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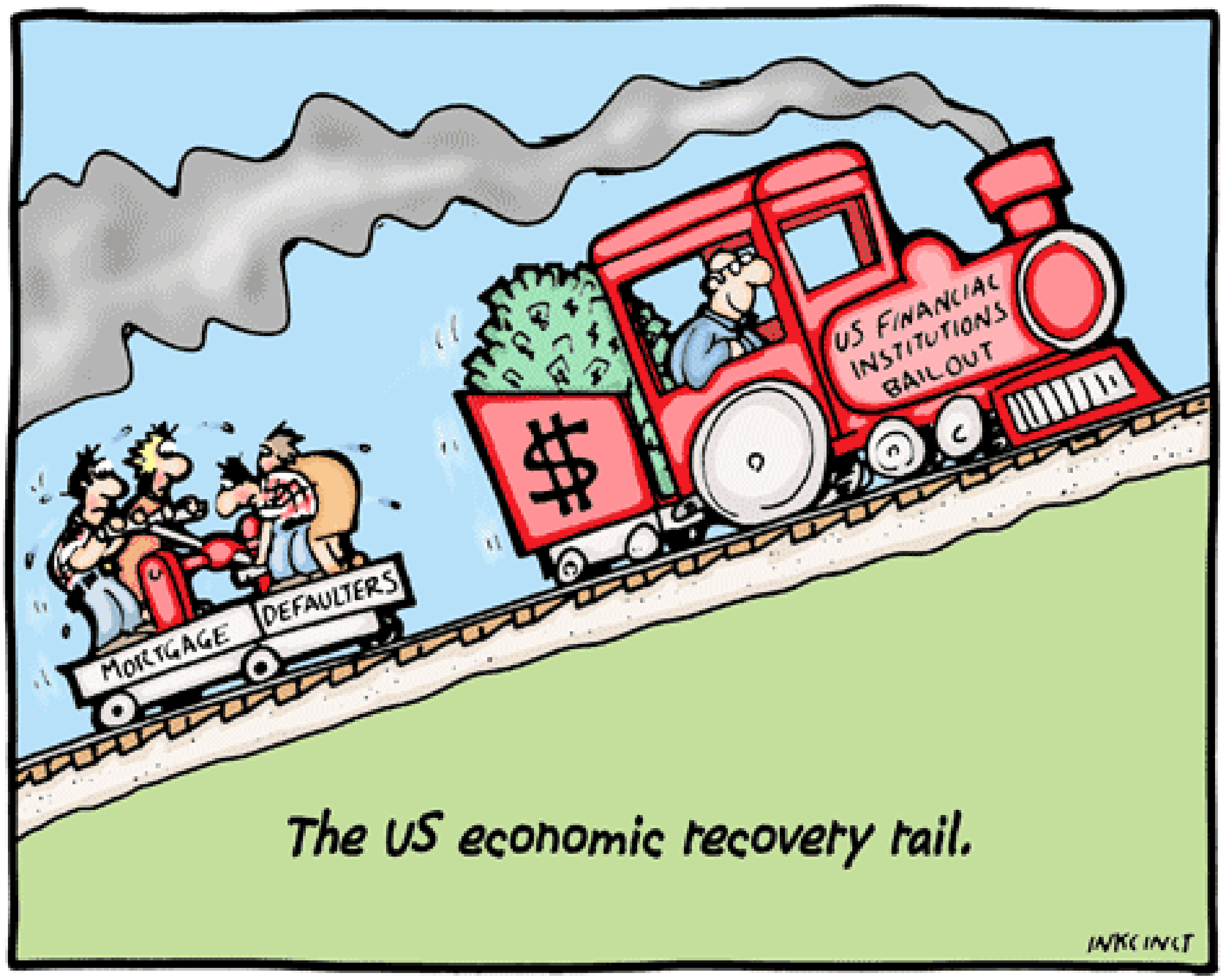
The "Recovery" That Never Happened



"Peace And Spirit Creating Alternate Solutions"

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The "Recovery" That Never Happened

The Facts and Figures the Government Doesn't Want You to Know

http://w3.newsmax.com/newsletters/fir/issues/recovery0811/fir_recovery0811_93.pdf

August 2011 Vol. 9, No. 8 (paper was prepared prior to the August stock market fall)
By Bob Wiedemer August 2011 Vol. 9, No. 8

The so-called economic recovery that the mainstream media have been blindly touting as "under way" after being fed statistics from the government is, in fact, fake. And not just partially fake — it's 100 percent fantasy.

I know the pundits and professional government cheerleaders like to claim the economy has rebounded and is on the mend. They'll point to the massive stimulus package injected into the economy by a desperate Congress and presidential administration and explain that it actually kicked the gears into motion. "Yes, the stimulus may have been the dominating economic factor before, but now 'animal spirits' have taken over and the economy is running and recovering on its own," or so the argument goes.

Here's the real story: The recovery is made up of only stimulus funds. It's completely a result of massive increases in government borrowing. Let's look at the numbers:

In 2007, the U.S. gross domestic product (GDP) figure totalled US$14 trillion. In 2010, the GDP was US$14.6 trillion. That's a net increase of US$600 billion.

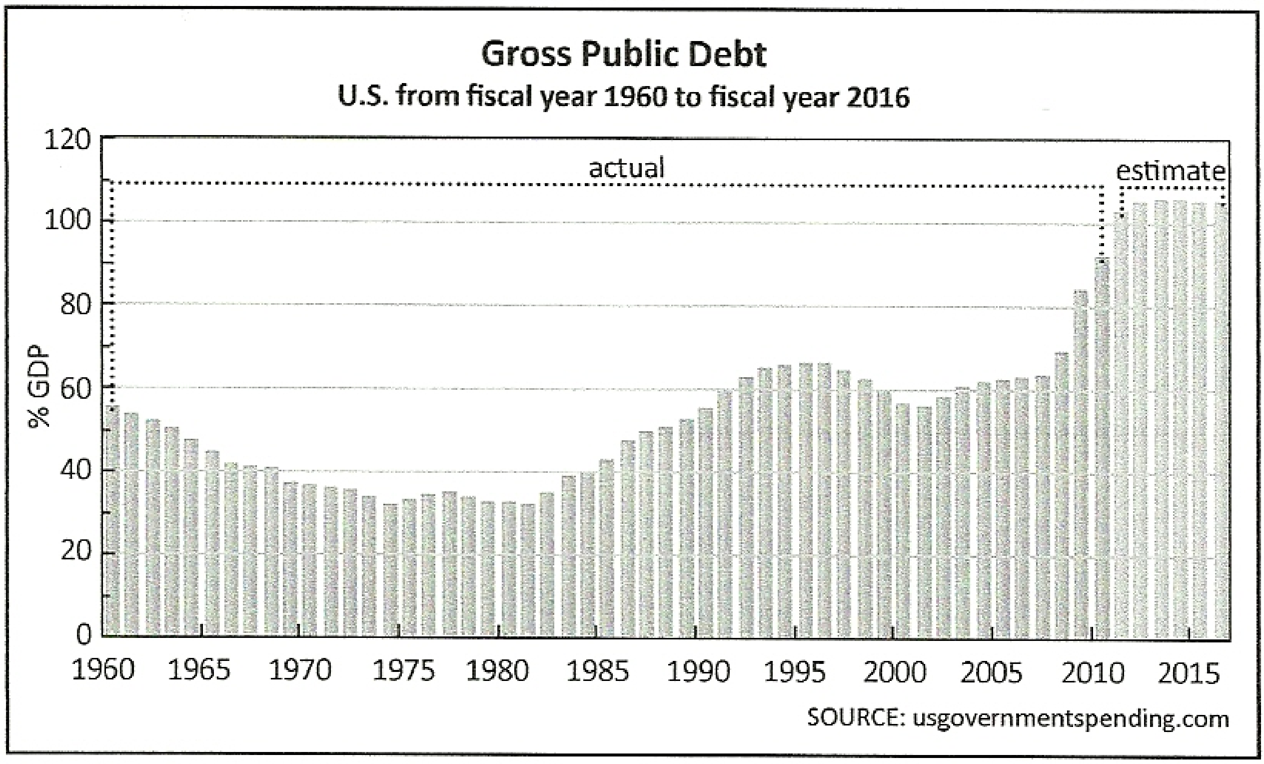
Viewed on its own, $600 billion in three years is not very good, but on the bright side, it is a rebound that tracks at least slightly above inflation.

Now, let's compare that to the increase in government borrowing. In 2007, the U.S. government borrowed and spent $163 billion. In 2010, the government borrowed and spent almost $1.4 trillion, a net increase of over $1.2 trillion.

Put those figures together, and it's plainly obvious that the increase in GDP can be attributed to the increase in government spending. Not only that, the increase in government outlay is almost twice the increase in the GDP.

In other words, the economy on its own accord is doing very poorly indeed. Without those astronomical increases in government borrowing and spending, there would be no recovery at all.

Borrowing Without Repercussions?



Unfortunately for the U.S. taxpayer, the government is showing no signs of slowing down its spending binge. Note that in February 2011 alone, it borrowed and spent US$222 billion. That's almost 40 percent more than was spent in all of 2007!

And don't forget, the stock market "recovery" is being driven almost entirely by printed money, i.e., the quantitative easing strategy of government bond buying, the second round of which ended June 30.

It's a simple fact that, when the Fed creates new money, the stock market responds by heading higher. When the Fed stops printing money, the market descends. The stock market recovery is as fake as the economic recovery. It's all driven by unsustainable and irresponsible government actions.

How are we going to pay all that borrowed money back? The answer a cheerleading financial analyst or economist would give is that we won't need to. In fact, we can keep borrowing trillions of dollars for the next five years of slow recovery and not have to worry about paying that back either. Is that really true or just another fraudulent view?

If it's true, great, then let's borrow even more!

Obviously, though — or at least it's obvious to anyone with a modicum of financial sense — it's not true. And those analysts and economists likely know it's not. They're just blindly hoping for their economic miracle math to somehow work, which would save their investments and their reputations.

Why kid themselves? Because if it's not true, all of that bubble money and the bubble reputations built upon it will pop into thin air. If seeing reality means you have to change the way you think, and you simply can't face the consequences of changing the way you think, then not seeing reality is your only choice. Heck, it's probably better than realizing that you've made a poor bet and may lose everything.

Trying to Light Wet Wood

Until reality hits, the combination of massive borrowing and money printing will keep the market from falling too drastically. However, although printing money has been great for boosting the stock market, it hasn't done that much for the economy.

The GDP growth in the fourth quarter of 2010 was 3.1 percent (QE2 started in November 2010), but in the first quarter of 2011 it was only 1.9 percent, and will likely be the same or lower in the second quarter. Our economic growth rate is actually less than before QE2.

That doesn't mean that there hasn't been any effect from the stimulus. There has. It's just that the economy has been going down as fast as the stimulus can be put in. The economy is a boat full of holes, and even if you're dumping out water using a pail as fast as you can, water is still coming in. It takes a lot of effort just to keep the boat afloat.

Often, you get some level of multiplier effect from government stimulus. In this case, there seems to be very little from either the borrowing or the printing, however. This lack of a multiplier from the stimulus is another sign of the fundamental weakness of the economy. Like trying to light a fire with wet wood, it just won't catch.

Because the economy is growing so slowly and housing is declining, the stock market has turned into a focal point. It's the only part of the economy that shows outward signs of recovery. It's what boosts everyone's spirits.

Imagine putting that market back below 7,000, as it was in the depths of the financial crisis free-fall, and the world would look completely different. Any talk of a recovery would vanish.

All the hope rests within the stock market. It sure isn't with unemployment, housing or even consumer spending. Auto sales were at 11.6 million units (USA) last year and are headed for only a 5 percent to 10 percent increase this year. That's nothing like the 17 million units in the days before the financial crisis.

Nothing else has rebounded but the stock market and its rebound has been heavily dependent on printed money. The stock market has never actually increased without printed money since the financial crisis.

The stock market, in fact, has driven the decision on quantitative easing, and will drive future decisions as well. It's not deflation or anything else. The Federal Reserve and much of Wall Street have pinned their hopes on the idea that, wherever Wall Street goes, Main Street will soon follow.

Of course, that's not the way the real world works, and that's why the stock market recovery is a fake as well. It's not based on a hard-nosed analysis of the economy and its underlying capacity for growth. It's based on printed money pushing up stock values far beyond any true economic recovery.

Today's Housing Market Is a Glimpse into the Future of Stocks

You can find plenty of pundits who will predict a continued upward trend in the stock market. But good luck finding someone who thinks housing prices are going to increase significantly in 2011.

Robert Shiller, who helped to create the oft-cited Case-Shiller Home Price Index, said it "wouldn't surprise him at all" if home prices fell 10 percent to 25 percent in the next five years.

Of course, there are still ebullient analysts who claim to expect home prices to increase in 2012, but very few see a price increase this year. That's in marked contrast to years past, especially the years immediately after home prices stopped shooting up significantly in late 2005. Every year after that, the claims were that home prices were "poised for a rebound."

Over time, though, it became clear a rebound was not in store for housing, no matter how hard people hoped for it. By early 2011, almost six years after house prices halted their historic ascent, people are starting to throw in the towel. Many haven't given up hope completely, but sentiment toward increasing housing prices is clearly changing.

The pattern with stocks will be similar to housing, although the timing could be different. By next spring, it will be over five years since stocks peaked in 2007. Even if stocks briefly regain their 2007 peak this year because of enough money printing and those "animal spirits" on Wall Street, it will have been a long time since its previous high and the economy will clearly not be recovering. People will be getting fed up and worried — the fact that stocks have been essentially flat for 10 years will increasingly wear on people. Sentiments will begin to change.

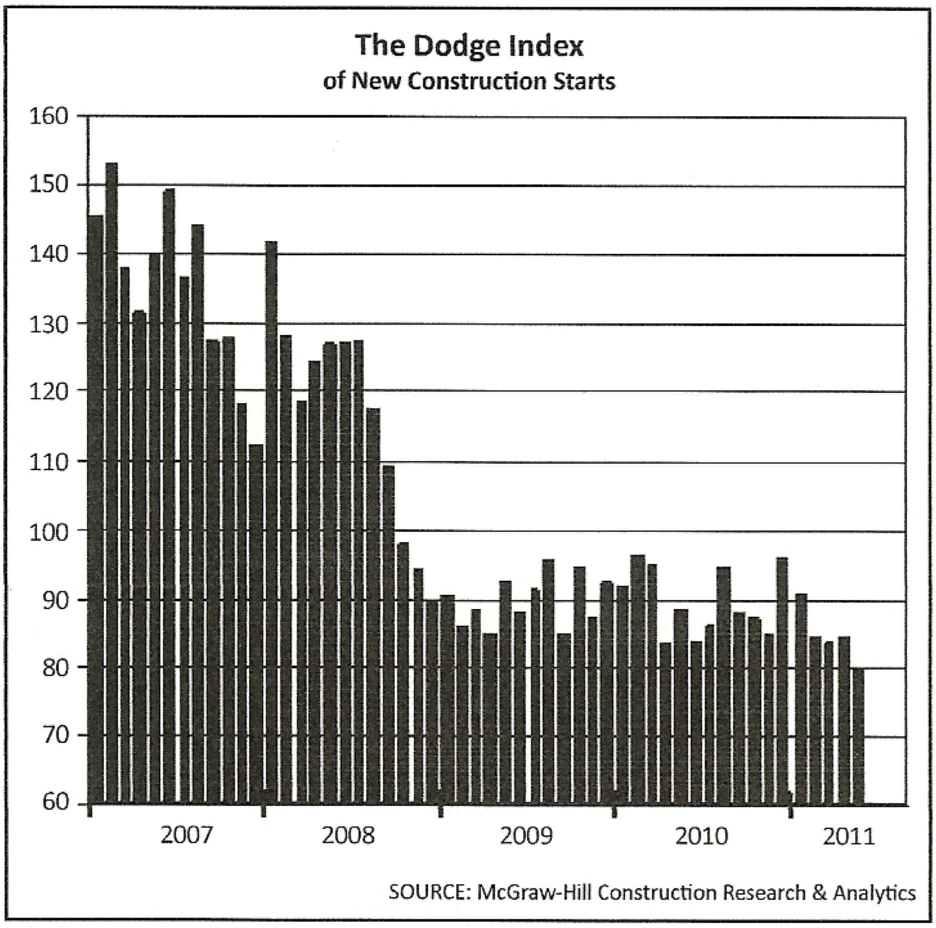
Like the Internet and other bubbles before it, it's hard to say when this particular bubble will pop, but the current view toward housing gives you a good idea of how people will view stocks, perhaps as early as next spring. Eventually people see the light and get tired of being enthusiastic in the face of damning evidence to the contrary.

Construction at a Post-Crisis Low

One of the obvious signs of any recovery is an increase in construction. It's one of the key factors that lift an economy out of a recession.

In a normal downturn, capital goods purchases and investments are curtailed because they are long-term investments and the easiest to cut in the short run. That certainly includes putting up new buildings. As the economy recovers, sentiment changes and people begin buying long-term capital goods, especially new buildings.

But life within a popping bubble is different. The previous demand for buildings was powered by unrealistic demand and unrealistic asset price increases which were fuelled by taking on lots of debt.



Hence, **when the bubble pops, there is nothing to recover to, since the earlier high level of activity was essentially false.** That's exactly what we are seeing now.

The Dodge Construction Index, which includes all construction — housing, commercial buildings, factories and infrastructure — hit its lowest level in May with a reading of 80. It almost hit 160 in 2007 and has been trending downward ever since.

Not only is this an indicator of the true health of the economy, it also has a big effect on the economy at large, since construction is a huge industry and it creates demand for a heavily U.S.-produced set of products and manufactured goods such as lumber, cement, windows, heating / air-conditioning equipment, etc. It also drives a lot of high-wage blue-collar jobs. If construction is at its lowest level in 10 years, the real economy is not recovering.

High unemployment is also a sign of what's really going on in the economy, especially the statistics on underemployment and discouraged unemployed.

The U6 unemployment rate that the Bureau of Labor Statistics produces, which includes discouraged unemployed and underemployed (people who would like a full-time job, but can find only part-time work) shows unemployment at 15.8 percent as of this writing. That is likely an underestimate because there are also many independent small businesspeople who are underemployed who don't appear in the data. If you don't have rapidly rising employment, you don't have a recovery.

China's Market on a Bull Run? Well, Not Really

If the U.S. economy's recovery is 100 percent fake, then China's recovery is 200 percent fake. That's because the government-controlled banks in China have bankrolled an unbelievable recovery on the back of printed money.

Before I give a few statistics to back this assertion, we should identify why China is important to us — because China is driving an enormous demand for goods and resources. This demand is driving the world's economic recovery.

China's demand for German machinery has kept that economy very strong, driving German unemployment down to its lowest level in decades. That's helping prop up the entire European economy. China's demand for resources is keeping Australia, South America, and other resource-producing areas in high gear. The United States is a great beneficiary of all this Chinese demand as well, since it also produces an enormous amount of machinery and resources.

Perhaps most importantly, a strong China is helping to boost the stock market's hopes of a true economic recovery. If China pops, or even just continues to slow down, another support will be kicked out from under the stock market. Remember, the stock market is everything now, so a significant hit to it will be a big deal.

The key to China's growth binge has not been growing domestic demand, but enormous government-funded infrastructure projects that are often unneeded and expansive real estate projects that are simply left empty by investors. Investment now accounts for 49 percent of Chinese GDP, up from 42 percent in 2007.

These projects are driven more by massive corruption of government officials than by any real economic need. All of this construction is made possible by loans from government-controlled banks using newly printed money.

Problems are already occurring. For instance, Reuters reported in May that the Chinese government would take responsibility for $463 billion of loans extended to local government financial vehicles for infrastructure projects. That would amount to 1.5 times the size of the U.S. TARP plan to rescue banks in 2008 if adjusted for the smaller size of China's economy.

Like in America, this massive stimulus is unnecessary. Construction can go only so far because it is unsustainable. Sales of excavators in China have fallen 65 percent from May 2010 to May 2011. Australia, a major supplier of iron ore and other resources to fuel that construction, actually suffered a decline in its GDP in the first quarter of 2011 and has been losing jobs every month this year, including May. China's manufacturing growth is slowing, as shown by China's purchasing managers index compiled by HSBC, which has fallen to 50.1. (Any number above 50 indicates growth and anything under 50 indicates a decline.)

Chinese housing values were 3.5 times GDP as of February 2010. That's close to Japan's peak during its massive real estate bubble when housing values in Japan were 3.8 times GDP. Remember how everybody thought Japan was the model of great economic management — government and private industry cooperating to create the perfect growth cocktail? Sounds a little like China today.

What is clearly happening in China is an artificial recovery. Yes, exports have rebounded, but that is due in part to the fake recovery in the United States. Much more important is the government stimulus to the Chinese economy. As China begins its long descent from its fake recovery, it will take an increasing toll on the U.S. and world economy, and on the U.S. stock market.

Bottom Line: Continued Turbulence Is Ahead for the United States

As I've argued here, what recovery we're seeing in the economy is entirely due to massively increased government money printing and borrowing since the financial crisis began. This is especially true with the stock market. Without this artificial stimulus, there would be no recovery at all. Even with this stimulus, the recovery is feeble — take the stimulus away and the economy would collapse again.

The stimulus is unfortunately not stimulating anything. Rather, it's simply propping up a bubble economy. This is of limited value in the short term, but it will come at great long-term costs when the government is eventually forced to stop massive money printing and borrowing due to very high inflation, the latter a result from the flood of money in the system.

As an investor, it's a smart strategy to play defence, and continue to follow the contrarian principles we espouse in the Financial Intelligence Report portfolio.

Questions: Who owns the debt owed by all the countries?

ALL countries around the world are in debt. Why is it every one?

The debt is not primarily owned by banks, then who is it that owns it?

Who owns the money printing presses of the world?

Fed's US$1.2 trillion lending programs kept banks alive

Bondholders and managements survived as a result of the Fed's efforts. Critics wonder if the Fed and the government would have done better to let investors eat their losses.

By Charley Blaine on Mon, Aug 22, 2011 2:37 PM

MSN Money Search

http://money.msn.com/market-news/post.aspx?post=22fdf745-e0ed-4afe-8c81-0daaae79a0a2

There haven't been a lot of hearings about the billions of dollars the Federal Reserve loaned to banks during the worst of the financial crisis.

But you can bet there will be.

The issue is this: **The Fed quietly lent some US$1.2 trillion to banks around the world, not just the United States, in the fall of 2008 and into 2009.**

In most cases, the money was repaid fairly quickly, and it is not clear if the Fed ever lost any of its money.

The extent of the program was reported by Bloomberg News, which sued the Fed to force disclosure of the lending.

Citigroup (C) and **Bank of America** (BAC) borrowed the most during the crisis. But the two, which also required extensive help from the government to bolster their capital, were hardly alone. The 10 largest banks borrowed some $669 billion, according to Bloomberg.

Investment house **Morgan Stanley** (MS) borrowed as much as $107 billion, followed by Citigroup at $99.5 billion and Bank of America at $91 billion.

"These are all whopping numbers," said Robert Litan, a former Justice Department official who in the 1990s served on a commission probing the causes of the savings and loan crisis. "You're talking about the aristocracy of American finance going down the tubes without the federal money."

Almost half of the Fed's top 30 borrowers, measured by peak balances, were European firms. They included Edinburgh-based **Royal Bank of Scotland** (RBS), which took $84.5 billion, the most of any non-U.S. lender, and Zurich-based **UBS** (UBS), which got $77.2 billion.

Germany's **Hypo Real Estate Holding** borrowed $28.7 billion, an average of $21 million for each of its 1,366 employees. The company was later nationalized.

- Check out a Bloomberg graphic on the institutions' borrowing

The Fed's lending -- made through as many as 18 different programs -- peaked at $1.2 trillion on Dec. 5, 2008. At the time, the balance was more than 25 times the Fed's pre-crisis lending peak of $46 billion on Sept. 12, 2001, the day after terrorists attacked the World Trade Center in New York and the Pentagon. Denominated in $1 bills, the $1.2 trillion would fill 539 Olympic-size swimming pools.

The Fed has said it had "no credit losses" on any of the emergency programs, and a report by Federal Reserve Bank of New York staffers in February said the central bank netted $13 billion in interest and fee income from the programs from August 2007 through December 2009.

"We designed our broad-based emergency programs to both effectively stem the crisis and minimize the financial risks to the U.S. taxpayer," said James Clouse, deputy director of the Fed's division of monetary affairs in Washington. "Nearly all of our emergency-lending programs have been closed. We have incurred no losses and expect no losses."

Why was the Fed so willing to act? It was concerned that banks would run out of cash during the crisis. Banks need a minimum amount of cash every day to handle everything from paying out loan proceeds to paying off depositors redeeming certificates of deposit or cashing checks.

Banks worldwide let their liquidity -- the ability to meet their obligations -- run down to dangerously low levels in the early part of the decade. And then they got caught by the downdraft.

What the Treasury Department and the Fed did during the crisis has been subject to enormous second-guessing, much of it probably deserved.

The criticism centers around the fact that governments around the world saved their banks and their bondholders first before starting to think about the risks the banks posed to their banking systems and their economies.

And the banks were saved ahead of many businesses that had been long time customers.

Money-manager Barry Ritholtz says what the Bush and Obama administrations should have done was:

- Fire the senior management of the banks.
- Banned all lobbying activity as a condition of any aid.
- Forced a Swedish-style prepackaged bankruptcy.

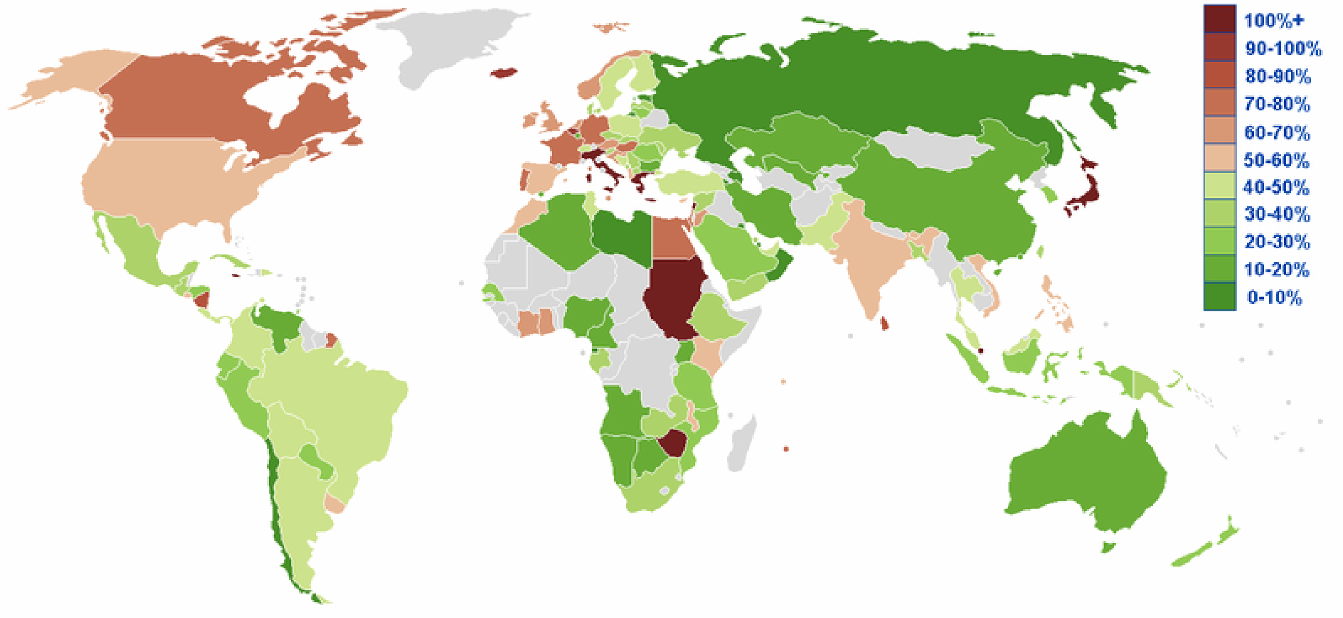
Sweden experienced a banking crisis in the 1990s and forced their banks to recapitalize. Bondholders and shareholders were largely wiped out. But the result was a more stable banking system that helped Sweden survive its current crisis.

http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(nominal)

2010 List by the CIA World Factbook

Rank	Country	GDP (millions of US$)
—	***World***	**63,170,000**
—	*European Union*	16,070,000
1	United States	14,660,000
2	People's Republic of China	5,878,000
3	Japan	5,459,000
4	Germany	3,316,000
5	France	2,583,000
6	United Kingdom	2,247,000
7	Brazil	2,090,000
8	Italy	2,055,000
9	Canada	1,574,000
10	India	1,538,000
11	Russia	1,465,000
12	Spain	1,410,000
13	Australia	1,236,000
14	Mexico	1,039,000
15	South Korea	1,007,300
16	Netherlands	783,300
17	Turkey	741,900
18	Indonesia	706,700
19	Switzerland	523,800
20	Poland	468,500
21	Belgium	465,700
22	Sweden	455,800
23	Saudi Arabia	443,700
24	Republic of China (Taiwan)	430,600
25	Norway	414,500
26	Austria	376,800
27	Argentina	370,300
28	South Africa	357,300
29	Iran	357,200
30	Thailand	318,900
31	Denmark	310,800
32	Greece	305,400
33	United Arab Emirates	301,900

Public debt percent gross domestic product world map 2009/10:



http://gmanwrp.blogspot.com/2011/05/top-6-national-external-debts.html

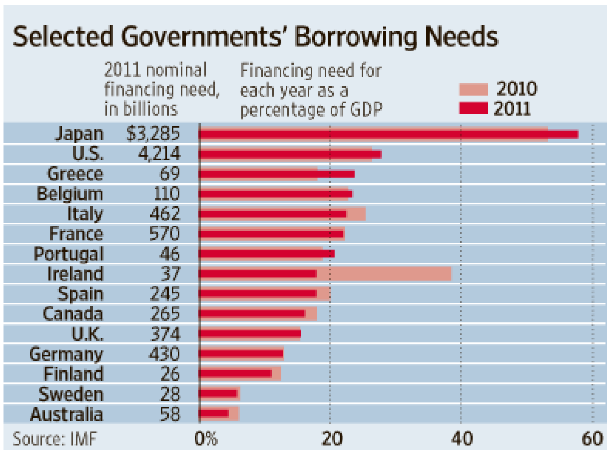
United States of America government owes	USD $14.32 trillion
Japan's public debt hits record 225.8% of it's GDP	USD $11.00 trillion
England with an external debt of	USD $8,981,000,000,000
Germany's external debt is	USD $4,713,000,000,000
France is with a debt of	USD $4,698,000,000,000
Netherlands is on this list with a debt of	USD $2,344,296,360,000

India's GDP stands at USD $2.55 trillion and its national debt is 78% of its GDP
Italy's debt reached 105.8% of GDP
Greece debt of 142.8% of GDP

USD $50 + trillion in national debts!

Russia, the national debt is $151.3 billion. This is 6.8 percent of the Russian GDP

China's holdings of U.S. national debt, which currently exceed USD 700 billion in value, making China the largest creditor nation of the United States.



So, why are the world's wealthiest countries broke? And how did they get into such debt? What drove the debt creation? And where does the interest payments made each year go?

Just a small amount of sharing and gifting, poverty would be removed from around the world.

Forbes Reporting China's National Debt Is As Bad As America's, Possibly Worse Than Greece

Posted on **August 1, 2011** by **Brent Lambert**
http://www.feelguide.com/2011/08/01/forbes-reporting-chinas-national-debt-is-as-bad-as-americas-possibly-worse-than-greece/

Beijing, of course, has no debt ceiling to raise, and so it has avoided a public airing of its problems. And China's debt situation is at least as serious as America's. Chinese leaders tell us their country's debt-to-GDP ratio was 17% at the end of last year, but the figure is more like 89% according to Beijing-based Dragonomics. If the respected research firm is correct, then China's ratio was just about the same as America's, which was around 93% then. And a growing number of analysts disagree with the Dragonomics figure, putting China's ratio as high as 160%.

http://www.businessinsider.com/china-worlds-fastest-printing-press-2011-1

"In the past 30 years, we have used excessive money supply to rapidly advance our economy," said Wu Xiaoling, vice chairman of the Financial and Economic Affairs Committee of China's National People's Congress.

China has not only been the country that prints money at the fastest rate but also been the country with the largest money supply in the world in the past decade, according to the Chinese-language Southern Weekly.

Furthermore, China continued to be the largest money-supplying country in 2010 as its M2, a broad measure of money supply, was up 19.46% at the end of November from a year earlier, said the weekly. This compares with 3.3% and 2.5% of annual M2 growth in the US and Japan respectively over the same period.

It appears to have caused a 9 times increase in Beijing property prices in the last 8 years. While China is focused on growing its economic engine, the damage it is doing to itself is increasing.

The difference in the value of the average mud hut in the village compared to the average cost of a new high rise condo has never been larger. Don't laugh, villagers do make it into the city, and can quickly see the difference in valuations. It gets worse when their property is taken from them for new local developments, at ever high retail prices. The trickle down valuations are not working in China any better than they have worked in the US.

China is going crazy with money printing, but it has a much different economy than does the United States.

SHOULD CHINA CURTAIL PRINTING MONEY THEN THE WORLD ECONOMY WILL CONTRACT – DRAMATICALLY!

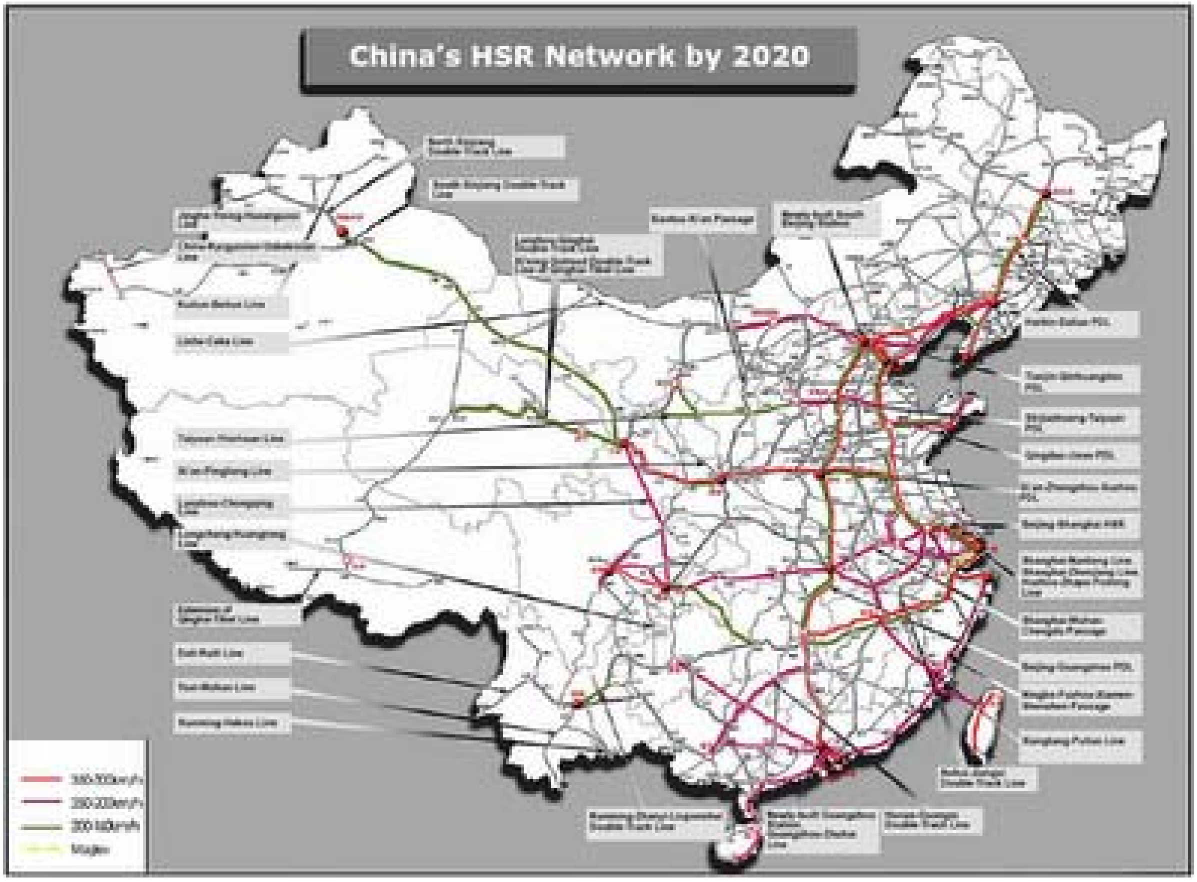
High-speed rail in China

http://en.wikipedia.org/wiki/High-speed_rail_in_China

High-speed rail in China refers to any commercial train service in the People's Republic of China with an average speed of 200 km/h (124 mph) or higher. China has the world's longest high-speed rail (HSR) network with about 9,676 km (6,012 mi) of routes in service as of June 2011 including 3,515 km (2,184 mi) of rail lines with top speeds of 300 km/h (186 mph). According to the BBC, China will by 2012 have more high-speed railway tracks than the rest of the world put together. Since the introduction of high-speed rail on April 18, 2007, daily ridership has grown from 237,000 in 2007 and 349,000 in 2008 to 492,000 in 2009 and 796,000 in 2010.

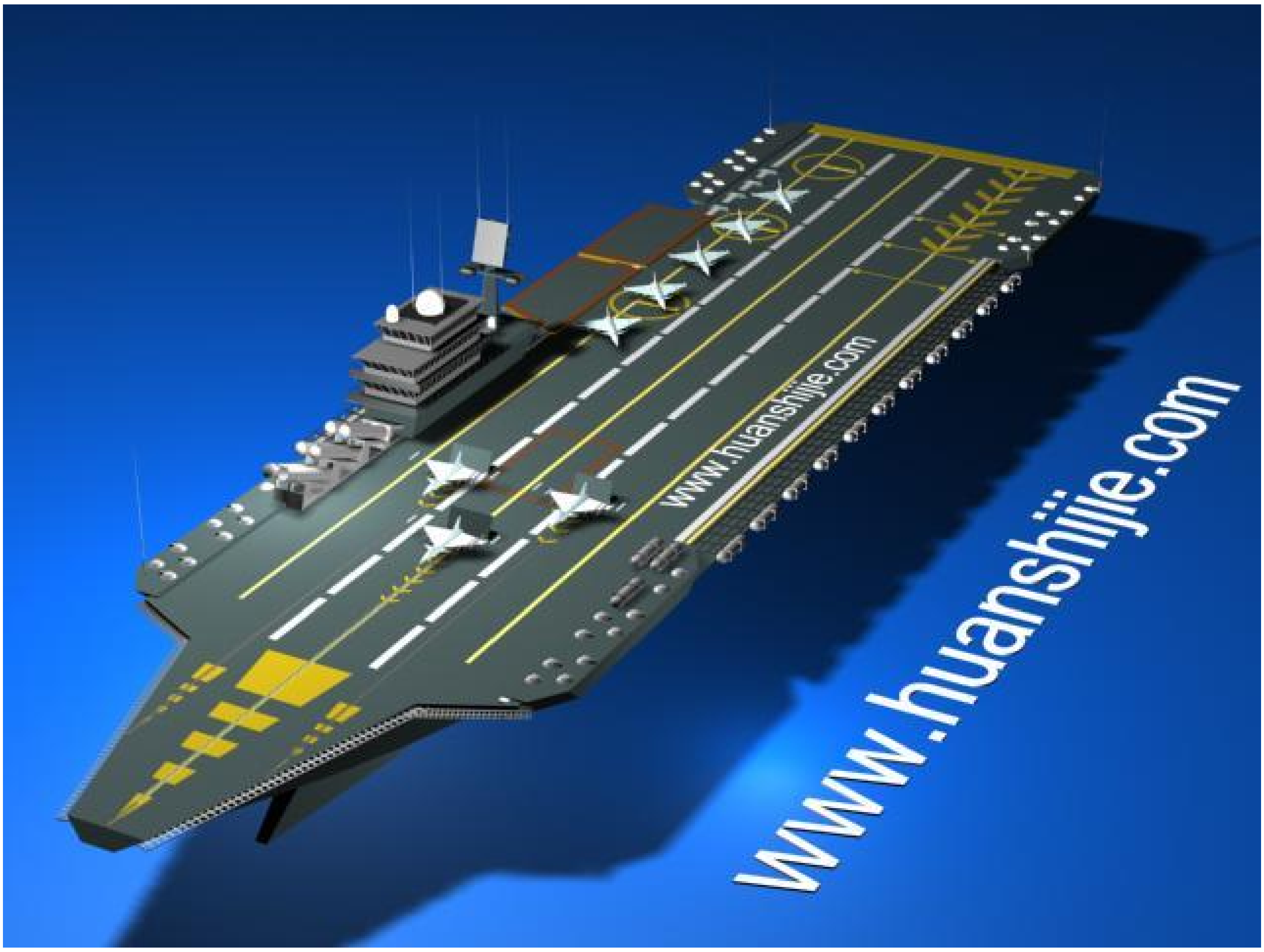
China's high speed rail network consists of upgraded conventional rail lines, newly-built high-speed passenger designated lines (PDLs), and the world's first high-speed commercial magnetic levitation (maglev) line. The country has been undergoing an HSR building boom. With generous funding from the Chinese government's economic stimulus program, 17,000 km (11,000 mi) of high-speed lines are now under construction. **The entire HSR network will reach 13,073 km (8,123 mi) by the end of 2011 and 25,000 km (16,000 mi) by the end of 2015**.

China is the first and only country to have commercial train service on conventional rail lines that can reach 350 km/h (217 mph) .



Presenting the First Chinese Aircraft Carrier

After reverse engineering virtually every product known to man, the Chinese have now applied the same skill to the only component of their military that was so far missing: an aircraft carrier. Earlier today, Xinhua revealed the first official pictures of what will soon be China's first aircraft carrier, now expected to enter operation by the end of the year. As the NYT reports: "The photos of the carrier, the Varyag, which China bought from the Ukraine in 1998, appeared Wednesday on the Web site of Xinhua, the state news agency. It was the first time that Xinhua had given visual evidence of the carrier project, which is widely seen as a linchpin of China’s military modernization and naval ambitions. The carrier is being rebuilt in the waters of Dalian, a coastal city in eastern China. Xinhua cited a military analysis magazine based in Canada, Kanwa Asian Defense Review, as saying that the ship will be ready to sail this year. The fact that Xinhua used that information in a photo caption appeared to be an official endorsement of that view."



China's new aircraft carrier! Wow!

http://www.overseasregistry.com/news/chinas-new-aircraft-carrier-wow/

These aircraft carriers look formidable and of ultra modern design. There are reports the first Chinese aircraft carrier is under construction and could enter service around 2015 or earlier. It won't be long before we see the real thing. Western Defense analysts are waiting and watching anxiously.

This is quantum leap above anything we have on the drawing board. They have thought "Outside the box" on this one. Better speed, larger capacity, much more stable, etc. definitely a "blue-water" long reach vessel. Plus they can service their nuke sub fleet in-between the twin hulls (sight unseen) or even launch amphibious operations from same. It will be launched in half the time it takes the USA at just one-third the cost. Add the new Chinese stealth fighter bomber (naval version already in flight testing) in the mix and you have the makings of a formidable weapons system indeed.

Also look at that extra "parking and readiness" station between both hull structures. And of course the launching and landing capabilities from the utilization of twin flight decks at once.

Plus six of these vessels (two Pacific, two Atlantic, one Indian Ocean and one Med sea) would be a pretty good diplomatic "big stick". Note: The Chinese are already drilling for oil off Cuba, Brazil and Venezuela.

A few facts: The Chinese have completed the world's biggest dam (Three Gorges), the world's longest over-water bridge (65 times as much steel as in the Eiffel Tower), and constructed a 15,000' high railroad into Tibet (all considered major engineering feats).

They are the only nation other than Russia that can launch men into outer space (our capability ends with the last space shuttle launch this month). They have also shot down a surveillance satellite (one of their own) from the ground.

China's new Carrier could be twice as fast as anything USA has, plus the stability of a catamaran type hull will greatly reduce the pitching, yawing and swaying common to US present designs.

IT CAN BE ASSUMED FROM THE ABOVE PROJECTS THAT CHINA DOES NOT INTEND TO STOP OR REDUCE PRINTING CURRENCY WITHIN THE FORESEABLE FUTURE!