Great Depression, Debt and Economic Decline: Ireland, Portugal, Greece, US, UK

By Bob Chapman
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As of Wednesday we have seen the euro rise 7 straight days, which caused the USDX to fall to 78.14, this in spite of having 10-year rates in Spain, Portugal and Ireland rising 3 bps.

Both food and energy prices have risen at double-digit rates. This is an inflation reflection of 1979-80, 1996 and 2008. In the 1979 and 1980 and in the 2008 period our inflation gauge measured real inflation of 14-1/4%. Both occurred in recessions similar to today's inflationary depression.

Today's energy prices will reflect a loss in buying power of more than $60 billion in the US alone. Higher grain and meat prices will add $40 billion to total, a loss in buying power of $100 billion. By the looks of it costs and inflation will rise further causing further cuts in GDP consumption. These costs will affect 70% of the stimulus and QE2. That means very little consumption gains and stagnant unemployment.

The Consumer Sentiment Index fell from 74.5 in December to 72.7 in January, which does not instill confidence in the economy. Current conditions fell from 85.3 to 79.8, a 3-month low. Large household goods purchases fell to 129 from 140. The auto purchase outlook was fair to poor as well.

Real wages based on a phony 1.2% CPI, fell 0.4% when in reality the loss in buying power was much higher. Every indicator is in the minus column. This is reflected in income expectations for the year that fell from 125 to 116. Real expectations dropped from 64 to 55, the lowest level in almost 60 years. There is no recovery and there will be no recovery. The numbers are staring you right in your face. 2011 will be lucky to see 2% to 2-1/4% growth, as government spends $862 billion on pork and the Fed buys $1.6 trillion in Treasuries, Agencies and toxic waste.

We have two economic and financial Americas, one of poverty and advancing poverty and one of sumptuous wealth. The top 20% own 93% of financial assets, which could be the seeds of upheaval. The average family is one or two weeks away from starvation and debt collapse. How do you make up the difference working 34.3 hours a week as gasoline rises from $2.50 to $3.50 a gallon and the price of food advances 50%? If you do not own gold and silver related assets to offset these increases you are just plain screwed. If QE2 isn't translating into recovery then QE3 is fast on the way. It will be kicked off later this year or in 2012. It won't work either. Throwing money at a problem never has a positive desired result. Even though other nations have problems the dollar will remain under pressure. The gauge should not be the USDX. It should be every currency versus gold and silver, which are the only meaningful yardsticks. For two years gold and silver have been propelled by a flight to quality. A primary fight between gold and the dollar, which obviously gold has won hands down and will continue to do so. Inflation hasn't even entered the equation yet, but it will this year and next. That will cause gold and silver to roar to the upside along with gold and silver shares. The elitists who control government are about to lose another battle and in the end the war against gold and silver.

Since 2000, when we began recommending gold and silver related assets after having exited the stock market in early April, the market is down about 80% versus gold. That means the only reliable guide to value is gold, not the dollar. The dollar has dropped from 13.80 Mexican pesos to 12.00 in a year. Mexico is considered a second world nation and its currency is appreciating versus the dollar. That is becoming typical and will continue to be so. The Mexican economy will grow 4% in 2011, and will have 4% inflation, far better results than in the US, and Mexico has not stimulated its economy. Not only do we have the dollar falling 20% versus gold annually, but also we have the dollar falling versus inferior currencies. That means creditors of US Treasuries are receiving a negative return of over 6%. What can they be thinking of? This is a form of default. Even with these conditions the stock market reflected by the Dow will probably trade between 10,000 and 13,500, while gold and silver again gain a real 20% plus, year after year, as long as budget deficits climb.

It is almost as though the Fed, the White House and the House and Senate had planned to do just about everything wrong. All we hear from the illegal alien who is President is that we must have shared sacrifice. That is why we have no win wars to keep the economy going and government loots social Security and Medicare. Have no fear the double dip is on the way even though it spends 60% more than incoming revenues. Neither party has any intention of changing this situation. This year we will experience a decline in all personal purchase categories contrary to what the Fed and the Treasury would like. That means revenues will fall again and debt will increase.

Investors are not only bypassing municipals, but Treasuries and agency securities as well. In funds there has been nine straight weeks of redemptions of $16.5 billion of municipals that should have been liquidated three years ago at much higher prices. That is when we recommended selling.

Inflation is rising in spite of the government's bogus statistics. How do you reconcile CPI at 1.2% and PPI at 13-1/2%? Price increases are coming from all sectors. That means profit margins are going to be reduced and sales are going to fall. The bedrock of the economy consumption will fall, which is the exact opposite of what the Fed and the administration want. Major inflation is underway. In 2012 we will slip into QE3 and the chance for hyperinflation is excellent. We all know what happens after that – deflationary depression.

The financial and economic situation continues to deteriorate in the euro zone. Both Greece and Ireland stand at the edge of the abyss. Unbeknownst to most the Federal Reserve started pouring funds into Irish banks in 2008 to stabilize the system. AIB, Anglo Irish Bank, borrowed $3.3 billion in the summer of 2009, which was the largest loan. The ECB has provided $175 billion in direct support, which forced the ECB to recapitalize.

Just last month the Irish government via the Irish Central Bank arbitrarily injected billions of euros into its economy without collateralization.

In parallel in part the Irish bailout is being funded via retirement savings, which has not been approved by the Irish parliament. A spring election is looming and a vote may not come until then and there is a possibility that Fianna Fail, the party in power since 1987, will not succeed. The No Confidence votes will prevail as the current PM refuses to step down. That means ratification of current policy will fail.

In this process the central bank has printed up about 25% of GDP in euros and deposited them in the banks. This is uncollateralized by bonds and will prove to be very inflationary, if not hyperinflationary. This euro increase has not gone unnoticed, particularly in Germany. If you remember for years Germans have refused to accept euros printed in other euro zone countries. It is not going to take long for Germany to react. They won't and can't accept Irish euros and that should lead to a crisis in the euro zone as well as in the EU. We are about to discover that all euros are not equal and that Germany will not be held hostage by a group of euro-elitists. What is to stop Greece, Portugal, Belgium, Spain and Italy from doing the same thing? This has to put downward pressure on the euro. This may be why the euro has been allowed to appreciate recently to offset the coming weakness in the euro caused by Ireland's euro printing.

It should also be noted that Greece has asked for extended loan maturities. That could lead to interest only loans and eventually default.

Both Ireland and Greece and the others are fraught with pitfalls for mainly Germany and the other solvent euro zone members. This is why Germany is discussing, behind closed doors, leaving the euro zone and reintroducing the D-Mark. We believe that will happen and in the process they will leave the EU as well.

The Irish story is huge yet it is virtually out of the news. Great damage is being done to the euro, but for that matter no currency is safe. The only safe havens are gold and silver related assets.

In Ireland the situation worsens as PM Brian Cowen, who sold Ireland out to the elitist bankers, announces an earlier-than-expected general election on Friday, March 11, 2011. Cowen has been bombed in the polls since the $114 billion bank bailout, which will bring about his political demise. It will also spell the end of the reign of Fianna Fail, and the reemergence of Fine Gael. It's another fine mess the compromisers have gotten Ireland into. Like in so many countries politicians have been bought from all parties and that has created a total disconnect between the leadership of the parties and their constituents.

The nation's top credit card issuers said the number of accounts that slipped into default fell to the lowest point of 2010 in December, and signs point to continued improvement. Five of the six biggest card issuers posted their lowest rates for charge-offs, or accounts written off as uncollectible.

While the rates of balances that companies wrote off remained high by historical standards, they fell consistently throughout the year.

Importantly, rates for payments late by 30 days or more also reached lows. That figure, known as the delinquency rate, is considered an indicator of what's to come, which means charge-offs can be expected to keep falling through the first few months 2011.

The November TIC data shows China's Treasury holdings decline $11.2B. UK buying surged a surreal $34.2B. The mysterious UK buying continues. Is it the Fed or China?

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