## AFF

### Austerity Bad

#### Austerity would wreck the economy—Britain proves

Altman 7/26/2012 – Author of "SABOTAGE: How the Republican Party Crippled America's Economic Recovery" [Daniel, “What Austerity Would Mean for America” <http://www.huffingtonpost.com/daniel-altman/austerity-policy_b_1701614.html>]

Want to know what big cuts in federal spending would do to the United States? Look no further than the United Kingdom. Our former colonial power's economy has moved almost in lockstep with ours over the past decade, but the Conservative Party's austerity program has pushed it into a double-dip recession. With Republicans here proposing deep cuts in federal spending, the United Kingdom offers a worrying glimpse of our possible future. As I've written in my new eBook (available free of charge from Amazon this week), fiscal austerity can be a necessary step for governments overburdened by their debts. When a country defaults on its debt or can no longer borrow from the financial markets at reasonable rates, it has to show that it's capable of imposing some discipline and tightening its belt. Once the cuts have been applied and a balanced spending plan for the near future is in place, investors will usually line up to lend money again. That's what happened in Latvia in the wake of the recent global financial crisis. The crisis took a big chunk out of the Latvian economy, which reduced tax revenues and the government's ability to pay its debts. In February 2009, Standard and Poor's downgraded Latvian bonds to junk status, so big institutional investors like pension funds could no longer buy them. Later that year, when the government tried to issue a paltry $17 million in six-month bonds, no one was buying. So Latvia took the bitter pill. It slashed public spending while trying to keep benefits programs in place for the unemployed, and soon it was able to make a triumphant return to the markets. In June 2011, at the government's next attempt to sell bonds, an issue of $500 million brought demand for seven times that amount. But the United Kingdom and especially the United States are not Latvia. In the wake of the global financial crisis, they still enjoyed favorable credit ratings and could borrow easily -- indeed, at some of the lowest rates in history. It's true that they both faced fiscal challenges in the long term; eventually, they would have to reduce their debts. There was no hurry, however. The priority in the short term should have been to bolster their economic recoveries. By cutting spending instead, the Conservative government in the United Kingdom pulled the rug out from under its economy. To be sure, there are always areas where governments can reduce waste and improve efficiency. Yet in June 2010, the Conservatives implemented a plan that eliminated 550,000 jobs -- about two percent of the total jobs in the economy -- in just four years. This was austerity on a grand scale, and at precisely the wrong time. Fast-forward two year to today, and the United Kingdom's economy has shrunk for three consecutive quarters. It's back in recession. When Republicans in the United States talk about the need to cut the federal budget, the issue should not be just "how much" but also "when." Cutting too early, before the economy regains its usual strength, would be a dire mistake. The economy still needs fiscal help; the Federal Reserve can't support full employment all by itself. Remember that in November.

### No Confidence

#### Consumer confidence is continuing to decline

Xinhua 7/28/2012 [“US consumer confidence slips amid slower job growth, higher food prices,” <http://www.globaltimes.cn/content/723825.shtml>]

The US consumer confidence in July continued to decline after hitting a 4.5-year high in May, as the job growth is slowing and food prices are rising, a leading industry report showed on Friday. The index of US consumer confidence dipped to 72.3 in July from 73.2 last month, according to the final reading of the Thomson Reuters/University of Michigan index of consumer sentiment. The fresh figure is better than the preliminary estimate of 72. The July decline is the second in the past 10 months. The index averaged 64.2 during the last recession from December 2007 to June 2009, and 89 in the five years leading up to the recession. The index gauging consumer expectations for six months from now, which more closely projects the direction of consumer spending, also eased to 65.6, the lowest so far this year. The index of current conditions, reflecting Americans' perceptions of their financial situation and whether they consider it a good time to buy big-ticket items like cars, rose to 82.7 from 81.5 in the previous month. The US hiring slowed significantly in the past several months. From April to June, employers only added an average of 75,000 jobs per month, far less than an average of over 220,000 in the first three months this year. In addition, food prices are pushed up by severe drought disasters sweeping across two-thirds of the continental United States. The good news is that consumers do not expect the economic slowdown to prompt an economy-wide recession. But they also dot not expect the economic growth to revive job and income prospects, according to the survey. It is widely believed that the US economic recovery will heavily rely on the rebound of consumer spending, which accounts for about 70 percent of the overall economic activity.

#### Confidence in the economy is down—lack of sustained growth

Condon 7/24/2012 – Huffington Post [Bernard, “Stocks Fall for Third Straight Day on Europe Crisis, Manufacturing Woes,” <http://www.huffingtonpost.com/2012/07/24/stocks-fall-third-day_n_1699605.html>]

A parade of grim news, from weak corporate earnings to a pullback at U.S. factories to spreading fault lines in Europe's debt crisis, sent investors fleeing stocks for a third straight day on Tuesday. As if that weren't bad enough, Apple delivered a rare earnings disappointment after the closing bell, boding poorly for Wednesday's trading. The Dow Jones industrial average fell 104.14 points, or 0.8 percent, to 12,617.32. It was the third triple-digit point loss in a row for the blue chip index. The last time that happened was September, when fears were rife that the U.S. was on the brink of another recession. Lower earnings forecasts from corporate bellwethers like United Parcel Service, combined with a weak report on manufacturing, fed fears of more disappointing results from Corporate America in the coming days. "Our guess is we haven't seen the worst," said Carl Yingst, chief market analyst at Joseph Gunner, an investment bank. Soon after he spoke came a bit of confirmation from a stock market star. After the close of trading, Apple reported the smallest increases in revenue and income in years, badly missing analysts' expectations. The stock fell $29.76, or 5 percent, to $571.19 in extended trading. "It's a huge swing and a miss for a company that usually knocks the cover off the ball," said Jack Ablin, chief investment officer of Harris Private Bank. "The ill winds of global trade are enveloping everyone, even the high and mighty." It was a fitting end to a bad day as investors around the world dumped stocks and fled to the relative safety of U.S. government debt. The yield on the benchmark 10-year Treasury note fell to another record low and the dollar hit a two-year high against the euro. Stocks fell from the start of trading following news that UPS had cut its earnings forecast 4 percent for all of 2012 as global trade slows. UPS's stock fell $3.61, or 5 percent, to $74.34. Also weighing on stocks, Spain's borrowing costs spiked as investors worried that country could become the latest in Europe to ask for a financial lifeline. Spain's banks have already received help from international lenders. The broader Standard & Poor's 500 fell 12.21 points to 1,338.31. The Nasdaq composite was off 27.16 points to 2,862.99. Early in the day, DuPont reported that its net income fell 3 percent for the second quarter on slower business in Europe and Asia. The huge chemical maker also reported revenue that fell short of Wall Street's expectations. DuPont's stock lost 97 cents, or 2 percent, to $47.74. Adding to the jitters was a report from Federal Reserve Bank of Richmond indicated that manufacturing in the central-Atlantic region is contracting. That followed reports of pullbacks in New York and Philadelphia. In Europe, the yield on the 10-year Spanish government bond rose 0.10 percentage point to 7.53 percent, a dangerously high level. Investors also sold Italian government bonds, sending the yield on that country's 10-year bond up 0.32 percentage points to 6.54 percent. Late Monday, Moody's Investors Service issued a warning about the credit rating for Germany. Moody's anticipates that strong countries like Germany will have to shoulder a heavy financial burden as they support weaker countries like Spain and Italy. The debts of those countries are considered far too big for current bailout funds to handle. In cutting its outlook on Germany, Moody's also said there was an "increased likelihood" that Greece would leave Europe's monetary union. "Things are only going to get worse," said Adrian Day, president of Adrian Day Investment Management. He added that he's not buying stocks, save for gold-related companies, because he expects them head lower as the European crisis deepens. As they dump stocks, investors have been piling into U.S. government bonds. On Tuesday, the yield on the 10-year Treasury note fell to 1.40 percent, matching the record low it reached Monday. Investors have also been selling the euro. The euro fell to $1.20 on Tuesday, a two-year low against the dollar. In corporate news, AT&T and Whirlpool both fell short of analyst estimates of earnings and revenue. AT&T fell 75 cents, or 2 percent, to $34.63. Whirlpool, the world's biggest appliance maker, dropped $5.06, or 7.5 percent, to $62.25. So far this earnings season, nearly seven of ten companies that have reported earnings have beaten estimates, slightly higher than is usual, according to S&P Capital IQ, a research firm. But analysts had been lowering those expectations for months so the feat of surpassing them isn't so impressive.

### No Jobs Now

#### Economy is slowing down

Boston Herald 7/30/2012 [“Dow up, but jobs report likely a downer,” <http://www.bostonherald.com/business/general/view/20220730dow_up_but_jobs_report_likely_a_downer/>]

Stocks rallied last week as investors bet that central bankers meeting this week in the United States and Europe will take action to kick-start the sputtering American economy and address the euro zone debt crisis. It’s doubtful that the Federal Reserve, which meets Wednesday, or the European Central Bank, which meets Thursday, will take drastic action, but some measures to improve the U.S. and European economies appear likely. About a fifth of S&P 500 companies report quarterly earnings this week, and big names such as General Motors, Procter and Gamble, Kraft and Berkshire Hathaway offer their outlooks. Auto makers report monthly sales Wednesday and U.S. chain stores will detail July sales on Thursday. The July employment report is due Friday, and President Obama could suffer another political blow as it appears that only about 100,000 jobs were added to the sluggish U.S. economy.

#### Job creation has stayed under 100K per month

Hing 7/28/2012 [Regina, “Jobs growth, Fed take center stage next week,” <http://articles.marketwatch.com/2012-07-28/markets/32890947_1_jobs-report-jobs-growth-wilmington-trust-investment-advisors>]

 U.S. stock investors are likely to focus on jobs, the consumer and central bankers next week, with more tepid readings on the economy raising expectations for extra Federal Reserve stimulus. A heavy week of data releases, culminating in Friday’s July jobs report, as well as meetings by the Fed, European Central Bank and Bank of England will likely overshadow earnings reports. More than half of S&P 500 (US:SPX) companies, including Apple Inc. (US:AAPL) , Bank of America Corp. (US:BAC) and Caterpillar Inc. (US:CAT) already have reported the latest quarter’s results. Although 71% of large-cap U.S. stocks have reported earnings above the mean estimate, the blended growth rate for the index is currently at 3.3% — the lowest growth in 11 consecutive quarters, according to a FactSet analysis. “On the whole it hasn’t been a bad season, given all the macro challenges, but some of the companies gave really weak forward guidance and they were punished [in the markets] for that,” said John Praveen, chief investment strategist at Prudential International. Some of those strains on corporate growth may be showing up in sluggish jobs growth. In June, the United States created 80,000 jobs, the third straight month of job growth of under 100,000. Economists polled by MarketWatch are expecting a break with that trend, with payrolls expanding by 110,000 in July. With federal spending cuts and higher taxes due to kick in next year, plus the ongoing debt crisis in Europe, analysts worry that businesses have little incentive to hire. “There’s a great deal of uncertainty over what happens as we get into the second half of the year — there’s the ‘Europe fatigue’, anxiety about U.S. elections and the fiscal cliff,” Praveen added. Europe vied with corporate news to sway sentiment in the latest week. Comments from policy makers including ECB President Mario Draghi on preserving the euro zone temporarily calmed fears about runaway Spanish borrowing costs, helping stocks into a late-week rally. The Dow Jones Industrial Average (US:DJIA) rose nearly 2% for the week, its third weekly gain, and recrossed 13,000 for the first time since early May. The S&P 500 Index (US:SPX) gained 1.7% for the week, also the third weekly gain. The Nasdaq Composite Index (US:COMP) rose 1.1%. See Friday’s Market Snapshot. Consumer, Fed Monday is light on both earnings and economic data, giving investors an extra day to digest Friday’s gross domestic product report, which underscored lingering sluggishness in consumption. The U.S. economy grew 1.5% in the second quarter. Read more on GDP. “What was also interesting in the GDP numbers was that we clearly saw slower consumer spending but higher inventory numbers,” said Cam Albright, director of asset allocation at Wilmington Trust Investment Advisors. “The shelves are being stocked, but they’re not getting emptied.” The consumer will be in focus Tuesday as indicators on consumer spending, personal income, consumer confidence and S&P/Case-Shiller home prices are released. See economic calendar. Housing data has become somewhat of a bright spot, according to Prudential’s Praveen, but don’t expect a big pop in the consumer numbers. “We might see some modest gains, but it’s not going to be enough to make a dent,” he said.

#### Slow growth won’t be able to add jobs—short term stimulus can’t solve either

Mason 7/30/2012 – has been President and CEO of two publicly traded financial institutions and the executive vice president and CFO of a third. He has also served as a special assistant to the secretary of the Department of Housing and Urban Development in Washington, D. C. and as a senior economist within the Federal Reserve System [John, “Recession in Europe and Beyond: The Impact On The United States,” <http://seekingalpha.com/article/760581-recession-in-europe-and-beyond-the-impact-on-the-united-states>]

Early this year, January 4 to be exact, I posted a blog stating that the number 1 issue for 2012 would be recession in Europe. Well, Europe has done its part - most of the eurozone is experiencing a recession. But, economic growth in other parts of the world, like China, is experiencing slower growth as well. And what about the United States? Certainly the figures on real economic growth released last Friday do not provide any support that the United States is doing much better. Year-over-year, the United States grew at a 2.2 percent rate of growth, down from 2.4 percent in the first quarter of the year. The most interesting part about the release of data, however, was the fact that real GDP growth for early on in the recovery was revised, making the whole economic recovery weaker than previously thought. Here we see in the accompanying chart that the growth of real GDP never actually reached 3.0 percent at any time. That is, once the recovery took place, economic growth stayed in the 1.6 percent to 2.8 percent band…highly unusual. I have discussed how this pattern has also been followed closely by industrial production and that the weakness in the whole economy is reflecting major long run issues that must be dealt with if a more robust level of economic growth is to be attained. But the situation in Europe is worsening and economic growth in the rest of the world is facing major challenges. The concern here is how the economic malaise being felt in different parts of the world are beginning to play off one another. This is, of course, the concern that I expressed in the January 4 blogpost. I have just been talking with several friends, people who own their own businesses. The general comment is that their businesses have either turned south or are moving even faster in a southern direction. The common thread to their story: orders from Europe and from Asia are drying up. The trend throughout the world seems to be downward. Everyday we are hearing more and more stories about how the soft conditions in other parts of the world are being reflected more and more in current sales. The impacts are becoming cumulative. Thus, on top of the dislocations that now exist within each economy (topics I spend more time on in the post about the movement of industrial production), the interconnections of world trade are now experiencing evidence of reciprocal impacts. I see eurozone forecasts that show economic growth become positive for countries in the eurozone in the fourth quarter of 2012, with slow growth expected for all of 2013. The question is, are these forecasts realistic? Are they too optimistic? The problem is that the situations these countries face are a result of longer-term factors, things that the European Central Bank and the individual countries cannot just correct through short-term governmental stimulus. Youth unemployment of 24.6 percent in Spain. This is not a cyclical problem. It is not going to be overcome by short-term Keynesian efforts to “get the economy going again.” And the same is true of Italy…and Greece…and Portugal…and so on and so on. The problems being experienced in these countries are structural and must be resolved through reform efforts that are going to seriously challenge each individual country as well as the whole. Europe hasn’t owned up to this yet and there is no indication that it will anytime soon. Herein lies the further problem. Europe’s mess is now having a greater and greater impact on other countries in the world, like the United States. The “mess” has spread beyond the bond markets where “cash” has flown to “safe havens” like the United States Treasury bond market. I believe that we are now going to see more and more of this “spread” being reflected in the economic growth of the United States. And the monetary policy of the involved central banks is not going to be able to stop the spread. Earlier this year I reduced my forecast for the growth of real GDP into 2014 to the 2.0 to 2.5 percent year-over-year range. I am beginning to think that this forecast may be a little high as the problems of Europe spread to the United States. And, of course, this will have implications for the labor market. If my friends are seeing orders from Europe and Asia dropping, what incentive do they have to add anyone else to their current payrolls? What incentive do they have to purchase capital equipment? And what incentive do they and their employees have to spend all of their income? I believe that the United States economy will continue to expand in the next year or so, but nowhere near the pace needed to reduce unemployment, let alone under-employment. In my view, the third quarter of 2012 is not going to be a very good one for a sitting president to get re-elected on. And, at this time, there is really next to nothing of substance that the president can do in order to get better economic statistics before November 6.

#### Jobs lost during the recession have yet to be regain

Rugaber 7/20/2012 – Huffington Post [Chris, “Jobless Recovery: 43 States Have Fewer Jobs Now Than They Did Before Recession,” <http://www.huffingtonpost.com/2012/07/21/jobless-recovery-states-fewer-jobs-recession_n_1691691.html>]

Three years since the recession ended, 43 states have yet to regain the jobs they lost in the downturn. The figure is a reminder of how weak the nation's job market remains. The states that are the furthest behind in job growth are those that were hit hardest by the housing bust: Arizona, Florida and Nevada. Overall, the U.S. economy has 3.5 percent fewer jobs than it did before the Great Recession, which began in December 2007. The national unemployment rate has been stuck at 8.2 percent. As slow as the recovery in jobs has been, a few states are doing quite well. Seven have more jobs now than before the recession. Some – North Dakota, Texas and Alaska – are benefiting from an oil boom. But most states have lagged behind. "Except for these energy-producing states, everywhere there's still this caution in terms of hiring," Steve Cochrane, a regional economist at Moody's Analytics, said. Last month, unemployment rates rose in 27 U.S. states, the most in almost a year. Unemployment rates fell in 11 states – the fewest since August – and were unchanged in 12, the Labor Department said Friday. Nevada had the nation's highest unemployment rate in June at 11.6 percent. The state also had 12.4 percent fewer jobs than before the recession, the biggest percentage of jobs lost of any state. The state is still reeling more than four years after the housing market went bust. Nevada had the highest rate of foreclosures in the nation in the first half of 2012, according to RealtyTrac. In the first three months of the year, 61 percent of homeowners were "underwater," or owed more on their mortgages then their homes are worth, according CoreLogic, a real estate data firm. That's also the highest share in the nation. Arizona has also struggled to regain the jobs it lost, with 8.2 percent fewer in June than before the recession. That's the second-biggest loss. It had the nation's second-highest foreclosure rate in the first half of the year. Florida had 7.8 percent fewer jobs in June than before the recession, the third-biggest decline. It had the second-highest proportion of underwater homes in the first quarter. Nationwide, job growth slowed sharply this spring. Employers added just 75,000 a month from April through June, down from a healthy 226,000 pace in the first three months of the year. Despite the weak job market, seven states have regained the jobs they lost during the recession. North Dakota is by far the best. It had 15.7 percent more jobs in June than it did in December 2007. It also had the nation's lowest unemployment rate at 2.9 percent. The state's oil production has soared in the past five years. Drillers have learned how to access previously unavailable oil reserves using a process known as hydraulic fracturing or "fracking." The number of oil wells in North Dakota has doubled in the past five years, and oil production has increased fivefold. Alaska had 3.8 percent more jobs in June than before the recession began, the second-largest gain. It has also benefited from oil production. So has Texas, which had 2.4 percent more jobs in June than before the recession, or third best. The other states that have regained all their lost jobs are: New York, Oklahoma, Louisiana, and South Dakota. New York has seen broad-based gains in education and health care, financial services, and other professional services such as legal services and accounting. A few states are getting close to the positive column. West Virginia and Nebraska are just a few thousand jobs short. Virginia, Pennsylvania, Massachusetts and Maryland are down less than 2 percent. Economists at IHS Global Insight, a consulting firm, estimate that 8 states won't return to their pre-recession peak employment levels until 2016 or later. There are some encouraging signs for many of the hardest-hit states, particularly those out West. Cochrane said that industries such as information technology and aerospace have accelerated job growth recently in states such as California, Arizona and Utah. The region is also benefiting from trade with Asia, he added. California added 38,300 jobs in June, its second straight month of big gains. Florida is recovering, but not as quickly, Cochrane said. Travel and tourism is growing and adding jobs. But there aren't many other healthy industries.

#### European markets still down

CNA 7/26/2012 [Channel News Asia, “Asian markets mostly up on upbeat earnings,” <http://www.channelnewsasia.com/stories/afp_asiapacific_business/view/1215898/1/.html>]

But there was still plenty of gloom in Europe. In Germany a survey showed business confidence dropped for the third month in a row in July while Britain said its economy shrank a worse than expected 0.7 per cent in April-June deepening the country's double-dip recession.

#### The world economy has slowed down

Lagarde 7/27/2012 – International Monetary Fund chief [Christine, “US economy still in danger zone,” <http://presstv.com/detail/2012/07/27/253023/eu-center-of-econ-crisis-us-at-risk/>]

“We used to complain that the crisis having started in 2008, early 2009 in the United States of America. Well, it has clearly spread out. Europe is obviously at the epicenter of the crisis at the moment, but the US is still at risk,” IMF chief Christine Lagarde said on Thursday. She added that in order to overcome its sovereign debt crisis, the euro needed a coherent fiscal, monetary, and banking union. Lagarde made the statements while giving an update on the current state of the global economy at the Global Investment Conference. Meanwhile, Britain is going through its worst double-dip recession in over 50 years. New figures suggest a third consecutive quarter of decline for its economy. There are worries that more delays in resolving the eurozone debt crisis, which began in Greece in late 2009 and infected Italy, Spain and France last year, could push not only Europe but also much of the rest of the developed world back into recession.

### Jobs and the Election

#### Economy determines the election

Rogers 7/23/2012 – Washington Post [Ed, “Obama can't see his economic failures,” http://www.washingtonpost.com/blogs/the-insiders/post/obama-cant-see-his-economic-failures/2012/07/23/gJQAhk7o4W\_blog.html]

Voters already think America is in a recession, so if we do technically fall back into negative growth, it will only confirm what they believe. But the president has isolated himself and Democrats by not having a plan beyond more of the same. In a campaign context, there is no argument that he wants to do more than just tax and spend. His tax cut for the middle class and tax increases on the wealthy are already viewed as mere political gestures that would not have any positive economic impact, even if polls say it would be popular. If voters are frustrated now, they could be in a panic by October. There is the potential of an economic calamity on the horizon, and the president appears clueless. As we Insiders know, in politics, bad gets worse. Unfortunately, the worse to come appears to be economic circumstances that could be worse than anything we've seen since the recession started. Obama’s only chance lies in voters thinking he has a real plan, and there is no evidence of that being true today. The president has an ideological point of view that won't let him initiate pro-growth policies and an ego that won't let him admit mistakes.

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### Job Growth Now

#### Unemployment will be unchanged

Jansana 7/26/2012 – FXstreet [Noemi, “A bit stronger job creation expected for the July NFP,” http://www.fxstreet.com/fundamental/analysis-reports/us-nfp-forecast/2012/07/26/]

After 3 consecutive months of disappointing data, the market is eager to see a rebound in Nonfarm Payrolls figures for July. The general consensus is 80K but the most part of the analysts polled for this edition of the NFP forecast report is a bit more optimistic and believes the labour market in the United States has straightened since our average NFP numbers preview is around 110 - 130K. Bill Hubard, Chief Economist at Markets.com, forecasts a ‘muted’ 110,000 gain in July Nonfarm Payrolls after the depressed run averaging only 75,000 in the prior 3 months. Adam Narczewski, Financial Analyst at X-Trade Brokers, XTB, also expects a rebound (compared to the last couple of months) on the labor market with a 100 – 130K increase. However, the two analysts who show an absolute bearishness in their forecasts, Alberto Muñoz, Forex Analyst at FXstreet.com and Yohay Elam, Analyst at Forex Crunch, think the jobs creation in the United States will be around 50K. "The US will probably see another small gain in jobs, after the recent mediocre reports. The economy continues to grow very slowly, and this will probably be reflected in a gain of around 50K jobs. This is a favorable situation for the US dollar: the US economy is not strong enough to lift the world from its misery, but not bad enough for outright QE3. The unemployment rate might tick up to 8.3% or remain unchanged," said Elam.

### Deficit Spending Bad

#### Deficit spending floods bond markets

Allen 7/29/2012 – President of Montecito Private Asset Management LLC and founder of Dump Your Debt. He has been managing assets for foundations, corporations and high-net worth individuals for more than 20 years and is a Chartered Financial Analyst (CFA charter holder), a Certified Financial Planner (CFP) and holds the Certified Investment Management Analyst (CIMA) certification [Craig, “Renewed Speculation on Further Stimulus Drives Stock Gains,” <http://www.noozhawk.com/article/072912_craig_allen_stimulus/>]

Those who lived through the late 1970s and early 1980s will certainly remember double-digit interest rates and the horrible recession (double-dip) of 1980 through 1982 — probably the worst recession since the Great Depression. Many economists are already calling for another recession in early 2013. These predictions are not a result of expectations for the unwinding of stimulus; they are in spite of the predicted additional stimulus that is yet to come! Higher long-term rates are not just frightening because of the potential for recession. Mounting U.S. and global sovereign debt levels — $15 trillion in the United States alone — are currently being financed at historically low interest rates. Since we cannot balance our budget, we are spending more than we bring in each year in government revenues. As rates rise, the cost of financing this massive debt will increase dramatically — the higher rates go, the more expensive it will become to finance our debt. Since, again, we are spending more than we bring in each year, we have to borrow all of the interest that is accumulating on our debt. This is essentially like taking a cash advance on a credit card to make your minimum credit-card payments each month (except with a lot more zeros at the end). This means we have to sell increasingly more bonds to finance that interest. The more bonds we sell, the more downward pressure on bond prices, and the more interest we will owe, especially with rates rising. This is an ugly scenario, but the most likely one, I’m afraid. It is easy to ignore this impending financial crisis, but someday very soon, we will no longer be able to ignore it. Unfortunately, by that time, it may be too late to deal with it without draconian measures that will severely and negatively affect the lives of everyone on the planet.

#### That kills growth

Allen 7/29/2012 – President of Montecito Private Asset Management LLC and founder of Dump Your Debt. He has been managing assets for foundations, corporations and high-net worth individuals for more than 20 years and is a Chartered Financial Analyst (CFA charter holder), a Certified Financial Planner (CFP) and holds the Certified Investment Management Analyst (CIMA) certification [Craig, “Renewed Speculation on Further Stimulus Drives Stock Gains,” <http://www.noozhawk.com/article/072912_craig_allen_stimulus/>]

Renewed speculation over the possibility of further stimulus drives stock market performance last week The Dow Jones Industrial Average’s impressive move back above 13,000 on Friday capped off a strong week for stock performance, with a three-day advance that drove weekly gains of about 2 percent for the Dow, 1.1 percent for the NASDAQ and 1.7 percent for the Standard & Poor’s 500. While the 13,000 level is psychologically important, a move above 1,400 on the S&P 500 would be much more meaningful from a technical perspective. The S&P 500 ended last week at 1,386, so it’s only about 14 points away from the 1,400 threshold. More important, the relative weakness in performance of the tech-heavy NASDAQ is concerning, since tech stocks typically drive overall stock market performance during bull-market rallies. Friday’s gains were driven primarily by word from both the Federal Reserve here in the United States and the European Central Bank that further economic stimulus could be just around the corner. There were also reports that the Bundesbank president and ECB chief may be in discussions on new measures to ease the euro-zone’s continuing debt crisis, which has plagued world markets for months. Bloomberg reported Friday midsession that Deutsche Bundesbank president Jens Weidmann is in talks with ECB president Mario Draghi with Draghi possibly proposing rate cuts, bond purchases and new Long-Term Refinancing Operations (LTRO). On Thursday, Draghi vowed to do “whatever it takes” to save the euro, which helped spark a global rally Thursday that carried through to Friday’s trading as well. These recent comments by Draghi are unusual, and could be a sign of desperation, since he may be finding it easier to comment on the markets rather than to take specific actions to address the glaring problems faced by the European Union and the euro. My concern, which I have voiced repeatedly, is the probable negative long-term consequences of these continuing injections of liquidity into the worldwide financial system. Stimulus is certainly a commonly used tool by central banks in times of economic strife. However, we have never experienced so many central banks simultaneously using these measures — and never in the magnitude we are seeing them used today. The added liquidity, at some point, will need to be removed from the system. Taking liquidity out isn’t always an easy task. To inject liquidity, the typical method involves buying long-term securities, including treasuries and mortgage-backed securities from banks. The purpose and outcome of these operations has been to drive the prices of these assets up and their yields down. Lower long-term interest rates is the end result that central banks are after when conducting stimulus operations. To unwind these trades, at some point in the (near) future, they must sell these securities, thus driving prices down and long-term interest rates back up. If inflation threatens, forcing a rapid unwinding of these stimulus operations, rates could skyrocket, crushing any economic growth we have achieved.

### Competitiveness High Now

#### Competitiveness high now—profitability

Jansana 7/26/2012 – FXstreet [Noemi, “A bit stronger job creation expected for the July NFP,” http://www.fxstreet.com/fundamental/analysis-reports/us-nfp-forecast/2012/07/26/]

The US Department of Labor will release the Nonfarm Payrolls data for June on August 3 at 12:30 GMT. Below you will find full commentaries of the contributing analysts. Alexandra Estiot - Senior Economist at BNP Paribas: "July is set to mark the fourth straight month of job creations below the 100k threshold, even if we do expect a slight rebound to 95k, from 80k in June and an average of 75k per month since April. Regional manufacturing surveys as well as initial claims data failed to rebound markedly in July, but they stopped deteriorating at least. However, it is rather difficult to be upbeat about the US labour market. Even if the US economy was hit later by the global manufacturing slowdown, it is finally hit. The great improvement of the US competitiveness over the last few years will help cushion the slowdown, though. An additional reason not to be too pessimistic is the tentative signs that the Chinese economy may be responding positively to the eased policy mix. Added to the very limited pressures on prices, these are reasons to expect that the US business sector will be able to safeguard its profitability. This is definitely not enough to guarantee a rebound in job creations, but should allow payrolls not to shrink. The pace of increase in non-farm payrolls will, however, remain too limited to avoid an increase in the unemployment rate, which we do expect at 8.3% in July."