Deflationary Depression in America: The Double Dip Economic Recession

By Bob Chapman

Global Research, June 08, 2011
International Forecaster 8 June 2011

Region: USA
Theme: Global Economy

Wall Street seems to believe the waning recovery in the economy is only temporary and that further recovery is on the way. Such thinking can get you in serious trouble, unless QE3, or its equivalent, is on the way. It is on the way, as we pointed out 13 months ago. The economy cannot live and survive without it otherwise we could be looking at a minus 5% GDP for openers. Incidentally, there are those that believe that unemployment already is as bad as it was during the "Great Depression" years of thep930s. They may be correct, but we believe it was much higher than today's 22.4% level. If government hadn't created food stamps, Medicaid, extended unemployment benefits and other benefits, perhaps we could be close to 1930's levels.

The first quarter of 2011 saw GDP gain 1.8% as a result of at least $1.8 trillion in spending by the Fed and by government. If the economy grows 2% in the second quarter that would be substantial. The big question is what will the last half of the year be like? Government is cutting back, so we cannot expect stimulus 3. That means the Fed has to create $1.6 trillion to purchase Treasury and Agency bonds, notes and bills, because presently only about 20% is being purchased by others. Assumably the Fed will again accomplish that, but what about the remainder of the economy? If the GDP growth rate is to maintain say at plus 1% to 2%, the Fed will have to create money and credit for the economy of an additional $850 billion. Without that the economy would slide to a minus 5% GDP. The flipside is that if the Fed were to perform these feats what would inflation be? John Williams tells us inflation, using previous standards, is 10.2%. Last May 2010 we predicted real inflation by the end of 2011 of 14%. That could turn out to be conservative. That projection was based on the results of QE1 and stimulus 1. Next year we will see inflation caused by QE2 and stimulus 2, which we believe could carry inflation to 25% to 30%, if official interest rates remain the same and we believe they will do just that at the Fed. If we get a version of QE3 for about $2.5 trillion then we believe inflation could rise to 50% creating hyperinflation in 2013. Of course, no one knows for sure what the Fed will do, but this is a likely scenario. If these events do not unfold as presented the economy will spiral into the worst depression in modern history. It is as simple as that. If we get QE3 what can the Fed do for an encore? We won't attempt an answer for that now, but the prospects are certainly frightening.

All of the insiders who create the inside information, own the Fed, or are connected to those who own the Fed, know exactly what is going on. These are the people who make all the decisions. How do you think the market rallies upward when it should be going down? They know there will be a QE3, because these insiders are making those decisions, and say the market, bonds and the economy are dependent on massive amounts of money and credit is a vast understatement. These elitists tell us the slowdown in economic growth is just temporary. That is true, they know, they planned it that way, although growth will only be

1% to 2%, even with additional spending of $2.5 trillion. If we are correct that means a Fed balance sheet of $5.5 trillion plus. This time if QE3 did not develop the stock market could fall 20% to 30%. That means from the top of 11,800 we could see 9,400 to 8,300. The market is the last visage of wealth along with bonds. If it falls it could send everything tumbling. It should also be noted that this recent so-called recovery has been weakest since WWII, or for 65 years.

If there is to be QE3 it had best be implemented immediately. Recent data shows a struggling job market with unemployment, again headed higher. As a result of this and climbing inflation, people are buying gold and silver related assets. Sales of American Silver Eagle coins reached almost 19 million ounces in the first five months of the year, the highest since 1986. This is not surprising considering initial unemployment claims just won't fall below 400,000 and only 38,000 new jobs were created in the private sector in May. Most all indexes are pointed downward as production and retail slow. In addition the housing index is at its lowest since 2003, as housing prices continue to plunge 3.6% in the 20 largest US cities in March year-on-year. Countrywide prices fell 5.1%. These are 2002 prices. This continual real estate wipeout has people who have been foreclosed on and some who sold to get what equity out of their homes that they had left. That means more renters and higher rents, which means the CPI inflation index should start heading upward. If you throw in higher food and gas prices it gets very expensive. As this transpires the dollar falls versus other currencies and gold and silver. Consumer confidence is dreadful.

The payroll data from last week was nothing short of awful. On the U3 we are back up to 9.1%. The increase in non-farm payrolls was the worst in nine months. Manufacturing lost another 5,000 jobs in May, as free trade, globalization, offshoring and outsourcing did its nasty work. Congress does absolutely nothing to stop the carnage by imposing tariffs on goods and services. In 11 years we have lost 11 million good paying jobs, and 445,000 companies, all of which can keep their profits offshore tax-free. Everyone in Congress is aware of what is going on, but not one member has proposed legislation to put a stop to this tragedy that is destroying America. That is what happens when you have campaign contributions and lobbying. It ends up with 95% of both chamber members being bought and paid for. We are losing more than one million jobs a year and about 240,000 jobs have been created. The other million went to some foreign country. Over 11 years manufacturing has lost some 7 million jobs. As you can see, service job losses are catching up. Can you imagine what these figures would look like without the $4.2 trillion spent on QE1 & QE2, and stimulus 1 & 2? Unfortunately, all this money has been spent to bailout the financial sector and government, and little has been added to wealth-producing infrastructure. All government and the Fed have done is create an inflationary bubble that in due time will collapse. It can end up no other way.

Optimism is waning and rightly so. Has anyone stopped to think where we would be without all this artificial stimulus and that it can last indefinitely unless, of course, people desire hyperinflation? As the dollar remains weak in the USDX, exports rise, which is a Punic victory. That same weak dollar reflects 10.2% inflation, hardly an equitable trade-off. No matter how much money is thrown at the problem it is protracted and any real possible recovery will be a difficult process. We do not believe there can be any kind of lasting recovery without a purging of the system, which would result in massive bankruptcies and a deflationary depression. We just completed a radio discussion on the air at Northeastern University. All present wanted solutions for jobs and recovery, but none understood that in order for that to happen and be lasting the system has to be purged first. No one simply wants to accept this. This is why we have these stimulus programs – to put off the inevitable. This could have been accomplished in 1990-1992, and again in 2001 to 2003, but adjustment never happened. Wall Street and banking befouled by greed and the quest for world government, bypassed these simple solutions.

Yes, we are already into double dip and if the Fed doesn't act quickly and continue into QE3 and add $850 billion into the economy we will be looking at big minuses in GDP and fast rising unemployment. In order to explain this result government and Wall Street euphemistically call this a soft patch. Obviously malinvestment and speculation continue unabated and will so as long as the creation of money and credit continues. We guess eventually everyone practically will work for the federal government or subsist on their handouts. How can the Fed and government spend at least $4.2 trillion and get such dreadful results? It is easy; just take care of the financial sector and government, and let the economy and job creation swing in the breeze.

In respect to all this, the Fed and government are silent – no response, as Wall Street, banking and government, in their own particular ways, suck the lifeblood out of the system.

Washington and Wall Street are bastions of systemic excesses. Americans are getting what they asked for. They allowed their Congressmen to become prostitutes for big business and they have allowed the Fed, banking and Wall Street to run amok and in that process to destroy the economy. Profligacy is everywhere, but few seem to care. That has left us in supreme vulnerability and falling confidence as a people and as a nation. Ignoring the problems does not make them go away. There is bias all over the mainline media, which tells us everything is going to be ok, when it isn't going to be ok. Just ask the long-term unemployed, which stretch back to 1990. We are in trouble and it is time we recognized that.

As we have said repeatedly, quantitative easing, the creation of money and credit, and the stimulus plans, as policies have been a failure, as have zero interest rates. We believe QE3 will be implemented, but as you have seen effectiveness is on the wane and QE3 could be the end of the road.

We wonder if research departments at the big banks and brokerage houses understand that unemployment is 22.4%, that without the birth/death model, about 152,000 jobs were lost in May and that the government is lying, again? These analysts and economists cannot be that dumb. We have been writing about these bogus figures for 15 years. Whatever Washington needs to create, it does so. For those who were unaware, that struggling food purveyor McDonald's received billions in TARP funds and we have no explanation as to why. This is one of the most successful corporations in the history of the world. It just so happens that McDonald's added 62,000 new jobs in May, which made up a good part of newly created jobs. This indicates to us cooking the numbers and leads us to believe there will be more severe unemployment problems in the near future. That means, coupled with the falling GDP growth figures, that QE3 has to become reality, or the economy will fall into deflationary depression and there will be a massive liquidation of bad debt and bankruptcies as far as the eye can see. That will include many major banks and brokerage houses worldwide. It will be a sight to behold. This is why you have no more than three month's operating expenses on deposit at the bank, and no CDs. The government doesn't have money to cover the FDIC insurance and as a result they will have to print it exacerbating inflation. The general stock market will head downward with the exception of gold and silver shares, which will appreciate as they did in the 1930s and late 1970s. If the market falls to

Dow 3,000 all the value in pension funds, cash value life insurance policies and annuities will fall as well. Get out of these investment vehicles now while you still can and switch to gold and silver shares, coins and bullion. For those of you who do not understand, this is what happens in a depression. The only place that is safe is in gold and silver related assets.

Government tells us inflation is 2% when it is 10.2%. Food and gas prices have increased over the past almost two years by more than 50%. Inflation as we predicted in May 2010 will be 14% by the end of the year, and the result of QE2 will put inflation close to 30% by the end of 2012. If more than $2 trillion is spent on QE3 inflation will probably be 50% in 2013, or hyperinflation. Prices for almost everything are higher and they'll get higher yet. Inflation is 15% in China and wages are rising. That means export prices to the US and Europe are going to increase as well.

The Fed has to continue to create money and credit out of thin air to fund the needs of the US Treasury. China and Japan have been sellers and will continue to be. Between the two they have about $2 trillion in US bills, notes and bonds. What part of that the Fed will have to buy remains to be seen, but it has to be recognized as an overhang on the market. Japan's problems will force it to sell $200 billion to $500 billion worth of US Treasuries to fund their nuclear cleanup. Our guess is that conservatively the Fed will have to buy some $500 billion in Treasuries over the next year from China and Japan alone, plus 80% of what the Treasury has to issue. The supply of money and credit will go through the roof as it has for the past three years.

We see Congress arguing about the cash debt extension. As we expressed earlier the legislation will probably be passed and we see little in the way of meaningful cuts. Any cuts that come will come in the form of cuts in proposed budget increases. Cutting Social Security and Medicare are still out of the question, although Medicaid, food stamps and extended unemployment benefits could be cut. We find it laughable that they continue to increase defense spending at the same time. People paid for Social Security and Medicare, so they should not be cut. All the other programs should be cut.

The actions dealt with above will all contribute to the collapse of the dollar not only versus other currencies, but also more importantly versus gold and silver. If you do not understand the foregoing and do not act now, you won't financially survive. This is going to be one nasty affair and you have to be prepared.

The original source of this article is International Forecaster

---

Articles by: Bob Chapman