

The US Economy is Faltering. An Inflationary Depression is in Progress

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In spite of the disinformation, misdirection and outright propaganda the economy is faltering without the addition of stimulus and quantitative easing. The benefits of inventory accumulation over the past 17 months, which accounted for 60% of the strength in the economy is at an end. We either get more stimulus either governmental or from the privately owned Fed or growth is going to continue to drop. We are looking at indexes that for the most part are at or near their lows. We see short reactive rallies but certainly nothing that leaves us to believe that any kind of a recovery is at hand. The longer we have to wait for Congress and the Fed to act, the more difficult it will be to regain upside momentum. It could be the plan is to simply go sideways for the next two years. The problem with that is that it will cost \$5 trillion to accomplish. Production is starting to fall with the exception of a temporary increase in automotive manufacturing. Inventory build is retracting and both the absence of further build, and production should herald a 2-year low by yearend. The administration had other priorities and they missed the boat on getting support. The Fed as usual was too far behind the curve. Consequently we are actually looking at the distinct possibility of economic crisis and higher unemployment soon. Will the administration be able to get a lame duck Congress to approve \$500 billion in spending? We won't know until we get there and that is only two months away. The Fed is obviously waiting until the election is over before they open the floodgates of QE2. Will it be by \$1.5 trillion? We'll have to wait and see. If they do lend that sterilized float it will be monetized and it will hit higher inflation very quickly. Will business spend the \$3 trillion they have on hand? They'll certainly spend some of it, but how much no one knows. Will our government continue to give us obviously bogus numbers? They probably will, but most professionals have finally caught on to their 3-card Monte game. Wait until the real ISM figures show up for September, after August's blatantly bogus figures. All the recent statistics are at lows not seen for 1-1/2 years, including the ATA's truck tonnage index that fell 2.8%. If there is a recovery the public doesn't think so. All indications are that buyers are depressed.

The public realizes an inflationary depression is in progress and the QE1 policy only took the economy sideways for 18 months at the cost of the Fed tripling its balance sheet. As a result the public does not think the Fed will be anymore successful in QE2, than they were in QE1. Future expectations are that 2/3's of consumers believe that economic conditions will be bad and only 25% believe they will be good. We know the public doesn't understand what is happening, but we also can see that whatever leadership is providing is bad and it isn't working.

China and Japan look to be the leaders in the new currency wars. As a result the Fed on Tuesday dumped a larger than expected \$5.19 billion of POMO into the market and the Dow

obediently rose 193 points. This is how the Fed has been doing QE2 since June and in the process elevating the market. For four months the economy has done little. It is in a slow fade. This is part of the Illuminist program to keep the more pliable Democrats in office and to avoid having to pay the cost of paying off new congressional members. The correlation between a strong stock market and political affinity is strong. It makes people forget when their wealth is increasing. The Fed, Treasury, administration, House and Senate are in a preservation mode. This could very well be your October surprise, a Dow at 11,700 or perhaps even at 14,200 – who knows. If we are correct, and we usually are, this could be a blatant attempt to keep incumbents in office to defy our demand, and to deny Republicans a majority in both houses and congress. The stakes are high for the elitists and their ilk for the further concentration of wealth and power. If these insiders lose, the economy could collapse.

As a result of this commentary and what the Fed is doing today we hark back to 1931 when the Fed and the NY Fed both increased credit and cut interest rates furiously, as they have done recently, until gold began to rise globally in the fall of 1931.

Later in 1936, under the Smoot-Hawley Bill, they were able to monetize debt, as they are currently doing until the bond market reversed in 1936. That is what we have in our current future.

Incidentally, while the depression scam was being done in the US in the 1930s, these elitists were trying to put in power a fascist government in America, similar to that in Germany. These are the same people who were instrumental in financing the Third Reich. This is what history is all about, a repetition of the machinations of power and subjection.

We now have an economy where families shop when welfare or food stamps arrive, as consumers spend less. We wonder what will happen when the welfare stops? Empty bellies make for revolutionary times, as monetary policy gets easier and easier. Remember, there is a limit to how long rates can fall. Personal disposable income rose 0.5%, but 70% of that was a huge retroactive emergency payment of jobless insurance checks, which boosted income 1.6%, or by \$35 billion. Thus, consumer spending would have been up 0.1%, not 0.4%. That is a big difference that government and Wall Street conveniently overlooked. This means there is no recovery in sight. It is very disconcerting when government accounts for 20% of disposable income. That means 50% of the recovery since 2009 came via stimulus. In August alone 70% of growth in income came from government. Even auto sales gains in September were overstated due to Labor Day. Sales should be 50% higher due to low financing costs and the same is true with housing, but that is not happening. That means household debt is still too onerous to allow increased spending. Only 1/3rd of consumer de-leveraging has taken place. There is still at least \$6 trillion to go. That is why Goldman's chief economist said things are bad, very bad. In the midst of all this FICO scores continue to fall leaving only 47% of the consumers with decent credit scores. The bottom line is this is all about government intervention and stimulus. The bottom line is if QE2 and government stimulus doesn't occur the economy will collapse.

We do not see a bounce and support for the dollar on the USDx until it enters the 74 to 75 zone. We predicted this four months ago. The upward move on the euro and the other five currencies will run out of steam soon as economic contraction begins anew. The benefits of a cheap euro are over for now. Do not forget the eurozone still has plenty of problems, just as bad as those in the UK and US.

The beggar-thy-neighbor currency war continues unabated. The US subtly pushes QE2 via the repo market, as Japan and others lower their interest rates. Appreciation is a bad word when it comes to currencies. Whether you knew it or not currency wars are really trade wars. We are already seeing trade barriers on Chinese goods by the US and China has retaliated. As time goes on this will expand and official barriers will be erected. In addition, the Fed chairman said recently that he supports further expansion of the Fed's balance sheet and that means the money supply is about to be expanded. The only way to stop this subtle trade war is to officially declare tariffs, which includes a calculation on currency values.

As a result of this, gold and silver hit new highs each day against all currencies. As you can see in the end gold and silver are the only real money. The rest are backed by empty promises.

Quantitative easing does not add to household wealth; it causes inflation and higher prices, as you are currently seeing.

Due to current policies that are focused on bailing out elitist corporations resurrection of employment is left in the dust. Even Fed member banks see a ½% increase in unemployment over the next eight months. We see a 1% increase to 23-5/8%, a new high. This problem is simply not being addressed at all.

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