Treasury Bills and the Budget Deficits: A Review of Financial Markets

By Bob Chapman
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The 10-year T-note auction showed a bid to cover of 3 to 1, versus a 10 auction average of 2.67%.

We have been told over and over again a weak dollar would build exports and turn our balance of payments deficit down. Well, it hasn't happened yet.

The budget deficit was $9.185 billion for December, a 15-straight monthly decline. That is up from $51.75 billion in December 2008. That makes the first fiscal quarter a $388.51 billion deficit. Revenues were $218.92 billion versus $237.79 in December 2009, the lowest since December 2004.

Prime jumbo borrowers overall, that are 60 plus days delinquent, rose to 9.2% for December, almost three times last year's 3.2% in December 2008. If you combine 2006 and 2007 combined they moved from 4.3% to 12.7%. The five big losers are California, New York, Florida, Virginia and New Jersey, which make up 2/3's of the problem loans. California up 10.8%, up from 3.5%, or a 44% share; New York 5.8%, up from 1.8%, or a 7% share; Florida 16%, up from 7.3%, or 6%; Virginia 5.4%, up from 2.3%, or 5%, and New Jersey 7.1%, up from 2.3%, or 4%. The most expensive homes are now in free fall.

Goldman Sachs has admitted that they have been front running and opportuning against their clients in the fundamental strategies group, which is not subject to the same regulatory rules that equity research departments are. That is why they are called "Hannibal Lecter" in the business.

They have been setting up clients to take losses so their trading would be profitable. That is like eating your own children. This is the bottom of the moral and ethical totem pole.

The notional value of derivatives held by US commercial banks rose $804 billion in the third quarter, or 0.49%, to $204.3 trillion. That consisted of 1,065 banks, a fall of 45 from the prior quarter. Five major banks held 97% of the amounts and 88% of the exposure. The CEO's are sorry for their risky behavior, but they are still engaged in it in a bigger way than ever.

Incidentally, these are the same banks that have a record short position in the dollar.

New Gallup Poll figures show the President's handling of the economy at 40% and approval of his handling of healthcare at 37%

The Federal Reserve yesterday issued sweeping new rules designed to better protect Americans from sudden increases in interest rates on credit cards.

The rules, effective Feb. 22, bar rate increases during the first year after an account is opened. After the first year, companies must provide a 45-day notice.

Some lenders have pushed through rate increases ahead of the new rules. That irked lawmakers in Congress who had wanted to speed up implementation of the Fed's rules.

The new rules also ban – with a few exceptions – increasing the rate on existing card balances. But if, for instance, a customer is behind more than 60 days on a payment, the rate can be boosted.

Credit card companies will need a customer's consent before charging fees on transactions that exceed their credit limits and will forbid companies from issuing credit cards to people under age 21 unless they – or a parent or other cosigner – have the ability to make the required payments.

Payments will be applied to highest interest-rate balances first, helping customers pay off their balances faster and more cheaply. And due dates will be the same every month.

The Fed wrote the rules to carry out provisions of legislation signed into law last year. Other provisions of that law take effect later this year.

School administrators across the state of Massachusetts are crafting bleak budgets for the next school year and warning of steep cutbacks, including teacher layoffs, to cope with a probable sharp drop in funding from Beacon Hill and dwindling federal stimulus money.

Though schools grappled with thinned-down budgets last year, they got relief from a massive infusion of federal education dollars that is now all but spent, and officials are bracing for cuts that go deep into the classroom.

Arlington is weighing the elimination of 21 elementary school teaching positions. Needham, for the first time in recent memory, is also proposing that teaching positions be cut, despite growing enrollment. Hingham, facing a $3 million deficit, has similarly placed 33 teaching positions on the block. Brockton is looking at a staggering shortfall that could approach $20 million.

Investors are the most bearish on Treasuries in more than two years as the reliance on government debt to revive economic growth weighs on sovereign issues, a survey of Bloomberg users showed.

Yields on the benchmark U.S. 10-year note will rise over the next six months, according to the Bloomberg Professional Global Confidence Index. The 5,437 respondents from New York to Tokyo to Paris were optimistic on the outlook for the global economy for a sixth consecutive month, pushing the index, which began in November 2007, to a record high.

Treasury yields will rise for a second consecutive year as U.S. debt sales climb above $2 trillion and the Federal Reserve unwinds stimulus programs, according to the 18 primary dealers that trade with the central bank. The survey shows sentiment is also the most pessimistic on record for the U.K., Spain and Switzerland, where governments also enacted measures to support their economies.

“The market will have to absorb a significantly greater amount of supply as the Fed steps away,” said Michael Pond, a survey participant and an interest-rate strategist in New York at Barclays Plc, one of the primary dealers required to bid on Treasury auctions. “We do expect yields to go higher. Bearishness across all sovereign issuers may be warranted.”

The US Federal Reserve has reported a record profit of $52 billion in 2009 due to earnings gained from investments aimed at rescuing the US economy.

The Fed says it paid $46.1 billion to the US Treasury last year from its investments in Treasury bonds and mortgage-related securities — including those of mortgage giants Fannie Mae and Freddie Mac.

“The significant increase in earnings on securities was primarily due to increased securities holdings as a result of the Federal Reserve’s response to the severe economic downturn,” the Federal Reserve explained in a statement on Tuesday.

The entity that functions as a central bank for the US says it returned any profit to the Treasury Department after paying operating costs.

The Fed’s profit last year was $14.4 billion more than it had earned in any year since 1914.

The numbers are a sign that the Fed has been successful in dealing with the economic crisis triggered by a dramatic rise in mortgage delinquencies and foreclosures.

But there is a risk of significant future losses if the Fed sells investments or loses money on its stakes in bailed-out firms.

This old Marine has it right! Can’t wait until November!

To President Obama and all 535 voting members of the Legislature,

It is now official you are ALL corrupt morons:

The U.S. Post Service was established in 1775. You have had 234 years to get it right and it is broke.

Social Security was established in 1935. You have had 74 years to get it right and it is broke.

Fannie Mae was established in 1938. You have had 71 years to get it right and it is broke.

War on Poverty started in 1964. You have had 45 years to get it right; $1 trillion of our money is confiscated each year and transferred to “the poor” and they only want more.

Medicare and Medicaid were established in 1965.. You have had 44 years to get it right and they are broke.

Freddie Mac was established in 1970. You have had 39 years to get it right and it is broke.

The Department of Energy was created in 1977 to lessen our dependence on foreign oil. It has ballooned to 16,000 employees with a budget of $24 billion a year and we import more oil than ever before. You had 32 years to get it right and it is an abysmal failure.

You have FAILED in every “government service” you have shoved down our throats while overspending our tax dollars.

AND YOU WANT AMERICANS TO BELIEVE YOU CAN BE TRUSTED WITH A GOVERNMENT-RUN HEALTH CARE SYSTEM??

Folks, keep this circulating. It is very well stated. Maybe it will end up in the e-mails of some of our “duly elected’ and their staff (they never read anything) will clue them in on how American’s feel.

Paul S. Laskodi

U.S.M.C., Retired

Semper Fi

The Commerce Department said December retail sales fell 0.3%, the first decline in three months, after rising 1.8% in November. Versus December 2008, sales rose 5.4%, but fell 6.2% for all of 2009.

Commercial paper rose $26.2 billion to $1.102 trillion.

November business inventories rose 0.4% after gaining 0.4% in October.

Foreclosures rose 15% in December to 350,000, or a 14% month-on-month increase, shattering all records in 2009. 2.8 million properties were foreclosed, up 21% from 2008. The figure would have been worse had it not been for foreclosure prevention programs.

The president wants Wall Street banks to pay $117 billion to taxpayers for their financial blowout.

The CFTC has unveiled a proposal to rein in energy-futures speculators by limiting the number of contacts they can hold across all exchanges. This is to end concentration and manipulation. Most of the past damage has been in off-exchange trading by index investors, such as pension and endowment funds, that drove volatility.

They will impose limits on physically and financially settled oil, natural gas, heating oil and gasoline futures and options contracts. It will cover commodity swaps as well. The edicts will be reviewed for months and be open at public meetings. We do not believe the changes are adequate. The limits are too high, if you can believe it. The CFTC cannot cap positions held in the O-T-C market because they do not have the authority to do so. It also does not address massive shorting any commodity with impunity. In addition, entities using the futures markets to hedge commercial risks, or bona fide hedgers, would still be exempt from position limits under the proposal. Rationing supply with these position limits won’t work, and the CFTC know that. It took 16 months to come up with virtually nothing. The rationing will force investors into the physical markets, which will put more upward pressure on markets, especially metals markets. Chairman Gary Ginsler came from Goldman Sachs.

There is no question that House and Senate Democrats, the Present and selected Republicans are on the run. Their approval ratings are dreadful and they are getting worse. Global warming and climate change along with Al gore are history. The biggest academic and political scam in history is on the way out. The criminality was colossal and yet we see no criminal actions or civil lawsuits. Elections are on the way and the public is furious and outraged at what has been going on in a number of areas. We never thought we'd see 70% of Americans want an audit and investigation of the Fed.

Being green is not chic anymore. Even the Tories in London are backing away and in the EU a massive fraud has been uncovered in the trading of carbon credits. As a result of the Copenhagen fiasco the people have stopped taxes on carbon emissions. Our current weather worldwide is testament to the scam of global warming. There goes Cap & Trade with only ten months to bi-elections. Al Gore has not been seen or heard from. Even in Australia the Senate voted down an emission's trading scheme. Those on the Illuminists' payroll are still barking the same tune that climate change is the biggest challenge of our time. We believe differently and politicians are catching on fast.

As we observe the congressional sideshow regarding banking we reflect on the industry's 2009 compensation pool of $200 billion financed in part with taxpayer loans. Then there are the $80 billion in tax deductions, not to mention the profits inventoried offshore tax-free. Of the $80 billion in tax deductions $20 billion went to Goldman Sachs, JPMorgan Chase and Morgan Stanley. Those doing God's work over at Goldman Sachs in 2008 paid a tax rate of 1%, while CEO Lloyd Blankfein made $40 million.

These are the people who strong-armed rating agencies to rate junk as Triple A graded paper and then securitized them as toxic waste causing their clients and others to lose hundreds of billions of dollars. It was plain and simply fraud, but no criminal charges have ever been filed and these are the firms that carry two sets of books, and are allowed to do so by the BIS and the FASB.

These are the people who deliberately caused our economic collapse and control our government in Washington. We ask, what will happen when the derivative edifice collapses? Of course we all know the answer, and that is financial chaos.

Under normal circumstances economic fundamentals would hold forth. This time they are not going too. That is because our depression didn't just happen, it was planned that way. Over the past year the Fed has purchased 80% of the government debt and a goodly portion of toxic debt from banks, Wall Street, insurance companies and corporate America. American taxpayers will pay that bill. It is obvious foreign dollar holders and central banks are no longer willing to buy bonds from a bankrupt country. Most intelligent Americans are in denial. They know something terrible is going on and they just don't want to hear about it.

Americans want to blame everyone else for their problems when the culprit is their government and those who control that government, the wealthy on Wall Street, in banking and corporate America.

The ruling class is now so arrogant that they ignore our constitution, ruled by Executive Order or by a bought and paid for congress. As a consequence our country is insolvent and the rich have most of the wealth. That is why we forecast an official devaluation and default on debt and the failure of the FDICA over the next 1-1/2 years. The financial sector can make the economy do anything it wants, it owns Washington. America is the victim of a coup, a financial coup, that we have been writing and talking about for 50 years. We knew it was coming, because we saw the Federal Reserve for what it is, a monstrous, cancerous, criminal money devouring machine. Politically it divided us into apposing political parties and played us off against each other, while at the same time exercising power over both parties. That separation in part led to great control being exercised over both parties. That separation in part led to great control over the people. Over the past 30 years financial profits have doubled to 30% of our GDP. Americans cannot understand because they don't understand psycho political warfare. They don't understand there will be no recovery; it is planned that way. The coming collapse of the stock and bond markets will take away more of their wealth and in most cases wipe out their financial wealth. Most Americans never had a bad day in their lives and they will have great trouble with coping with such a disaster. They sense or see the corruption, but as long as it doesn't touch them they turn away.

Knowing these things you can understand we are working against time, which is our enemy. That is why we publish the IF twice a week and do 30 hours of radio a week. We are trying to wake people up and to get those awakened to teach the world populace why they must wake up now. We have the elitists on the run and expediting their programs. When that happens people make mistakes, sometimes big mistakes. If you do your part we can win. Spread the word and try to inform every representative and senator what you want them to do. If you do not you end up in slavery. The financial Illuminist oligarchy that controls our country, finances and economy has to be stopped and if necessary destroyed. Any success short of that will bring on our demise.

This past week a proposal, not picked up by the media, from the White House proposes the commandeering of retirement plans to fund government debt. We have been talking about this for a year and a half and now it may become reality.

One of the President's Czars, who hopes to be appointed to the Supreme Court, believes all personal weapons should be confiscated and they will be within three years. He also says anyone who disagrees with government should be removed from society and that the Internet and talk radio should be banned. He says they are being too effective and threaten the elitist moves to One world Government.

We have our markets pricing in a bigger probability of default among industrialized countries with top investment grade bonds. Insurance for default is now higher for France and England then top investment grade companies. Even the best countries are not considered risk free. This is a result of faulty monetary and fiscal policies deliberately foisted on all these countries.

These same countries, and countries worldwide, are still subject to rising unemployment, something that in a normal recession should have ended long ago. This starkly points out this hasn't been a recession. We have been in a depression for a year and it is not going to go away anytime soon.

The bogus employment figures worldwide are an insult to our intelligence. The difference between private and government figures in the US for the year is 650,000 and they both use similar statistical structures. In addition, the BLS says the February birth/death adjustment will be a downward 850,000, when it should be 1.7 million.

2010 profits could grow 10%, not the 36% that has already been factored into the market. We do not believe that kind of growth is in store and there will be many disruptive forces happening during the year. Employment fostered by growth in census takers will be short lived and we expect a presidential plea for another stimulus package to avoid the inevitable. Analysts are expecting $77 of earnings per share, when reality should be $62. That means presently the market is trading 30% higher than it should be. That would put the 10,700 Dow at 7,500.

In spite of stimulus, November pending home sales fell 16%, but yoy they were up 15.5%. Cash for clunkers was disruptive and all it did was lump sales into September and October. Residential housing is facing another 15% to 20% decline this year. Such a decline would take the houses under water from 15 to 30 million, or from 25% to 50%.

The International Council of shopping Centers showed December same store sales up 2.5% yoy. The November-December number was plus 1% versus a minus 5.6% in 2008.

Mortgage rates are around 5.14%, up ½% recently, which disqualifies many buyers.

Congress continues to evaluate an initiative to reinstitute the Glass Steagall Act, which was enacted in the early 1930s to eliminate fraud by splitting brokerage and insurance from banking. It was passed to keep banks from going under again. It was eliminated in 1999 and has since been a cause for failure again, for having been eliminated.

President Obama plans Thursday to propose a sharp increase in the taxes paid by the nation's largest financial institutions designed to raise $90 billion over the next decade while constraining the industry's ability to take large risks and reap outsize rewards, a senior administration official said.

The tax proposal, which would require congressional approval, is meant to make a splash, demonstrating to the public that the administration is now focused on reforming the financial industry after more than a year of bailout efforts. The official, who spoke with reporters before the president's announcement on condition of anonymity, said that large firms were reaping renewed profit from a rescue intended to help the broader economy and that the public deserved a larger share of the money.

Ray Stone, chief economist at Stone & McCarthy Research, said the U.S. Federal Reserve's balance sheet, bloated by asset purchases, could become a major liability if inflationary pressure surges. "They've created a monster that they don't fully appreciate," Stone said. "They have a portfolio-management problem."

Yet some economists, including the beauties at the Fed, still think that inflation will remain constrained because of excess US capacity. These economic alchemists still labor under the delusion that the US is a closed economic system that is immune from global inflationary factors.

A publisher of industrial directories said Monday that losses in factory employment in the Chicago area are among the steepest it has seen in 98 years of compiling data.

Manufacturers' News Inc. said Chicago has lost 8 percent of its industrial jobs since late 2008, bringing the total number of jobs to 114,092. Over the same period, it said, industrial employment fell 6 percent in northeast Illinois, to 593,370 jobs.

Statewide, 51,925 jobs and 709 companies have been lost since late 2008, the publisher said. It reported Illinois now has 854,081 industrial workers at 20,079 employers. Twenty years ago, its database had 1.1 million industrial jobs in Illinois.

The White House has abandoned its controversial method of counting jobs under President

Barack Obama's economic stimulus, making it impossible to track the number of jobs saved or created with the $787 billion in recovery money.

Despite mounting a vigorous defense of its earlier count of more than 640,000 jobs credited to the stimulus, even after numerous errors were identified, the Obama administration now is making it easier to give the stimulus credit for hiring. It's no longer about counting a job as saved or created; now it's a matter of counting jobs funded by the stimulus.

That means that any stimulus money used to cover payroll will be included in the jobs credited to the program, including pay raises for existing employees and pay for people who never were in jeopardy of losing their positions.

"It is troubling that the administration is changing the rules and further inflating the Recovery Act's impact and masking the failure of the stimulus to produce sustainable economic growth or real job creation," Issa said in a letter sent last week to the government board monitoring stimulus spending.

The economy once again showed that its road to recovery is proving to be a shaky one with some disappointed retail sales figures coupled with some lukewarm weekly unemployment figures.

Retails sales fell a surprising 0.3% in December, while November's sales were revised upwards to 1.8%. This contraction flies in the face of market forecasts of sales growth in the 0.4% range.

When car sales are excluded, retail sales declined 0.2%, down from November's 1.2% and analyst prediction's of 0.4%.

Unemployment, perhaps considered the largest threat to the tentative US recovery, gave mixed signals. While initial claims rose to 444,000 for the week ending on January 9 compared to 433,000 the previous week, continuing jobless claims fell to 4,596,000 from 4,802,000 over the week of January 2.

The index of prices for imports, for its part, remained steady in December.

Import prices moderated to zero in December as fuel prices dropped, suggesting the global economy's recovery and a weaker U.S. dollar don't pose an immediate inflation threat to the economy.

Prices of goods imported into the United States were flat in December compared to November, following a downwardly revised 1.6% increase the previous month, the Labor Department reported Thursday.

Economists surveyed by Dow Jones Newswires had expected a 0.1% gain in import prices last month. The November increase in import prices was originally estimated to be 1.7%.

In 2009 as a whole, U.S. import prices rose by 8.6%, rebounding from a 10.1% decline in 2008.

Fuel prices fell 1.4% in December, led by a 2.0% drop in petroleum prices which more than offset a 6.9% increase in natural gas prices. Despite the December drop, fuel prices have jumped 61.4% in 2009 after a 47% decline the previous year.

Excluding petroleum, import prices were up 0.5% in December versus November. Excluding all fuels, import prices rose 0.4% in December, the fifth consecutive monthly rise. The latest figures should reassure the Federal Reserve that the world economy's recovery and higher oil prices in 2009 don't pose an inflation risk to the U.S.

The Fed is later this month expected to keep its benchmark interest rate at a record low near zero due to low inflation and high unemployment.

In a report released Wednesday that will be used for the Jan. 26-27 rate-setting meeting, the central bank said the economic recovery was broadening, but remains too weak to bring down unemployment. The Fed's beige book also noted that price pressures remained subdued in nearly all of its 12 districts.

Friday's import prices report showed that food prices rose by 0.9% in December, the same rise as the previous month. For the whole of 2009, food prices were up by 1.0%.

Prices of goods from Japan and China both increased in December, rising by 0.3% and 0.1%, respectively.

Meanwhile, U.S. export prices advanced by 0.6% in December and were up by 3.4% in 2009.

The government will release the more closely watched consumer price index for December on Friday. Analysts expect consumer price inflation slowed to just 0.1% last month from 0.4% in November 2009.

The average number of Americans filing first-time claims for unemployment benefits over the past four weeks dropped to the lowest level since August 2008, indicating companies are making fewer job cuts as the economy improves.

Jobless claims increased in the latest week. The four-week moving average of initial claims fell to 440,750 last week from 449,750, Labor Department figures showed today in Washington. Weekly jobless claims, which are more volatile, rose a more-than-anticipated 11,000 in the week ended Jan. 9, to 444,000.

California bondholders got an early glimpse of what the state's budget-negotiation season may bring as a looming $20 billion deficit led Standard & Poor's to cut its credit rating for the second time in less than a year.

S&P yesterday lowered its assessment on $64 billion of the most-populous U.S. state's general obligation bonds one level to A-, four steps above speculative grade, saying a plan by Governor Arnold Schwarzenegger to erase the spending gap relies too much on proposals that may not succeed.

It was S&P's first downgrade of California since February, when it preceded Moody's Investors Service and Fitch Ratings in lowering the state's rating as lawmakers were locked in a stalemate over how to fill what was then a $46 billion gap.

We've been noting since July that Bernanke constricts or holds the Fed balance sheet neutral except during expiration week. Then Bennie jams liquidity into the system. This cannot be an accident. After today's close, the Fed's H.4.1 will reveal if Ben juiced the market for expiration again.

High-frequency trading accounts for as much as 70 percent of U.S. stock volume, according to… financial services consultant Tabb Group LLC. New regulations may make the practice less profitable for trading firms and hurt U.S. exchanges, where revenue hinges on the number of transactions executed.

HFT is parasitic. Once there is a critical mass of parasites, the host becomes impaired or dies.

The Securities and Exchange Commission voted to propose banning brokers from providing clients with unsupervised access to stock exchanges, a practice that accounts for about two of every five shares that trade in the U.S. [The parasites feed on retail and institutional orders.]

Zero Hedge: …we find out that today's crowning moment of S&P manipulation was purely a function of yet another fat finger. We say manipulation, because while according to the CME the two 200,000 ESH0 block trades allegedly offset each other, the market ended up shooting higher as a result, which was likely driven purely from favorable robotic interpretations of the volume spike. This market is so broken, and so upward biased, the mere observation of abnormal volume activity is sufficient to gun it higher. Also, can someone please explain how 200,000 e-mini contracts can possibly trade without soaking up all of the advertised bid and offer side on the NBBO?

Between 11:03 and 11:04 CT today, there were a series of transactions in ESH0 in which a market participant appears to have inadvertently traded approximately 200,000 contracts as both buyer and seller. CME maintains trade practice and risk management rules and procedures respecting such matters. In keeping with standard practices and CME's self-regulatory responsibilities, CME is reviewing the circumstances of this event.

Good riddance to 2009. U.S. freight railroads completed a very difficult year by originating 1,241,293 carloads in December, an average of 248,259 carloads per week. That's down 4.1% from December 2008's average of 258,915 carloads per week and down 17.6% from December 2007.

• Rail traffic always falls sharply in late December due to the holidays. This year, unusually heavy early- season snow in parts of the country also negatively affected rail traffic.

U.S. rail traffic remains far below pre-collapse levels. To use the boxing analogy again, it's not yet time to put away the smelling salts…

For the full year 2009, U.S. railroads originated 13,812,989 carloads, down 16.1% (2.6 million carloads) from the comparable period in 2008 and down 18.2% (3.1 million carloads) from 2007. 2009's carload total (unadjusted for changes in rail car capacity) was the lowest for U.S. railroads since before 1988, when the AAR data series begins.

Financial industry leaders fielded mostly softballs and soft toss from Congress yesterday. One interesting item was Goldman High Priest (He professes to be 'doing God's work'.), Lloyd Blankfein's assertion that Tiny Tim and his coterie never asked Goldie to take a haircut on their CDS with AIG.

Please recall that according to TARP Special Inspector General Barofsky, Tiny Tim's NY Fed cabal asserted that they paid off AIG crappy paper in full because Street firms refused to take a haircut.

Here's a story that demonstrates the delusion of corporate American and how it sold average Americans down the drain for the dubious promise of foreign riches: (BN) Google Inc.'s threat to pull out of China is the most visible reflection of U.S. companies' growing disillusionment with the country nine years after it joined the World Trade Organization, business groups said.

Washington trade organizations representing companies such as Microsoft Corp., Boeing Co., Intel Corp. and Cigna Corp., which all backed China's entry into the WTO and fought off legislation to punish Chinese imports, say China is increasingly discriminating against them on government contracts and through unfair subsidies. [What did they expect from a dance with the devil?]

President Barack Obama's proposal to tax the biggest financial firms will face "fierce" opposition in Congress, former Florida senator and Republican National Committee Chairman Mel Martinez said.

"It has to be approved by Congress, and I think there'll be fierce opposition," Martinez said in a Bloomberg Television interview today in London. "The Democrats are the overall majorities, so it could be done without Republican support, but it's always difficult to do anything this difficult without any bi-partisan support."

Obama said yesterday the levy, which would be imposed on as many as 50 financial firms, is aimed at getting back "every single dime" of taxpayer money that bailed out those companies during the worst recession since the 1930s. Analysts and investors say it may cost JPMorgan Chase & Co. and Bank of America Corp. more than $1.5 billion each.

U.S. state tax collections fell the most in 46 years in the first three quarters of 2009 as the recession shrank revenue from sources including personal income, the Nelson A. Rockefeller Institute of Government said.

Revenue dropped 13.3 percent, or $80 billion, compared with the same nine months of 2008, to $523 billion, the institute said. Collections in the third quarter alone sank 10.9 percent to about $162 billion, according to the report released today by the Albany-based body. It was the fourth straight quarterly decline. The institute is the public policy research arm of the State University of New York.

"The first three quarters of 2009 were the worst on record for states in terms of the decline in overall state tax collections, as well as the change in personal income and sales tax collections," Rockefeller analysts Lucy Dadayan and Donald J. Boyd wrote in the report. The institute explores ways to help state and federal governments work better.

`The worst economic slump since the Great Depression has forced states to cut spending, raise taxes and pass down costs to local governments to cope with $193 billion of combined budget deficits in the current fiscal year, according to a Center on Budget and Policy Priorities report issued last month.

Budget gaps have opened in 31 states since fiscal year 2010 began, Dadayan and Boyd wrote, citing a National Conference of State Legislatures study.

"2010 is going to be very difficult for the states and the next year is likely to be significantly worse," Rockefeller Deputy Director Robert Ward said in an interview.

Turkish Prime Minister Recep Tayyip Erdogan this week warned Lebanese leaders that Israel may be planning an attack on its northern neighbor, Lebanese sources told the London-based Arabic language daily A-Sharq al-Awsat on Thursday.

At a meeting in Ankara with Lebanese Prime Minister Saad Hariri and President Michel Suleiman on Monday, Erdogan declared that Israel was endangering world peace by using exaggerated force against the Palestinians, breaching Lebanon's air space and waters and for not revealing the details of its nuclear program.

Erdogan called on the five permanent members of the United Nations Security Council to pressure Israel over its nuclear program in the same way that the international community has been dealing with Iran.

"Israel never denied that it has nuclear weapons," said Erdogan. "In fact, it has admitted to such."

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