While You Were Sleeping… The Economy Collapsed

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One of the most powerful forces in human psychology is the force of habit. Consistency, apathetic comfort, ties men to the ocean bottom to squeeze every ounce of oxygen from their last breath until it is gone, and we wake up at 50 or 60, only realizing then that we have done the same things and thought the same thoughts for decades without err. Repetition makes us easy to startle and easy to control. Any sudden break in daily routine can cause most people to freeze; animals gripped with terror at the very possibility of necessary individual action or adaptation.

This same repetition induces a type of "sleepwalk" in the average person, a zombie-like reanimation of brain functions that shriveled up and died years before, giving the impression of "life," but in reality, it is merely a life on autopilot.

This is what makes catastrophes so catastrophic. It is not always the events themselves that reap such destruction, but people's delayed reactions and dulled senses. The more ignorant the populace, the more magnified and painful such events become. Our lack of knowledge and reasonable action sets our own house ablaze, brings economies to ruin, and murders civilizations. Others may tip the problems into motion, but in the end, all of us, each and every individual, is responsible for the final result.

It is nearly Christmas, 2009, and the dangers of routine are never more blindingly obvious than they are at this time of year. A dangerous economic storm looms, its effects culminating most likely sometime in 2010. Many people know its there, they can feel it, but the chains of routine drag them back. "Our world will remain the same tomorrow as it was today…" they tell themselves, "…how could things possibly change?"

Mixed Signals Indicate Economic Disinformation

There are a number of half truths and financial fantasies floating around the U.S. today, which may explain why some have decided to throw caution to the wind, adopting a cult-like blind faith in the "unsinkable" American economy. I suspect that the consequences for this error in judgment will become quite clear to most by the end of next year, but until then, let's examine our current situation, what the government has to say about it, and the reality they wish to gloss over.

Unemployment Thwarted By Bailouts?

Unfortunately, it depends on who you ask. If you ask the Labor Department, the U.S. lost only 11,000 jobs in November, far less than forecast, and unemployment evened out to 10% from 10.2%. Great news, right? It would be, if it were true…

Other data shows that the major revision in job losses may be an overenthusiastic calculation by the Labor Department.

First, the holiday season is notorious for generating thousands of temporary, low-paying part time jobs with an average of only 15-20 hours a week. The Labor Department counts people working these jobs as fully employed even though they do not make nearly enough money to support themselves and most will likely lose their positions once the Christmas season is over. Even with this influx of minimum wage holiday jobs to dilute unemployment numbers, it appears most retailers are only hiring about half of the number of temporary workers they did last year:

http://www.kidk.com/news/local/78476852.html

What this means is, unemployment will probably hit very hard in February and March when retailers begin cutting back once more, especially if Christmas profits fall short of target.

Second, there is a lot of evidence to suggest that the Labor Department is grossly and deliberately misreporting unemployment figures. Other groups which measure unemployment, including the ADP, have released national job loss reports that greatly differ from that of the Labor Department for November. In most cases, the Labor Department "adjusts" its numbers a month later to match ADP's more accurate assessments. Very rarely do the ADP's numbers completely overshoot actual job loss calculations. For November however, the Labor

Department predicted only 11,000 jobs lost, while the ADP measured 169,000 jobs lost!

http://www.adpemploymentreport.com/

This is a major discrepancy! Either the ADP has somehow calculated way off the mark (which rarely if ever happens), or the Labor Department has rigged the numbers. Such a discrepancy by the Labor Department could not be made accidentally. It is hard to say which one is the case, but since the ADP is consistently accurate, and the Labor Department has more reason to flub the statistics, I will have to lean towards the ADP's numbers as a realistic representation of November job losses.

What is more frightening is that eventually, the Labor Department will have to account for all the lost jobs they hid last month. When they make this adjustment, it will seem as though job loss has exploded after a short lull. This will send an abrasive shock through markets next year. In fact, markets recently took a hit as the government reported that the number of Americans filing for initial unemployment insurance at the beginning of December jumped much higher than analyst expectations:

http://money.cnn.com/2009/12/10/news/economy/initial_jobless_claims/index.htm

One would think claims should begin to dissipate after the miracle jobless drop in November.

Adding a sharper edge to this realization is the fact that a record 37.2 million Americans now requirefood stamps in order to survive, while the media blathers on about imminent recovery. That is 1 out of every 8 people in this country:

http://www.bloomberg.com/apps/news?pid=20601012&sid=aFbqGE.lEdi0

It is these kinds of mixed signals that reveal misinformation and half-truths by MSM and government sources.

Waiting For The Return Of The Dollar? Don't Hold Your Breath…

As we have predicted in the past, erratic market movements have begun to occur this holiday season, and the artificial Dow rally will probably not make it through the winter. With uncertainty in stocks comes a flight to "safe haven" investments. Historically, the U.S. Dollar has been considered a safe haven, and out of habit, some investors continue to dump their assets into dollars when expecting fickle market conditions.

Recent weakness in the Euro has also lifted the dollar. Not drastically by any means, but enough to give the impression that the Greenback may soon make its return. Great news, right? Again, not quite…

Many investors make the mistake of looking only at the relative weakness of other world currencies when assessing the Dollar's strength, but there are many other factors to consider. The Greenback is unique in that it derives its strength not so much from the overall health of the U.S. economy, or any solid circulation fundamentals, but from the fact that it is the "world reserve currency". When we examine the foundation of the Dollar, we find an extremely weak overprinted currency belonging to a country with a $9.2 Trillion projected deficit and totally reliant on foreign investment. However, as long as the Dollar retains its label as the world reserve currency, it will continue to have a psychological significance to investors.

It would not take massive inflation to collapse the Greenback (although this is occurring). Wholesale prices jumped 1.8 percent last month, more than double the gain analysts expected, and sparking fears that the Fed will soon be forced to raise interest rates:

http://finance.yahoo.com/news/Spike-in-wholesale-inflation-apf-2682030532.html?x=0

Mainstream economists are attempting to downplay these numbers by claiming that the inflation will be temporary, but in reality, we are only seeing the beginning. This also throws a monkey wrench into the arguments made by some financial advisors that the dollar is safe, and we are more likely to see deflation than inflation. If this was truly a deflationary collapse like the Great Depression, then why have prices on goods increased instead of decreased? We should have seen substantial price cuts on commodities and base manufacturing materials if deflation was the threat, but this has not occurred.

A deflationary collapse would be far preferable to an inflationary collapse. With the dollar still intact, the economy could be rebuilt without help from outside agencies like the IMF. We know that the Elites are attempting to force the U.S. to answer to a centralized economic authority and accept a global currency in the form of Special Drawing Rights. They cannot accomplish this goal without collapsing the dollar. Period.

Setting the inflation threat aside, though, the only trigger necessary for a Dollar implosion would be for it to lose its reserve status in the eyes of the international financial community. Once this superfluous status is removed, the Dollar would no longer be considered a safe haven investment, and its value would plummet.

The signs that this event is about to occur are becoming more evident, most especially in Treasury Bond auctions and investment:

http://www.treas.gov/press/releases/tg443.htm

http://market-ticker.denninger.net/archives/1730-TIC-Data-Confirms-Foreign-Appetite-Gone.html

The “Treasury Yield Curve” is now the steepest it has been since at least 1980:

http://www.bloomberg.com/apps/news?pid=20601103&sid=atmWh_C.Afkk

Foreign investment in U.S. debt has plummeted. Barack Obama is attempting to auction off $150 Billion in U.S. T-bills, but net foreign acquisition of long-term securities, taking into account adjustments, is estimated to have been only $8.3 billion. Even more disturbing, foreign holdings of dollar-denominated short-term U.S. securities, including Treasury bills, and other custody liabilities decreased $43.9 billion. Foreign holdings of Treasury bills decreased $38.3 billion. Meaning, not only are foreign investors NOT buying American debt, they are also beginning to get rid of the treasuries they already own! The biggest purchaser of U.S. Treasury debt is now the private Federal Reserve, printing money out of thin air and buying T-bills in order to prop up the value of its own currency! This cannot go on for much longer.

In order to permanently strengthen the basic value of the dollar, one of two things must happen; either the Fed must decrease the supply of dollars in the system (they are doing the opposite, printing up to $24 Trillion out of thin air in the span of a year), or, the Fed must somehow increase demand for all the dollars being created. As the dismal results of recent treasury auctions show, NO ONE wants dollars, especially not for the long term.

The consequences of this are obvious. Eventually, our incredible debt will become unserviceable, and the dollar will become completely undesirable. The Federal Reserve will be forced to raise interest rates and stop its endless printing, which will then pull the rug out from under the Dow and the T-bill market, making things even worse. Dollar proponents always seem to forget this very important detail; America is taking on more debt than it or any other country has in history. Without continued exponential investment from other countries, this debt will end the dollar, regardless of the weakness or strength of other national currencies, or the true rate of inflation.

For now, the Dollar will enjoy an increase in value due to weakness in Europe and uncertainty in stocks, sending more crisscrossed signals to the public as to the actual health of the economy. As far as the basics are concerned however, this increase will be short lived.

Credit Market Recovery? Not A Chance…

The stated purpose, the entire reason for the Banker Bailouts and the flood of printed money into our financial systems, was to “restore credit markets” so that banks could begin lending again.

First off, such a concept is astoundingly moronic. What caused the collapse of the housing market in the first place? Unhindered accumulation of debt by people who could not afford to pay it back! This debt was, of course, facilitated by the private Federal Reserve’s artificially low interest rates, which gave banks free reign to throw cheap money wherever they pleased. When people began to default on their loans en masse, the bubble burst, and triggered the landslide we are seeing today.

How exactly would the creation of more lending, and therefore more debt, fix a problem caused by too much debt? If the average American can’t afford to pay back their old debts, then why in the world would they want to take on new debt? The philosophy of forcing liquidity into the same debt mechanisms which caused the problem in the first place to save the economy could only be dreamed up by someone with the mind of a naive child, unless, that someone wanted to deliberately make the problem worse….

If that is the case, then they have succeeded admirably.

Banks received trillions of dollars in bailout money, but still have not returned to standard lending practices. In fact many have tightened their restrictions on lending even further:

http://moneyfeatures.blogs.money.cnn.com/2009/12/07/mortgage-lenders-still-arent-lending/

http://www.nypost.com/p/news/business/banks_need_to_lend_now_wIZJF5AD5gzJPV8ICjaByK

The Treasury has reported that bank lending balances continued to drop nine consecutive months through October:

http://finance.yahoo.com/news/Treasury-report-shows-bank-apf-2357245330.html?x=0&sec=topStories&pos=6&asset=&ccode=

So the goal of the bailouts, the goal given as an excuse to assuage the anger of the American people, was never accomplished, and probably never will be.

If banks aren’t using the bailout money they were given to create new loans then what are they doing with it? Some are hoarding the cash, while others have been gambling with it in the stock market! If the bailout money is still sitting in the pockets of bankers, and it never went into credit markets, then how can the Fed claim that it stopped the collapse? The fact is, the bailouts have done absolutely nothing except prop up the Dow and give the illusion that things are improving. No amount of spin, though, can change the fundamentals.

Banks across the country continue to shut down at an alarming rate. The FDIC has closed 140 so far this year, and recently announced the closure of two banks in California with assets totaling in excess of $10 Billion!

http://news.yahoo.com/s/ap/20091219/ap_on_bi_ge/us_bank_closures

Not only this, but the FDIC is in many cases unable to sell off these bankrupt assets to other banks, meaning, they are forced to absorb the entire debt instead of a small piece of it. Any depositors at the RockBridge Commercial Bank with savings of more than $250,000 in their accounts have essentially lost the remainder. Recovery of their savings could take months, and even then they may get only a portion of what they had in their accounts.

What does this mean? It means that the FDIC is having trouble guaranteeing your deposits. Why? Because the FDIC is broke. Before the announcement of the two California banks totaling $10 Billion, the FDIC was officially in the red for $8.2 Billion. The real amount of debt the FDIC has incurred is probably far more than reported.

I have heard it argued that 140 closed banks is not such a terrible number. During the Great Depression, over 3000 banks were shut down. This is another straw man debate point. Yes, thousands of banks were closed during the depression, but there were numerous small private banks and city banks in those days, and their total deposits were miniscule compared to modern corporate banks. It is not the number of banks closed that is important, it is the size of their assets and deposits which makes or breaks the FDIC.

How long can the Treasury go printing money to bailout the FDIC? I suspect not very long.

Housing Is Still In Trouble

The bottom line is, nothing has changed except how we are told to perceive the situation. Changing how one looks at a problem does not make the problem go away, as much as we would like it to. This fact goes for the housing issue as well.

We are told constantly by the MSM that the markets are improving, but if this is so, then why are large banks continuing to go bankrupt due to defaults on home loans? Why is it that mortgage delinquencies continue to rise to record levels every month?

http://realestateinvestordaily.com/market-information-news/mortgage-delinquencies-set-new-record-in-third-quarter/

Even families that received direct help from the U.S. government “foreclosure prevention plan” are behind on their payments!

http://www.reuters.com/article/idUSTRE5B41ME20091205

A glut of foreclosed homes are now on the market, but banks are having trouble finding anyone to buy, even at discount price ranges:

http://news.yahoo.com/s/nm/20091215/ts_nm/us_usa_housing_foreclosures

In response, the Federal Reserve is executing a plan to pump $1.25 Trillion into mortgage backed securities in order to bring interest rates down to record lows. This is very similar to the policy which they used to cause the housing crash in the first place:

http://finance.yahoo.com/news/Rates-on-30year-mortgages-set-apf-646421176.html?x=0&sec=topStories&pos=4&asset=&ccode=

Again, what we are told by the MSM and the government, and what seems to be occurring at the foundations of the economy, are in total opposition. Someone somewhere is lying.

On The Other Side Of The World…

Terrible events can occur while the masses are psychologically unaware or “asleep”, but they can also occur while we are literally asleep too. In a world designed around the concept of Globalization, that which damages the economy of one country, can have drastic effects on another. This was made evident by the recent trouble in Dubai, however, there is much more happening on the other side of the world that we rarely hear about.

Both Greece and Spain are currently in dire straights with mounting and unserviceable debt:

http://moneynews.com/Economy/greece-downgrade-credit-rating/2009/12/16/id/343500

http://www.economist.com/world/europe/displaystory.cfm?story_id=14973182

But these are not the only European countries in danger of default. If one examines debt as a percentage of a country’s GDP, one can see which nations are on the edge of collapse.

Nations with a high debt to GDP ratio have a tendency to default, that is, to go bankrupt. Greece and Italy already have a national debt larger then their entire GDP, which means the revenue of each country for a whole year is not enough to pay off what they owe! This indicates the very real possibility of economic collapse in these countries. Spain, UK, and Germany are all on the edge of the abyss as well.

It is important to note here that America’s debt is now around 75% of our GDP, and is projected to increase to 100% of our GDP by the end of Obama’s first term:

http://en.wikipedia.org/wiki/United_States_public_debt

Debt is the major driving force that will trigger collapse, and the U.S. is well on its way to accumulating epic amounts of it.

If any of these countries default on their debt (including the U.S.) the shockwave will send the rest of the globe into financial retreat.

Smoke And Mirrors

It's nice to maintain a rosy outlook on the economic situation we face. It makes us feel safe. The fact is, though, that we are far from safe, and denying the problem will not make it go away. The MSM's main drive, at least for now, is to promote a sense of well being. Some of them do it because they believe the markets are driven by psychology and that by creating a positive atmosphere, we can somehow make our troubles disappear through shear force of will. Of course, this is an absurd notion.

Others ignore the facts and spin ideas of recovery deliberately and with malicious intent, because they know comfortable people are not alert, and those that are not alert are easy to surprise, and surprised people are easy to control. The globalist George Soros for instance has lately been denying all signs of collapse, and making claims countries like Greece, Dubai, and the UK, have nothing to worry about:

http://moneynews.com/StreetTalk/Soros-Greece-Dubai-Default/2009/12/14/id/342566

Gee, I know that makes me feel a whole lot better.

What we are witnessing today is perhaps the greatest faux recovery in the history of the world. There is a reason why there is so much conflicting evidence. There is a reason why many economists are confused as to where the economy is going; because some of the evidence is based in fact, while the rest is designed to deceive. Learning and standing by economic fundamentals can help one in discerning what rings true and what does not. The fundamentals cannot be changed, they can only be hidden. Stick with the foundations of the system, ignore the fluff, the fog and shadows media game, and you will never be caught unaware when disaster strikes.

http://neithercorp.us/npress/