, was one and the same: an overleveraged economy. Excessive debt levels are the direct result of the central bank providing artificially low interest rates and of superfluous lending on the part of commercial banks.

The easy money provided by banks eventually brings debt in the economy to an unsustainable level. At that point, the only real and viable solution is for the public and private sectors to undergo a protracted period of deleveraging. The ensuing depression is, in actuality, the healing process at work, which is marked by the selling of assets and the paying down of debt. Unfortunately, our politicians today are focused on fighting this natural healing process by promoting the accumulation of more debt."

The **Economist blogger "W.W." from Iowa City** comments on what caused the credsis.

... this is a story about how policies intended to reduce inequality had the unintended consequence of precipitating America's worst economic slump since the Depression. It's very important that we're straight on what the story is, since different stories may have very different implications for policy. If the story is that the level of inequality itself—and not our ideas about or political reactions to it—indirectly caused the crisis, then we may think that narrowing the gap is a matter of urgent necessity. But if the

story is that an ill-conceived political attempt to reduce inequality—and not the fact of inequality itself—led to apocalyptic economic devastation, then we may well conclude that it is better to refrain from equalising initiatives unless we are quite certain they will not backfire. ...

We have another good editorial from the **WSJ editors** on Intel's CEO, Paul Otellini, discussing the government policies and taxes that hurt the economy.
American business leaders were remarkably quiescent during the Obama Administration's first 18 months, but more are now speaking up as the threats to the economic recovery and long-term U.S. prosperity become more serious. The latest is Intel CEO Paul Otellini, who warned a technology forum this week that without a change in U.S. government policy "the next big thing will not be invented here. Jobs will not be created here. And wealth will not accrue here. Ultimately, we will face an inevitable erosion and shift of wealth—much like we are witnessing today in Europe."

The bulk of Mr. Otellini's remarks was pitched broadly at long-term U.S. problems, many of which predate the current Administration. Like many other CEOs, he lamented the decline in U.S. education performance relative to emerging nations. And he focused in particular on the hostile U.S. tax climate that he said is undermining a "culture of investment" that has long been an American comparative advantage.

"Our combined state and federal corporate income tax rate"—about 38%—"is the second highest in the industrial world. It is precisely these high statutory corporate rates that punish the most dynamic and innovative firms and hinders their ability to compete globally," Mr. Otellini said. "I can tell you that it costs $1 billion more to build, equip and operate a semiconductor manufacturing facility in the U.S. Ninety percent of the cost difference is the result of tax and incentive policies. With such policies, are we surprised that companies are investing overseas?"...

In CNet, **Declan McCullagh** has more remarks from Paul Otellini and others on how our government makes it tough for businesses to grow.
*...Otellini singled out the political state of affairs in Democrat-dominated Washington, saying: "I think this group does not understand what it takes to create jobs. And I think they're flummoxed by their experiment in **Keynesian economics** not working."*

Since an unusually sharp downturn accelerated in late 2008, the Obama administration and its allies in the U.S. Congress have enacted trillions in deficit spending they say will create an economic stimulus but have not extended the Bush tax cuts and have pushed to levy extensive new health care and carbon regulations on businesses.

*"They're in a '**Do**' loop right now trying to figure out what the answer is," Otellini said.*

As a result, he said, "every business in America has a list of more variables than I've ever seen in my career." If variables like capital gains taxes and the R&D tax credit are resolved correctly, jobs will stay here, but if politicians make decisions "the wrong way, people will not invest in the United States. They'll invest elsewhere." ...

David Goldman has two topics in this blog. He lists his top twenty reasons why the economy isn't recovering, and he discusses the effects of demographics on various economies. Here are three of his reasons why a recovery is still far off:

...State and local pension funds are being called out on their $3 trillion deficit (actually higher if returns remain as dodgy as I think they will be).

...State and local tax increases will be required in huge volume, either directly, or indirectly through privatization of municipal services, which in turn will lead to layoffs of bloated staffs and price increases.

...The Obama administration will rescind the Bush tax cuts, adding a federal tax increase to the miseries already conspiring to take the economy down.

The **Economist** has a cheap way to lose weight.

CONSUME more water and you will become much healthier, goes an old wives' tale. Drink a glass of water before meals and you will eat less, goes another. Such prescriptions seem sensible, but they have little rigorous science to back them up.

Until now, that is. A team led by Brenda Davy of Virginia Tech has run the first randomised controlled trial studying the link between water consumption and weight loss. A report on the 12-week trial, published earlier this year, suggested that drinking water before meals does lead to weight loss. At a meeting of the American Chemical Society in Boston this week, Dr Davy unveiled the results of a year-long follow-up study that confirms and expands that finding. ...

...Why this works is obscure. But work it does. It's cheap. It's simple. And unlike so much dietary advice, it seems to be enjoyable too.

WSJ - Editorial

The 1.6% Recovery

The results of the Obama economic experiment are coming in.

To no one's surprise except perhaps Vice President Joe Biden's, second quarter economic growth was revised down yesterday to 1.6% from the prior estimate of 2.4%, which was down from first quarter growth of 3.7%, which was down from the 2009 fourth quarter's 5%. Economic recoveries are supposed to go in the *other* direction.

After Deep Recessions

Quarterly GDP growth, seasonally adjusted on an annual basis

1982		2009	
IV	0.3%	III	1.6%
1983		IV	5
I	5.1	**2010**	
II	9.3	I	3.7
III	8.1	II	1.6
IV	8.5		

Source: Commerce Dept., Bureau of Economic Analysis

The downward revision was anticipated given the poor early economic reports for the third quarter, including a plunge in new home sales, mediocre manufacturing data, volatile jobless claims and even (after a healthy period) weaker corporate profits. Many economists fear that third quarter growth could be negative. Even if the economy avoids a double-dip recession, the current pace of growth is too sluggish to create many new jobs or improve middle-class living standards.

As recently as August 3, Treasury Secretary Timothy Geithner took to our competitor's pages to declare that this couldn't happen. "Welcome to the Recovery," he wrote, describing how the $862 billion government stimulus was still rolling out, business investment was booming, and the economy was poised for sustainable growth.

We all make mistakes, but the problem for the American people is that Mr. Geithner's blunder is conceptual. He and President Obama and their economic coterie really believe that government spending can stimulate growth by triggering private "demand," that tax rates are irrelevant to investment decisions, that waves of new regulation can be absorbed by business with little impact on costs or hiring, and that politicians can assail capitalists without having any effect on the movement of capital.

This has been the great Washington policy experiment of the last three years, and it isn't turning out too well. If prosperity were a function of government stimulus, our economy should be booming. The Fed has kept interest rates at near-zero for nearly two years, while Congress has flooded the economy with trillions of dollars in spending, loan guarantees, $8,000 tax credits for housing, "cash for clunkers," and so much more. Never before has government tried to do so much and achieved so little.

Now that the failure is becoming obvious, the liberal explanation is that things would have been worse without all of this government care and feeding. The same economists who recommended the stimulus are now producing studies, based on their Keynesian demand models, claiming that it "saved or created" millions of jobs, even as the overall economy has lost millions of jobs. The counterfactual is impossible to disprove, but the American people can see the reality with their own eyes.

The nearby table compares growth in the current recovery with the recovery following the recession of 1981-82, the last time the jobless rate exceeded 10%. The contrast is stark.

Then after three quarters the recovery was in high gear. Now it is decelerating. Then tax rates were falling, interest rates were coming down and the regulatory state was in retreat. Now taxes are poised to rise sharply, interest rates can't get any lower, and federal agencies are hassling business at every turn. Then business investment was exploding. Now companies are sitting on something like $2 trillion, reluctant to take risks when they don't know what new costs government might next impose on them.

To borrow a phrase, maybe it's time for a change.

Euro Pacific Capital

Flying Blind

by Peter Schiff

Watching economists and media analysts react to breaking economic news is a bit like looking at a flock of pigeons flying over the New York skyline. A true wonder of the urban landscape, the flocks can include hundreds of individuals who show an uncanny ability to stay in tight formation as the group quickly zig-zags between buildings. What may be even more remarkable than their ability to randomly fly while maintaining cohesion is the flock’s refusal to stick to any particular direction for very long, and their determination to fly feverishly without actually going anywhere. Sound familiar?

Today's weak GDP numbers have finally caused the mass of economists to revise downward their formerly optimistic recovery forecasts, with many finally entertaining the possibility of a "double dip" recession. It should be obvious by now that these economists only have the capacity to describe where the economy is moving in the short-term...they have no ability to explain the reasons behind the macro trends or make predictions that go beyond the next data release. But economics is not dart throwing. It can be understood and properly forecast.

The major mental block is that most economists believe that an economy grows as a result of spending. Any policy that encourages spending and discourages savings and investment is considered beneficial. Unfortunately, these policies, which only succeed in growing debt and government, act more as an economic sedative than a stimulant.

On the subject of the “recovery,” I’d like to highlight some of my past predictions, and those of my colleague Michael Pento. With the benefit of hindsight, you can see that although these thoughts were widely dismissed as chronic pessimism at the time of their publication, the current situation supports our conclusions. Although some of our predictions, like for higher bond yields, have yet to materialize.

Michael and I may be birds of a feather, but we don’t blindly follow the flock. We believe economics is a scientific discipline with established laws, and that applying those laws will yield fairly accurate predictions over time. Most other economists say what they need to say to do the bidding of their employer (whether Wall Street or Washington) and maintain the respect of their peers. Good for them, but who should you trust when you are making investment decisions?

Selections from my past commentaries:

Monday, June 7, 2010

“Rather than a recovery, the jobs data seems to indicate that we are still mired in the first economic depression since the 1930s. Increased spending, financed by unprecedented borrowing, will prove to be just as temporary as a job opening at the US Census. When the bills come due, the next leg down will be even more severe than the last. The swelling ranks of the government payroll, and the shrinking number of private taxpayers footing the bill, will guarantee larger deficits and a weaker economy for years to come.”

Monday, March 1, 2010

“It is astounding how many economists, government officials, and Wall Street strategists construe the current economic conditions as evidence of a bona fide recovery. ... The myopia leads us to enact policies that actually exacerbate our problems. The “remedies” are postponing, perhaps indefinitely, a true recovery.

The oracles who have described the nature of this imminent recovery do so based on their conviction that consumer spending is slowly returning to levels that existed prior to the recession.

However, missing from their analysis is any plausible explanation as to why consumers will be able to sustain such spending given the plunge in income and credit, and the lack of available savings. But most consumers are tapped out, millions are unemployed, and home equity has been wiped out. The only reasonable thing for them to do is to pay down debt and sock away as much money as possible to rebuild their savings.”

Monday, December 14, 2009

"Over the weekend, top White House economic adviser Lawrence Summers even pronounced that the recession is now over. …

Obama's claim of success largely derives from the slowing tally of job losses, the seemingly renewed strength in the financial system, the pickup in home sales and home prices, and the positive GDP figures. But these 'achievements' fall apart under close examination.

First, a closer look at the jobs numbers shows that employment improved in sectors that benefited most directly from monetary or fiscal stimulus: government, healthcare, financial services, education and retail sales. Meanwhile, sectors such as manufacturing continued to shed jobs at an alarming rate. These dynamics actually exacerbate our economic imbalances.

While it is true that home prices have stopped falling, this represents failure, not victory. True success would be a drop in home prices to a level that homebuyers could actually afford. Instead, we have maintained artificially high prices with tax credits, subsidized mortgage rates, low down payments, and foreclosure relief. With 96% of new mortgages now insured by federal agencies, market forces have been completely removed from the housing equation. With so many government programs specifically designed to maintain artificially high home prices, devastating long-term consequences for our economy are inevitable."

Friday, October 2, 2009

"In recent interviews, Treasury Secretary Geithner has been almost giddy in his descriptions of the recovery – all the while crediting his own policies for averting disaster. Americans are once again taking the government's bait by spending money they don't have to buy things they can't afford…. But depleting savings and increasing borrowing does not a recovery make.

A prerequisite to any real economic expansion is the potential for business owners to earn profits. With increased regulation and higher taxes on the way, these incentives are being diminished. In fact, via a phenomenon called 'regime uncertainty,' our current policy path is actually encouraging businesses to contract in order to prepare for a more hostile business environment. There is no "jobless recovery," only senseless cheerleading."

Friday, July 31, 2009

"Because of the continued profligacy of the government and Federal Reserve, the imbalances that caused the current recession have actually worsened. We are now in an even deeper hole than when the crisis began. Rather than wrapping up a recession, we are actually sinking into a depression. If things look better now, it's just because we are in the eye of the storm.

By holding up over-valued home prices, we prevent the prudent or less well-off from snatching them up and, in doing so, creating a new price equilibrium based upon reality. By maintaining artificially low interest rates, we discourage the very savings that are so critical to capital formation and future economic growth. By running such huge deficits, we further crowd-out private enterprise by making it harder for businesses to invest or hire. Since we have learned nothing from past mistakes, we are condemned to repeat them."

Selections from the writings of Michael Pento, Chief Economist at Euro Pacific Capital:

June 30, 2010

"The cause of the Great Depression in the 1930s, and the Great Recession beginning in 2007, was one and the same: an overleveraged economy. Excessive debt levels are the direct result of the central bank providing artificially low interest rates and of superfluous lending on the part of commercial banks.

The easy money provided by banks eventually brings debt in the economy to an unsustainable level. At that point, the only real and viable solution is for the public and private sectors to undergo a protracted period of deleveraging. The ensuing depression is, in actuality, the healing process at work, which is marked by the selling of assets and the paying down of debt. Unfortunately, our politicians today are focused on fighting this natural healing process by promoting the accumulation of more debt."

January 12, 2010

"The pending downfall will surprise the many investors who have been tricked into believing that a government can print and spend its way to prosperity.

Many economists also believe that the consumer will spend us into a viable recovery. They are mistaken here as well. Household debt as a percentage of GDP was "just" 46% back in 1983--that was the last time the unemployment rate was 10%. Today household debt is 96% of GDP. That's correct; consumers have more than twice the level of debt as they did during the last serious recession. Can they be counted on to pile on more debt at this juncture?

In order to believe the economy is on the brink of a lasting recovery we need to see that banks are lending money to the private sector in order to purchase capital goods that are used to create wealth. However, total loans and leases at commercial banks were down 7.7% in December from a year earlier. The only money banks are lending is to the government. Without capital being extended to small businesses they cannot expand production or hire new employees."

November 2, 2009

"If the Treasury and Federal Reserve truly believed the economy and the stock market were on a sustainable recovery path, talk of extending and increasing the home buyer's tax credit would be off the table. The Fed would already be reducing the size of the monetary base. The truth, however, is that no one in government really believes in this recovery. If they did, they would be hiking interest rates and the deficit would be shrinking.

The government's realization of our precarious economic condition means its largess will continue. Near term, that may ease some pain. So did the artificial stimulus that gave rise to the housing boom. In the end, a protracted period of a near-zero interest rates, along with endless economic stimulus, will spawn another bubble and not a genuine recovery."

Economist - Democracy in America Blog
How egalitarian policy fueled the crisis

MY COLLEAGUE at Free Exchange notes this morning's post on income inequality and the financial crisis and helpfully points us to an article in which the University of Chicago economist Raghuram Rajan makes the argument I was trying to make, only more articulately:

"[T]he political response to rising inequality—whether carefully planned or the path of least resistance—was to expand lending to households, especially low-income households. The benefits—growing consumption and more jobs—were immediate, whereas paying the inevitable bill could be postponed into the future. Cynical as it might seem, easy credit has been used throughout history as a palliative by governments that are unable to address the deeper anxieties of the middle class directly.

Politicians, however, prefer to couch the objective in more uplifting and persuasive terms than that of crassly increasing consumption. In the US, the expansion of home ownership—a key element of the American dream—to low- and middle-income households was the defensible linchpin for the broader aims of expanding credit and consumption."

Exactly! Mr Rajan goes on to say:

"In the end, though, the misguided attempt to push home ownership through credit has left the US with houses that no one can afford and households drowning in debt. Ironically, since 2004, the homeownership rate has been in decline.

The problem, as often is the case with government policies, was not intent. It rarely is. But when lots of easy money pushed by a deep-pocketed government comes into contact with the profit motive of a sophisticated, competitive, and amoral financial sector, matters get taken far beyond the government's intent."

This does not strike me as a story about how income inequality caused the financial crisis. Rather, this is a story about how policies intended to reduce inequality had the unintended consequence of precipitating America's worst economic slump since the Depression. It's very important that we're straight on what the story is, since different stories may have very different implications for policy. If the story is that the level of inequality itself—and not our ideas about or political reactions to it—indirectly caused the crisis, then we may think that narrowing the gap is a matter of urgent necessity. But if the story is that an ill-conceived political attempt to reduce inequality—and not the fact of inequality itself—led to apocalyptic economic devastation, then we may well conclude that it is better to refrain from equalising initiatives unless we are quite certain they will not backfire. At any rate, this is the lesson I would draw from the story Mr Rajan is telling. Now, this call for prudent restraint may not turn out to be very limiting. The upshot may be no more than the recognition that government intervention in credit markets is a particularly stupid way to try reduce inequality. Whatever the upshot turns out to be, the idea that we must be alert to the unintended consequences of policies meant to reduce inequality is rather different, and rather more helpful, than the idea that inequality as such threatens the stability of the economy

WSJ - Editorial

Otellini's Lament

'Jobs will not be created here.'

American business leaders were remarkably quiescent during the Obama Administration's first 18 months, but more are now speaking up as the threats to the economic recovery and long-term U.S. prosperity become more serious. The latest is Intel CEO Paul Otellini, who warned a technology forum this week that without a change in U.S. government policy "the next big thing will not be invented here. Jobs will not be created here. And wealth will not accrue here. Ultimately, we will face an inevitable erosion and shift of wealth—much like we are witnessing today in Europe."

The bulk of Mr. Otellini's remarks was pitched broadly at long-term U.S. problems, many of which predate the current Administration. Like many other CEOs, he lamented the decline in U.S. education performance relative to emerging nations. And he focused in particular on the hostile U.S. tax climate that he said is undermining a "culture of investment" that has long been an American comparative advantage.

"Our combined state and federal corporate income tax rate"—about 38%—"is the second highest in the industrial world. It is precisely these high statutory corporate rates that punish the most dynamic and innovative firms and hinders their ability to compete globally," Mr. Otellini said. "I can tell you that it costs $1 billion more to build, equip and operate a semiconductor manufacturing facility in the U.S. Ninety percent of the cost difference is the result of tax and incentive policies. With such policies, are we surprised that companies are investing overseas?"

Mr. Otellini didn't say it, but he might have noted that the folks who now run Washington want to raise taxes on capital even more in the name of "fairness." He did say that "I think this group does not understand what it takes to create jobs. And I think they're flummoxed by their experiment in Keynesian economics not working."

Actually, we wish they were flummoxed. Our sense is that President Obama and his advisers believe their own advertising that the stimulus has been a smashing success, that tax rates don't matter to investment, and that CEOs are merely self-interested rich guys who want to get richer. The country needs more CEOs to speak up to break them from their destructive illusions.

CNet

Intel CEO: U.S. faces looming tech decline

by Declan McCullagh

ASPEN, Colo.--Intel Chief Executive Officer Paul Otellini offered a depressing set of observations about the economy and the Obama administration Monday evening, coupled with a dark commentary on the future of the technology industry if nothing changes.

Otellini's remarks during dinner at the Technology Policy Institute's **Aspen Forum** here amounted to a warning to the administration officials and assorted Capitol Hill aides in the audience: unless government policies are altered, he predicted, "the next big thing will not be invented here. Jobs will not be created here."

The U.S. legal environment has become so hostile to business, Otellini said, that there is likely to be "an inevitable erosion and shift of wealth, much like we're seeing today in Europe--this is the bitter truth."

Not long ago, Otellini said, "our research centers were without peer. No country was more attractive for start-up capital...We seemed a generation ahead of the rest of the world in information technology. That simply is no longer the case."

The phenomenon of technology executives advancing dismal predictions and offering pointed critiques of Washington politicking isn't new, of course.

For instance: In 2005, midway through the Bush administration, Microsoft's **Bill Gates told** a Washington audience that curbs on immigration and guest workers would provide a boost to research

institutions in China and India. A year earlier, then-Intel CEO **Craig Barrett warned** that the U.S. must dramatically improve its education system.

That never happened. Nor did politicians follow Gates' advice to rethink laws that led to foreign engineers being kicked out of the country as soon as they finish their degrees.

And now, six years later with no significant reforms, it should come as no surprise that the predictions have become more dire.

Deep in a 'Do' loop

Otellini singled out the political state of affairs in Democrat-dominated Washington, saying: "I think this group does not understand what it takes to create jobs. And I think they're flummoxed by their experiment in **Keynesian economics** not working."

Since an unusually sharp downturn accelerated in late 2008, the Obama administration and its allies in the U.S. Congress have enacted trillions in deficit spending they say will create an economic stimulus but have not extended the Bush tax cuts and have pushed to levy extensive new health care and carbon regulations on businesses.

"They're in a '**Do**' loop right now trying to figure out what the answer is," Otellini said.

As a result, he said, "every business in America has a list of more variables than I've ever seen in my career." If variables like capital gains taxes and the R&D tax credit are resolved correctly, jobs will stay here, but if politicians make decisions "the wrong way, people will not invest in the United States. They'll invest elsewhere."

Take factories. "I can tell you definitively that it costs $1 billion more per factory for me to build, equip, and operate a semiconductor manufacturing facility in the United States," Otellini said.

The rub: Ninety percent of that additional cost of a $4 billion factory is not labor but the cost to comply with taxes and regulations that other nations don't impose. (Cypress Semiconductor CEO T.J. Rodgers elaborated on this in **an interview** with CNET, saying the problem is not higher U.S. wages but antibusiness laws: "The killer factor in California for a manufacturer to create, say, a thousand blue-collar jobs is a hostile government that doesn't want you there and demonstrates it in thousands of ways.")

"If our tax rate approached that of the rest of the world, corporations would have an incentive to invest here," Otellini said. But instead, it's the second highest in the industrialized world, making the United States a less attractive place to invest--and create jobs--than places in Europe and Asia that are "clamoring" for Intel's business.

The comments from Intel's chief executive echoed **statements made a day earlier by Carly Fiorina**, the former HP CEO turned Republican Senate candidate.

America's skilled-worker visa system is so badly broken and anti-immigration that "we have to start from scratch," Fiorina said, adding that too many government policies push jobs overseas instead of making U.S. companies competitive against international rivals.

"Our corporate tax rates are the second highest in the world," and Congress has repeatedly failed to make an R&D tax credit permanent, Fiorina told the Aspen audience. It's time to start "acknowledging the reality that companies go where they're welcome," she said. (The effective U.S. corporate income tax is **35 percent**, far over the industrialized-nation average of 18.2 percent.)

Chris Marangi, associate portfolio manager at **Gamco Investors** in Rye, N.Y., said Tuesday: "Capital is agnostic. It doesn't have a religion. It doesn't have a philosophy. It goes where it finds the highest returns." The problem, Marangi said, is that many other "countries have a more friendly regulatory regime than we do."

Inner Workings at Asia Times

Dave's New Top Ten Reasons to Fade the Economy

by David Goldman

In February I summarized why the US economy would not recover, just when the market was getting bulled up and a stream of suspect numbers appeared to indicate that the economy would right itself. These were (in summary):

Dave's February Top Ten Reasons to Fade the Recovery

10) There is no recovery at all in Europe.

9) China won't collapse, but government efforts to stop overheatingby raising reserve requirements make clear that the world's second-largest economy can't be the locomotive for world growth.

8. Greece and its prospective rescuers in the European Community are at loggerheads over conditions for EC help.

7. State fiscal crises continue to worsen.

6) Commercial real estate is nowhere near bottom, with some sectors (e.g. hotels) at delinquency rates of nearly 10%.

5) Regional banks continue to drop like flies, with 702 banks holding assets of $403 billion on the danger list.

4) Bank credit continues to shrink. Total bank credit is still falling at a 5% annual rate, an unprecedented decline.

3) What bank credit is available is funding the US Treasury deficit in the mother of all crowdings-out, replacing commercial loans on banks' balance sheets.

2) Industrial production has bounced of the bottom, but manufacturing is only 15% of US employment.

1) Employment won't come back. Today's consumer confidence number is one more nail in the coffin of exaggerated hopes for a cyclical recovery.

All of these reasons remain in place. Here are ten more:

10) Households have figured out that with the 10-year Treasury at 2.5%, they have to save twice what they would have before (and hadn't begun to save in any case) — so consumption will drop as savings spikes.

9) State and local pension funds are being called out on their $3 trillion deficit (actually higher if returns remain as dodgy as I think they will be).

8.) State and local tax increases will be required in huge volume, either directly, or indirectly through privatization of municipal services, which in turn will lead to layoffs of bloated staffs and price increases.

7) Rising health care costs are making miserable position of small business even more untenable.

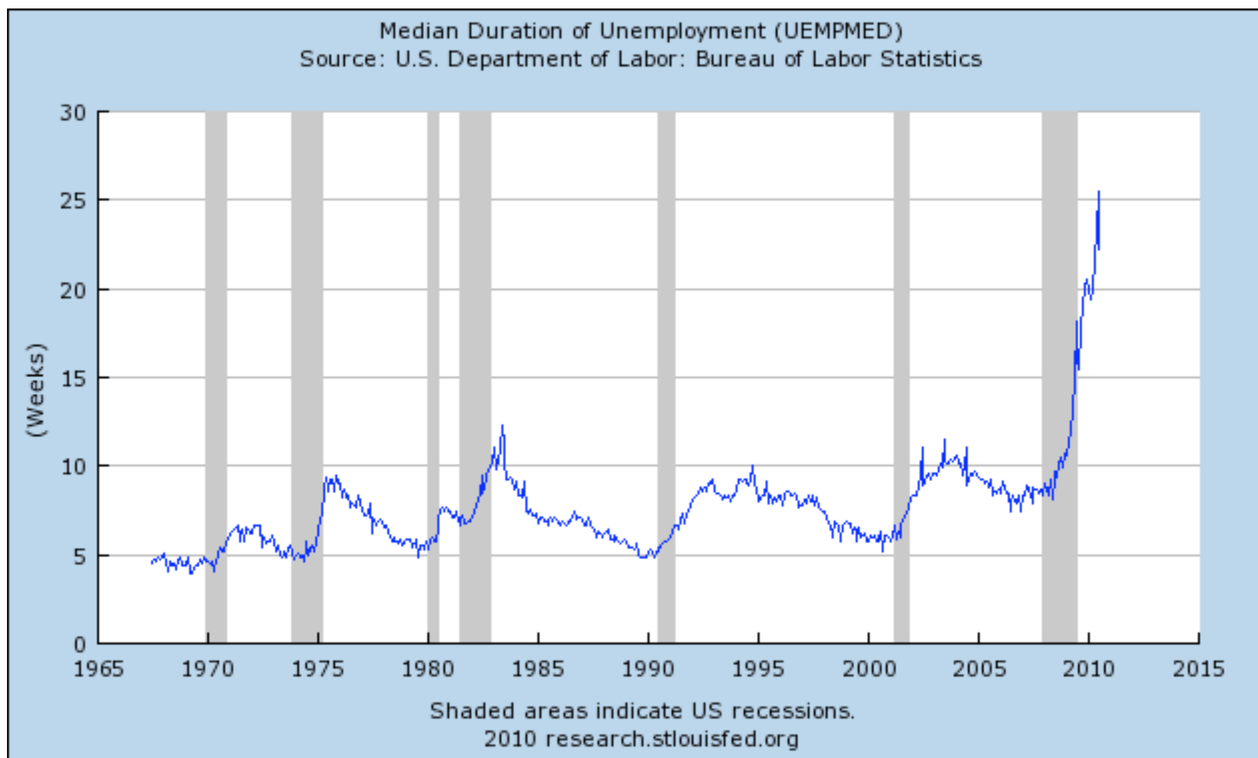
6) The double-dip housing recession will cut spending power, and, perhaps most importantly, wipe out the bootstrap capital available to small business.

5) The European debt crisis will return with a vengeance in 2011, as Germany shifts its economic orientation towards China and Russia, reducing its incentive to bail out the Club Med deadbeats, while German voters veto any more subsidies.

4) Investors will begin to notice that corporate pension funds that appeared well-funded with a return assumption north of 8% look like a massive drag on future earnings. GM and Ford alone are underfunded by $17 billion under already-obsolete return assumptions. Mrs. Goldman didn't raise any kids dippy enough to own auto stocks under the circumstances.

3) The financials will get burned as the flattening yield curve and the Fed's hunger for mortgage-backed securities take the juice out of their curve and carry trades.

2) The cumulative effect of long-term employment will lead to more bankruptcies and foreclosures as the jobless exhaust their savings:



and Dave's Top Reason to Fade the Economy is –

1) The Obama administration will rescind the Bush tax cuts, adding a federal tax increase to the miseries already conspiring to take the economy down.

Why are all these terrible things happening?
In a May 2009 essay entitled "**Demographics and Depression**," I warned First Things readers that the great economic headwind of our time was demographic:

"szOur children are our wealth. Too few of them are seated around America's common table, and it is their absence that makes us poor. Not only the absolute count of children, to be sure, but also the shrinking proportion of children raised with the moral material advantages of two-parent families diminishes our prospects. The capital markets have reduced the value of homeowners' equity by $8 trillion and of stocks by $7 trillion. Households with a provider aged 45 to 54 have lost half their net worth between 2004 and 2009, according to Dean Baker of the Center for Economic and Policy Research. There are ways to ameliorate the financial crisis, but none of them will replace the lives that should have been part of America and now are missed….

In the industrial world, there are more than 400 million people in their peak savings years, 40 to 64 years of age, and the number is growing. There are fewer than 350 million young earners in the 19-to-40-year bracket, and their number is shrinking. If savers in Japan can't find enough young people to lend to, they will lend to the young people of other countries. Japan's median age will rise above 60 by mid-century, and Europe's will rise to the mid-50s.

America is slightly better off. Countries with aging and shrinking populations must export and invest the proceeds. Japan's households have hoarded $14 trillion in savings, which they will spend on geriatric care provided by Indonesian and Filipino nurses, as the country's population falls to just 90 million in 2050 from 127 million today.

The graying of the industrial world creates an inexhaustible supply of savings and demand for assets in which to invest them–which is to say, for young people able to borrow and pay loans with interest. The tragedy is that most of the world's young people live in countries without capital markets, enforcement of property rights, or reliable governments. Japanese investors will not buy mortgages from Africa or Latin America, or even China. A rich Chinese won't lend money to a poor Chinese unless, of course, the poor Chinese first moves to the United States."

That the aging world population needs to save for retirement, and an imbalance of savings with respect to investment opportunities reduces returns in capital markets, finally has dawned on the commentariat.**Goldman Sachs** just issued a report on demographics and the stock market, noting, "The rise in 'prime age' savers globally may also have played an important role in the story of the 'savings glut', putting downward pressure on global real interest rates. Here too, the demographic underpinnings of that story could intensify in the next 10-15 years." There have been similar articles in the financial press and the client notes of Wall Street economists. Remember, folks: you read it here first.

Economist

Drink till you drop

A magic elixir is shown to promote weight loss

CONSUME more water and you will become much healthier, goes an old wives' tale. Drink a glass of water before meals and you will eat less, goes another. Such prescriptions seem sensible, but they have little rigorous science to back them up.

Until now, that is. A team led by Brenda Davy of Virginia Tech has run the first randomised controlled trial studying the link between water consumption and weight loss. A report on the 12-week trial, published earlier this year, suggested that drinking water before meals does lead to weight loss. At a meeting of the American Chemical Society in Boston this week, Dr Davy unveiled the results of a year-long follow-up study that confirms and expands that finding.

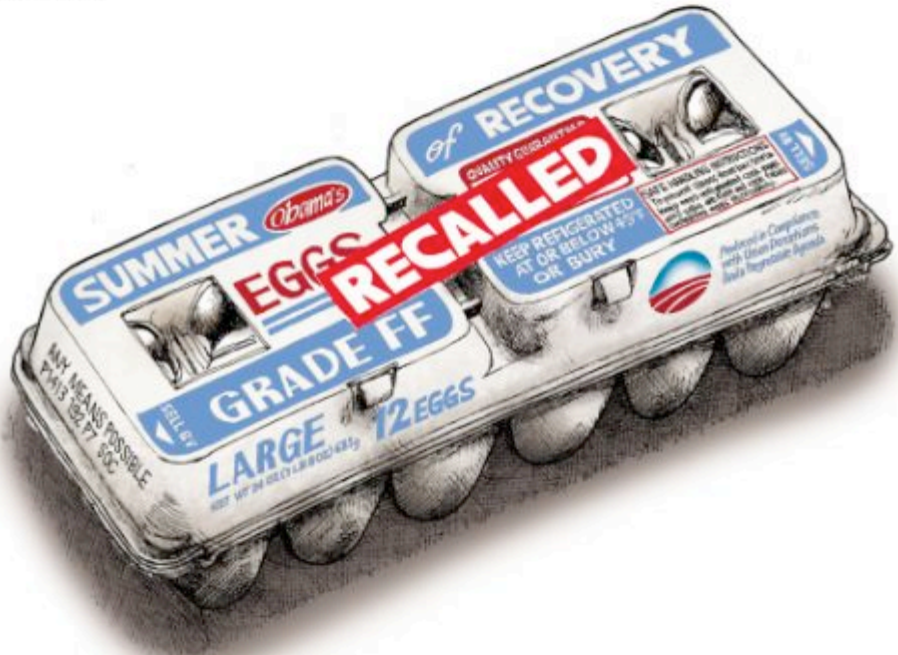
The researchers divided 48 inactive Americans, aged 55 to 75, into two groups. Members of one were told to drink half a litre of water (a bit more than an American pint) shortly before each of three daily meals. The others were given no instructions on what to drink. Before the trial, all participants had been

consuming between 1,800 and 2,200 calories a day. When it began, the women's daily rations were slashed to 1,200 calories, while the men were allowed 1,500. After three months the group that drank water before meals had lost about 7kg (15½lb) each, while those in the thirsty group lost only 5kg.

Dr Davy confidently bats away some obvious doubts about the results. There is no selection bias, she observes, since this is a randomised trial. It is possible that the water displaced sugary drinks in the hydrated group, but this does not explain the weight loss because the calories associated with any fizzy drinks consumed by the other group had to fall within the daily limits. Moreover, the effect seems to be long-lasting. In the subsequent 12 months the participants have been allowed to eat and drink what they like. Those told to drink water during the trial have, however, stuck with the habit—apparently they like it. Strikingly, they have continued to lose weight (around 700g over the year), whereas the others have put it back on.

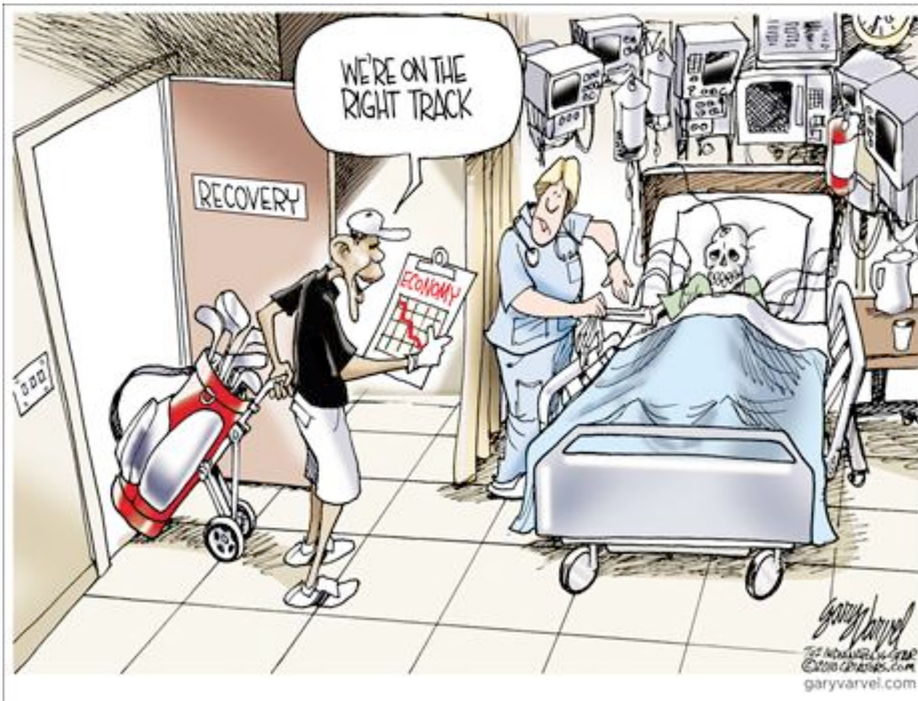
Why this works is obscure. But work it does. It's cheap. It's simple. And unlike so much dietary advice, it seems to be enjoyable too.

KUCHUNK
KUCHUN
KUCHUN
KUCHUNK
WE SHOULD BE AT OUR CRUISING ALTITUDE SHORTLY.
OBAMA-NOMICS
FLAP
FLAP
FLAP
ERICALLIE


SUMMER
Obama's
EGGS
of RECOVERY
RECALLED
GRADE FF
KEEP REFIGERATED AT OR BELOW 45°F OR BURY
LARGE
12 EGGS
ANY MEANS POSSIBLE
SELL BY

TURN BACK
DANGER
STOP
AMERICA
EVERYONE PLEASE REMAIN CALM.... JOE BIDEN SAYS WE'RE HEADING IN the RIGHT DIRECTION!

Dist by Wash.Post Writers Group
Lisk ©2010 8-26
IT COULD BE WORSE
Obamanomics


WE'RE ON THE RIGHT TRACK
RECOVERY
ECONOMY
garyvarvel.com