Princeton Economic's
The World Capital
Market Review

April, 1995

The Clinton Debt Crisis

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It is widely known within the financial community that the Clinton Administration reduced the 30 year bond auctions and shifted the bulk of the treasury financing to 5 years or less. At first, it was perceived that this debt manipulation was an attempt to force long-term interest rates down in an effort to fulfill an election promise that higher taxes would result in lower interest rates. However, the Clinton manipulation of the national debt had a much more sinister agenda in its purpose - an agenda that has now set in motion a catastrophe that could hurl the industrialized world into a debt crisis unseen since the massive government defaults of the Great Depression.

When Bill Clinton announced that he had cut the deficit by a historic $500 billion, there was no pain. Lobbyists were not crying in the streets and nobody in the media claimed that children would starve. This miracle of miracles was accomplished by raising taxes $250 billion combined with shifting the national debt funding extremely short-term. At the end of 1993, 30 yr. bond rates were more than twice that of 1 year. Today, nearly 33% of the total national debt is funded 1 year or less with nearly 65% funded 5 years or less. This parlor trick from the oval office amounted to an interest expenditure savings of nearly $50 billion in the first year. Multiply that by 5 years and you come up with a projected budget savings of $250 billion (assuming no change in interest rates) combined with the tax hike gives you a projected deficit reduction of $500 billion over 5 years. This manipulation allowed Clinton to portray an image of reducing government while in fact nothing of the sort was taking place.

The problem that we now face is quite simple. Every administration since World War II has made an effort to extend the national debt for as long as possible. This effort had protected the budget from wild swings in interest rates while tending to reduce volatility as a whole. When the Fed sought to fight inflation, they had a 2 to 4 year window in time before any interest rate hike would cause a dramatic rise in the nation's deficit due to interest expenditures. This Clinton debt manipulation has now placed our economy in a dangerous position and the dramatic decline in bond prices last year is just the first warning sign.

Interest expenditures are a grossly overlooked segment of the budget. If we look at the 8 years of Reagan, we see that the national debt doubled by $1 trillion. The Democrats would have the people believe that this was caused exclusively by the Reagan tax cuts and trickle-down economics. The truth of the matter is far from their political revision on history. If you place your money in a bank at 8% compounded, you double it in less than 10 years. Quite frankly, if a chimpanzee were president, the national debt still would have doubled and trickle-down or tax-em-till-they-die policies had nothing to do with this issue.

The fact that 33% of the national debt is now funded 1 year or less means that the deficit will rise faster than anyone in Washington is prepared to forecast. With short-term rates double from a year ago, whatever savings Clinton was able to achieve has now evaporated into the political malaise. The rise in the deficit will once again become an issue for the capital markets and the Democrats will lie to the public again blaming it on any tax cut by the Republicans.

Because of the Clinton debt-manipulation, any attempt by the Fed to reduce inflation may have an impact upon private sector borrowing but it will never convince our public servants that real spending reductions are necessary to prevent an all out catastrophe before the end of this century. We are now facing a serious situation where the rise in interest expenditures could easily outpace the government's ability to reduce spending. For every 1% rise in short-term rates, the deficit could easily grow by more than $200 billion by 1998 in interest expenditures alone.

To see the Debt Crisis in action we need only look at Sweden, Italy and countless other nations including Canada that have squandered their national wealth to the point that dramatic political change is forced upon them by the capital markets. The prospects of Canada moving into a moratorium or an outright default by 1996 is unquestionable. Last year, 40% of every dollar the Canadian government spent went to interest. With virtually 40% of the entire national debt coming due by 1996 and short-term rates double from 1 year ago, the interest expenditures of Canada will soar to reach 50% of total expenditure or higher. The concern over government debt is building around the world as all industrialized nations continue to run bigger deficits. The old maxim that a national debt is merely a borrowing from ourselves died when holders of the debt ceased to be exclusively domestic citizens. Interest expenditures of this magnitude are nothing more than a wholesale license to export the national wealth of a nation where government spending no longer stimulates the domestic economy.

Debt by itself is not necessarily bad and it certainly does not cause a financial disaster alone. What is most important is how the debt is being used. The governments that are falling first are those where the greatest amount of spending has been toward consumption in the form of social programs. If government spending fails to create good paying jobs, the net effect is not a stimulus but a drain upon the economy. Welfare recipients do not receive enough in transfer payments to buy a new home, automobile or other high-end durable goods that create jobs. Combine this with the vast expansion in government itself (33% of the civil work force) and you have the real reason for political unrest in America. When you combine the non-productive sector (social programs) with the sheer number of employees in government, you quickly begin to approach nearly 45% of the civil work force. This means that the productive sector within the economy must be taxed at 50% to pay for the other half that fails to contribute anything significant to our national wealth. The dramatic increase in the size of government has been the leading cause in the rise of the debt and taxation resulting in the overall decline in the living standard for everyone. There is perhaps no better illustration of this trend than the IRS definition of the rich. In the 1940's, the top income bracket stood at $5 million. This definition of the rich declined all the way down to $51,900 by 1992. So when the Democrats constantly blame the rich for every evil within society in a true marxist fashion, it is the middle-class that have suffered the most as the definition of the rich has encroached upon their income while deductions have evaporated.

If we do not reverse this trend immediately, the long-term economic prospects for America are too horrible to imagine when the baby- boomers come of age. For once, let us hear the truth from Washington and admit that the standard of living has declined not because the there are too many rich people in America, but because there are far too many public servants and dependents whose survival is solely linked to the confiscation of income of everyone that works - regardless of earnings.

The Solutions

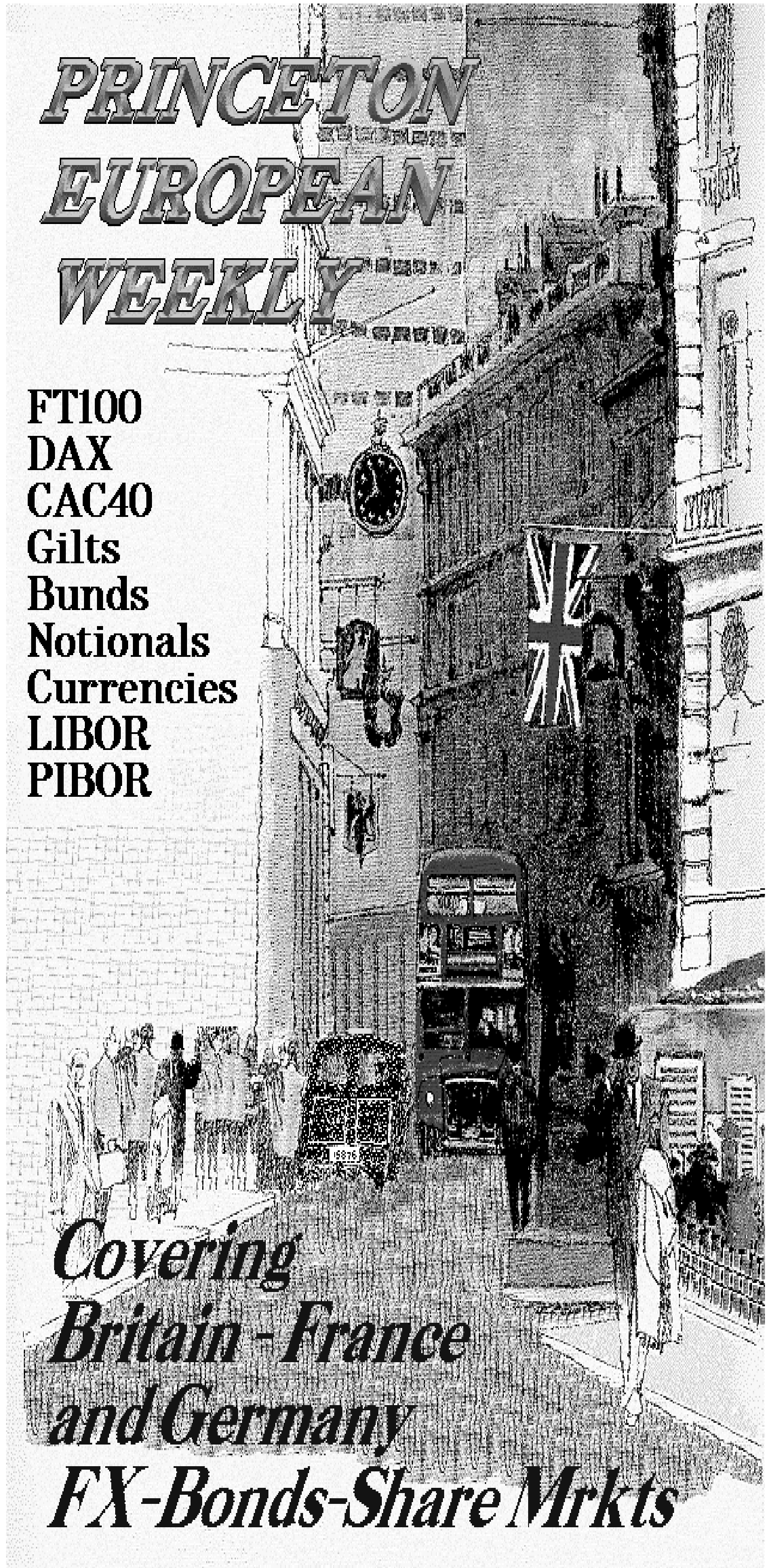
We must make a concerted effort to shift the national debt back toward a long-term focus. We must return some sense to Washington by restoring the zero-based budget process. We must also place an immediate freeze upon government employment at all levels and reduce it with an honest approach. And we must reduce spending in areas that do not create jobs directly outside of the government. A tax amnesty should be implemented and the proceeds directly used to retire the national debt. Finally, the long-term goal should be to abolish the income tax and replace it with a national sales tax (not VAT) that is capable of extracting revenues from the underground economy, including illegal aliens. Under such a system, the upper class will naturally pay more and exemptions for food and housing will protect the poor. This must be done with a simultaneous repeal of the 16th Amendment.

Since the marketplace will not allow us to shift our debt without immediate reform, we must enlist another approach. Government bonds were always tax-free prior to World War II with a minor exception of partial taxation during World War I. If we were to make a concerted effort to reverse the damage that has been done by the Clinton Administration, we should issue non-marketable 10 to 30 year bonds tax free in small denominations down to $1,000. Foreign holders of debt pay next to nothing in taxes on the interest derived in the United States. It is about time we afford the American people with the same privilege. These issues should be in the format of a ZERO COUPON. Depending upon sales, this would not only extend the national debt, it would also help to bring the debt home in addition to dramatically reducing the deficit in the current fiscal year. A portion of savings in interest expenditures should then be used to retire short-term debt. This program would have the same net effect as a company buying back its own stock. The price of bonds would rise and interest rates would fall. A separate gold-backed bond could also be offered at half the normal yield. Those who remain gold bugs would find this a reasonable way to own gold and earn interest too.

If we do not start managing our debt in a professional manner instead of allowing it to be manipulated for the political gain of our officials, not only will the United States find its interest expenditures rising faster than budget cuts, but the entire public debt sector of the world will move once again into a chaotic state of flux going into the end of this century. We must admit that interest rates on government debt have always risen following tax increases simply because capital invests on a net return basis.

The Clinton debt crisis is real. This year alone interest expenditures could rise in excess of $60 billion far outfacing any spending reductions the Republicans have in mind. Government taxation on all levels has been growing faster than the economy itself. We can no longer ignore this issue or characterize those who promote change as evil and selfish. The currency crisis began when the balanced budget amendment failed to pass in the Senate. If we do not act now, the capital markets will do the job for us and in the process, real starvation will become a threat instead of a irresponsible scare tactic if we can no longer fund our debt.

Unfortunately, the reality of history is clear. Confronted by an evil and corrupt government and the consequences of its unsound finance, the speculator may prosper from the wild fluctuations in price, the capitalist will protect himself by hoarding and refusing to invest, while commerce, having no nationality, will leave in search of more fertile ground; but the wage earner, first to suffer under the ravages of a depreciated currency, remains incapable of prospering from the fluctuations in price and frustrated by his inability to hoard his own labor from the ever encroaching demands of taxation. His dilemma is without peaceful resolution for he can but only flee to another land or sacrifice his life in defiance of the injustices of the greedy ruling class.



UNITED STATES:

CONSUMER CONFIDENCE: US consumer confidence rebounded in March, indicating that fears of a sharp deceleration in US growth may be unwarranted. The Conference Board, a New York business analysis group, said its confidence index rose to 101.0 this month, against 99.4% in February. The index is now close to the peak it reached last December and at a level historically associated with vigorous growth.

The confidence survey found that more than one in four consumers regarded business conditions as "good" against 17% who described them as "bad". This was one of the most favorable readings in many years. Consumers' expectations about economic conditions in coming months eased fractionally in March, but remained consistent with solid economic growth.

The board noted a sharp five-point increase in the public's assessment of current economic conditions, suggesting that consumers' willingness to spend may be reviving after a quiet post-Christmas period. Some economists believe the economy is now settling into a permanently lower real growth rate of about 2.5% a year, compared with 4% last year. The rebound in confidence, however, gives tentative support to the opposite view that deceleration of growth will be mild and short-lived. The "strong- growth" camp expects consumer spending to rebound this spring, forcing the Fed to tighten monetary policy further, perhaps at its next policy meeting in May.

EXISTING-HOME SALES: Sales of existing homes slowed i January to the lowest level in nearly 2 years, signaling that higher rates have finally caught up with home buyers. Sales of previously owned homes were down 4.5% in January, to a seasonally adjusted, annual rate of 3.59 million units from 3.76 million in December, according to the National Association of Realtors. The January rate was the slowest since April 1993. In addition, sales were 14% below the level recorded in January 1994, when interest rates were near their lows and sales were unusually brisk, the group said.

Industry officials said the lower sales reflected sluggish traffic last year following 6 interest-rate increase that pushed mortgage rates up by about two percentage points. The effect is delayed because can take 2-3 months to be completed and counted.

Sales of existing homes are expected to stay at a relatively weak annual rate of 3.7 million units or less through the first half of this year said John A Tuccillo, the associations chief economist. Overall, he sees existing homes falling 5% to 10% in 1995, to perhaps 3.74 million units from 3.95 million units in 1994, the best year for such sales since 1978.

RETAIL SALES: Retail sales dropped 0.5% in February to $192.85 billion, the Commerce Department said, another sign that the economy is slowing under the weight of higher interest rates. The drop from the January level was the first since last April when retail sales fell 1%. It comes on top of a revised 0.6% gain in January, an increase originally estimated at 0.2%.

The drop in retail sales in February was broad-based. Durable goods, those items intended to last at least 3 years and are most sensitive to interest rates, were the weakest category last month. Furniture sales fell 1.2% after a 0.5% drop the month before; car sales were off 1% after a 0.2% drop in January, and sales at hardware stores fell 0.5% for the second month in row. There were also significant declines at general-merchandise stores and apparel shops.

PURCHASING MANAGERS' INDEX: The US Purchasing Managers' Index fell sharply in February, raising hopes that the economy will achieve a "soft landing" after unsustainably rapid growth at the end of last year. The index, one of the first indicators of the economy's performance in February. fell from 57.9% in January to 54.5% , the lowest level since October 1993. However, it remained well above the 50% threshold for growth in the manufacturing sector.

The decline of the purchasing index follows the release of official figures showing slower growth of demand for consumer durables, cars and homes - sectors that have been hit by higher interest rates.

GDP: The Commerce department released revised figures for GDP in the fourth quarter, indicating that any deceleration of economic growth in coming months may be more modest than previously expected. The latest GDP data show growth at an annual rate of 4.6%, rather than 4.6% as previously reported. But the composition of growth was significantly different, with a much smaller increase in corporate inventories than previously estimated. Because growth appears to have been more dependent on net exports and personal consumption than previously estimated, it is more likely to be sustained.

JOBLESS RATE: A sharp drop in the jobless rate in February provoked a debate about the future direction of US short-term interest rates. The Labor Department said the jobless rate fell to 5.4%, against 5.7% in January, while non-farm payroll increased a robust 318,000, in line with monthly increases last year when the economy was surging ahead. January data was revised to show a net increase in jobs of 176,000, rather than 134,000 previously reported.

After weak jobs data in January, many economists assumed US economic growth was decelerating rapidly, eliminating the need for further increases in short-term rates, currently at 6% - a sentiment which helped push the dollar down on the foreign exchange markets. The consensus view was that the jobless rate would fall only marginally last month to 5.6% and that payroll employment would increase by about 240,000.

The recent strong numbers suggest the economy has considerable momentum and some economists believe the data will put renewed pressure on the Federal Reserve to head off inflationary pressures by tightening monetary policy again.

FEDERAL RESERVE'S BEIGE BOOK: The US Federal Reserve said in March that the pace of economic expansion had moderated over the past few months, despite new economic data pointing to a stronger economy with greater inflationary pressures than has appeared in recent statistics. The Fed's "beige book" survey of economic conditions said their was little evidence that strength in labor markets or increase in commodity prices has spilled over into wages or prices of finished goods. The beige book data blunted the impact of higher-than-expected figures for wholesale inflation and industrial production.

Although PPI (up 0.3% in Feb) and Industrial production (up 0.5% in Feb) were slightly higher than market economists had predicted, neither appeared to reverse the consensus view that the Fed will not adjust interest rates at its open market committee.

CURRENT ACCOUNT DEFICIT: In March, the US reported that its current account remained in deficit during 1994, for the 13th consecutive year. The size of the deficit surged to $155.7 billion from $103.9 billion in 1993. Economists attributed the current account deficit last year to a 25% increase in the merchandise trade deficit to $166.4 billion.

The current account is the widest measure of a nation's trading position. It includes trade in goods and services, investment income and government grants.

UNITED KINGDOM:

BUSINESS CONFIDENCE: Rising inflation and fear of further interest rate increases have pushed business confidence to its lowest level since the aftermath of Britain's departure from the European exchange rate mechanism in 1992, warned the Institute of Directors. Only 28% of company directors are more optimistic about the economy than they were 6 months ago, says the latest two-month survey of about 300 directors from the institute. This is down from 38% in December last year. Some 21% of directors said they were more optimistic than they had been six months ago, which gives a net balance of 7% saying they were more gloomy. This was the most depressed result since December 1992.

Directors have become increasingly worried by the outlook for inflation and interest rates, but less concerned by the political situation. Mr. Tim Melville Ross, IoD director-general, said this showed that businesses were becoming convinced that the government was serious about tackling inflationary pressure. "That conviction could translate into companies lowering the rates of return they require from investments. That, in turn, should lead to higher levels of investment."

CONSUMER CONFIDENCE: A Gallup survey shows confidence falling when measured in a wide variety of ways, supporting the fears of Mr. Kenneth Clarke, chancellor of the exchequer, that the "feel good factor will not re-emerge fully by the time of the next general election (The latest possible date for a general election is June 1997).

Some 21% of consumers reported that they expected the economy to improve in the coming 12 months. But that was outweighed by the 37% expecting a further deterioration. The net balance of 16 percentage points was the gloomiest response for almost a year, with the exception of a short-lived burst of pessimism in the wake of December's interest rate increase and mini-budget, as reported by the Financial Times. Confidence under this heading has dropped consistently so far this year.

When consumers were asked for an assessment of their household's financial position, pessimists outweighed optimists by almost 2 to 1. The net balance expecting their financial circumstances to deteriorate was 13 points compared with 11 in the previous month.

Some 35% of consumers said now was a good time to make a large purchase, compared with 28% saying it was not. This was a more pessimistic result than last month and worse than the average for the year.

CONSUMER BORROWING: Consumer borrowing fell back sharply in January, reflecting the weakness of spending during that month, according to figures from the Bank of England. Consumer borrowing rose by a net 492 million pounds ($782 million) in January, barely half the figure in December and less than most economists had expected after adjusting for normal seasonal influences. This was consistent with the 0.9% drop in retail sales volume during the month. Borrowing on credit cards rose by £115 million during the month compared with the record rise of £302 million in December.

Consumer credit continues to grow strongly on an underlying trend basis. January's 0.9% seasonally adjusted increase gave an 11.4% rise over the year. Consumer credit has been accelerating recently, with an increase equivalent to 15.6% a year taking place in the latest three months.

ENGINEERING JOBS: As reported in the London Financial Times, employment in the UK engineering industry - which lost about 40,000 jobs during the recession - is probably rising for the first time since the late 1980's. A quarterly Survey, by the Engineering Employers Federation , suggests that output and new orders are increasing almost as strongly as the previous boom of 1987-88. The poll was hailed by the federation as dispelling doubts about the strength of the recovery in the engineering and related industries.

Recent official statistics indicated a downturn in engineering output between October and January, raising fears that the recovery in the sector may already have peaked. The survey, sponsored by Alex Lawrie, the business finance specialist, was conducted among 1,764 businesses between mid-February and early March. It asked whether six indicators were up, down or the same, compared with three months earlier. These were output, total new orders, new export orders, employment, and investment plans.

52% of the companies said output had risen, while only 16% reported a fall. The pattern is similar on new orders, for both UK and export markets. On employment, estimated at 1.7 to 1.8 million for the sector, 34% of the companies said they were adding jobs, while only 18% are cutting back. In an important change from three previous surveys, big and small companies are increasing employment. In earlier surveys, increased employment among smaller companies was offset by reductions at bigger employers.

LENDING: According to the British Bankers' Association, Britain's big banks lent $4.85 billion to the private sector in February after adjusting for seasonal changes. Lending to individuals rose by £839 million, up from an increase of £587 million in the same month a year earlier. The banks also reported that mortgage lending was becoming increasingly subdued, but that lending for consumer spending was picking up more quickly. Mortgage lending was 6.9% up on a year earlier, a growth rate which has subsided in every month for over a year. But consumer lending rose by 5.5% over the last 12 months, having been falling a year ago.

Total bank and building society lending to the private sector, known as M4 lending, rose by a seasonally adjusted £3.7 billion in February. There was an inflow of deposits into the banks of £2.8 billion in February, the largest since December 1991.

M4 MONEY SUPPLY: Britain's broad money supply measure, known as M4, climbed a higher-than-expected 0.6% in February from a month earlier, amounting to a year-on-year growth rate of 4.6%, the bank of England said. The figures are provisional and are adjusted for seasonal variations. M4 rose 0.3% in January and was up 4.3% from a year earlier.

NON-EU TRADE DEFICIT: Britain's trade deficit with countries outside the European Union widened to a lower-than-expected £343 million in February from £291 million in January, according to the Central Statistical Office (CSO). A CSO official said that the trend in the visible balance, heavily influenced by the erratic December figure, is almost flat. The deficit in December was £929 million. the highest in two years.

The trade figures exclude so-called "invisible earnings", such as services, interest earnings and dividends. While exports rose 5% to a record £5.2 billion, much of the increase came from trade in crude oil and precious stones. A 6% increase in imports to £5.5 billion, however, came largely from consumer and capital goods.

The latest estimate of trends in the value of trade shows both exports and imports increasing, the CSO said. The trade deficit, excluding oil with non-EU countries was £378 million in February, compared with 294 million. Oil trade was in surplus by £35 million in February compared with a £3 million surplus in January. Excluding oil and erratic items, the underlying visible trade deficit was £406 million in February, compared with 122 million. The CSO defines erratic items as ships, North Sea installations, aircraft, precious stones and silver. IN the 3 months through February, the visible non-EC trade deficit more than doubled to £1.56 billion from 736 billion in the prior three months and was up from 1.5 billion in the year earlier period.

Trade statistics are now compiled from two separate sources. Those for countries outside the European Union are based on customs declarations, while the figures for other EU countries are based on data being reported by individual companies.

GROSS DOMESTIC PRODUCT: The final estimate of British economic growth in the fourth quarter showed GDP climbed 0.8% from the previous quarter, according to the Central Statistical Office. GDP, the main measure of economic output in most industrialized countries, climbed 4.2% in the fourth quarter from the same period a year earlier.

CURRENT ACCOUNT DEFICIT: Britain recorded its lowest current account deficit for nine years in 1994, after a surprise surplus in the final three months of the year brought an unexpected boost to the figures. The improvement, which was much better than the government had expected, was the result of a surge in UK companies' overseas investment which brought more profits into the country.

The UK current account deficit with the rest of the world fell to £168 million after a surplus of £628 million in the last quarter of 1994 - the second consecutive quarter of surplus. This yearly deficit was sharply lower than the previous year's almost £12 billion, and the best figure recorded since the UK ran a current account surplus in 1985.

The reduced deficit partly reflected growing UK exports last year. But the main reason for the improvement in the second half of the year was a significant increase in the surplus on "invisible" items such as financial flows, investment income and government transfers . This balance reached a record surplus of £10.4 billion during this year.

OFFICIAL RESERVES: UK official reserves of foreign currency and gold fell an underlying $18 million in February from January, the UK Treasury said. Underlying official reserves fell $11 million in January and rose $62 million in December. Britain's total reserves stood at $42.750 billion in February, down $29 million from $42.779 billion at the end of January. The decline in the underlying figure was smaller than expected.

Official reserves are one indication of whether the Bank of England has intervened in the currency markets to support or reduce the value of sterling. A large drop in the official reserves might suggest that the Bank of England has been selling foreign currency and buying sterling to support the pound. A large rise in reserves might suggest the central bank had been selling sterling reserves for foreign currency to stop the price of the pound from rising.

GERMANY:

GERMAN RECOVERY: The German economy grew by 3% in the fourth quarter of last year compared with the same period of the previous year, according to the federal statistics office. This was despite the fact that 1994 contained two fewer working days. The figure for gross domestic product over the full year was revised to 2.9% from the provisional 2.8%. This compared with a fall of 1.1% in 1993. West Germany's GDP grew by a seasonally and calendar adjusted 0.5% in the fourth quarter over the third quarter and was 2.5% higher year-on-year. Growth was mainly propelled by exports, up by 9% in west Germany in the fourth quarter over the same period of the previous year, and construction (up 9.6%, helped by a mild winter). But personal consumption, by far the biggest component of GDP, eased by 0.1% in the fourth quarter from a year earlier. In east Germany, fourth quarter growth was 9% over the previous year's period; the full-year growth rate for 1994, was revised to 9.2% from 8.9%.

WEST GERMAN INFLATION: West German wholesale prices showed their biggest rise in more than 5 years in February, triggering fears that inflationary pressures could be building up. The Federal Statistics Office said the wholesale price index rose 0.7% in February from January and was 3.4% higher than in January 1994. This was the highest year-on-year rise since December 1989 and was well above forecasts. December 1994 and January 1995 had annual changes of 3.2%, both well above the 1.6% average of 1994.

PPI: West German producer prices in Western Germany rose 0.2% in February from January and were up 1.8% from a year earlier, according to the Federal Statistics Office. The increase was in line with expectations. Among products showing significant rises in February over January were liquid gas, aluminum goods and polyethylene.

M3 MONEY SUPPLY: Germany's money supply remained steady in February after four months of contraction, lessening inflation fears and providing the bundesbank with some ammunition for a cut in interest rates. By one measure, a comparison with the fourth quarter of 1994, M3 money supply shrank at a faster-than-expected annual rate of 3.8% last month. Compared with January, however, M3 was unchanged. In either case, evidence that the money supply isn't running at inflationary levels puts the Bundesbank in position to trim interest rates if it wants to calm currency markets.

Since the beginning of 1995, the Bundesbank has reported M3 in a variety of ways to contain the market's initial reaction to the figures and limit the distortions that can occur when yearly money supply growth is extrapolated from monthly figures.

Compared with the 4th quarter of 1993, M3 growth slowed to an annualized rate of 3.7% in February from an increase of 4% in January. The Bundesbank's target for M3, set in December, is for average growth of 4% to 6% from the fourth quarter of 1994 to the fourth quarter of 1995.

TRADE SURPLUS: Germany's trade surplus for December was DM6.2 billion(4.2 billion), down DM2.6 billion from November, and DM1 billion less than December 1993, according to the Federal Statistics Office. The annual trade surplus for 1994 was DM73.9 billion, up DM12 billion from 1993. The strong D-mark had little impact on December's export performance, but the invisibles balance showed a sudden decline. The December services deficit widened to DM6.5 billion, and the current account recorded a DM7.3 billion deficit, after a surplus of DM0.8 billion in November. This is partly due to an increase in travel, with purchases of foreign holidays surging as the economy pulled out of a recession.

The Bundesbank has emphasized that the services balance has been distorted by flows to Luxembourg-based funds following the introduction of witholding tax in Germany in 1993. The dividends or interest payments to Luxembourg are recorded as outflows, while any transfer back to the domestic investor cannot be captured, hence exaggerating the deficit on the investment income balance.

UNEMPLOYMENT: The number of people unemployed in Germany fell by 23,000 in February, bringing the number of jobless people in all of Germany to 3.827 million, about 9.9% of the total workforce, according to the Federal Labor Office. The February fall means there are 215,500 fewer people out of work than at the same time last year. In the corresponding period in 1994, 10.5% of the total workforce was out of work. Improved economic conditions in west Germany were largely responsible for the improvement. Last month the number of west Germans out of work fell by 24,900 to 2.27 million, a drop of 22,300 on the same period in 1994.

The unemployment rate in west Germany in February was 8.8%, down slightly from 8.9% in January. In eastern Germany unemployment rose slightly in February, by 1,900 to 1.107 million, or 14.7% of the workforce. Compared with the same month in 1994, when the unemployment rate in the east was 17.3%, there were 193,200 fewer unemployed. The Federal Labor Office said that while there had been a welcome decrease in the number of people on short-term contracts, the numbers of long-term unemployed remained worrying.

Germany unveiled a $2.12 billion spending package in March, designed to stem rising long-term unemployment. The measure, to be applied through 1999, was devised by the government, labor unions and industry. Companies that hire people who have been out of work at least a year will get government subsidies to cover between 40% and 80% of the workers' wages for one year.

AUTO SECTOR: German auto executives warned the government and labor unions that 50,000 jobs could be lost in the next 5 years without drastic action to improve the industry's competitiveness. In informal talks at the Economics Ministry, auto makers and suppliers urged politicians and unions to help cut costs and encourage innovation and investment. Already burdened by the world's highest labor and shortest work week, Germany's auto industry faces sluggish car sales in Europe while the strong German mark hurts exports.

CANADA:

BUDGET: The role of Canada's federal government will shrink markedly over the next few years as a result of budget proposals tabled by finance Minister Mr Paul Martin at the end of February.

Mr Martin mapped out what he described as a "new road of fundamental reform" including deep cuts in departmental budgets, reduced transfers to the provinces for welfare and education, and a resumption of Ottawa's stalled privitization program, and an end to a variety of subsidies, notably prairie grain farmers.

The budget also included several tax increases, including a rise from 3% to 4% in the corporate surtax and a 12.5 point rise in the Large Corporation Tax, and a capital levy on Canada's banks. The measures are designed to reduce the federal deficit to C$24.3 billion, 3% of GDP, in the fiscal year ending March 31, 1997, from C$32.7 billion in 1995-96 and an estimated C$37.9 billion in the current fiscal year. The budget is also designed to halt a virtually unbroken increase over the past two decades in Canada's debt-to-GDP ratio, a key measurement of a country's ability to service its debt.

Some economists were impressed by Mr Martin's conservative growth and interest rate projections. The budget assumes Canada's real GDP growth rate will slow from 4.3% in 1994 to 3.8% this year and 2.5% in 1996. Private sector economists on average predict a 2.9% growth rate next year. Mr Martin said that based on the private sector forecasts, the budget deficit would tumble to C$18.8 billion, 2.3% of GDP in 1996-97. The debt-to GDP ratio would fall to 71.8% from over 73% in the current fiscal year.

The government plans to move ahead this year with privitization of Canadian National, one of the country's two main railway companies. It also intends to dispose of the remaining 70% stake in Petro-Canada, the big Calgary-based energy group.

JOBLESS RATE: Canada's unemployment rate fell 0.1% percentage point to 9.6% in February from January as fewer people looked for winter jobs, Statistics Canada said. The rate matched economists' expectations. In January, the jobless rate was 9.7%; in the last two months of 1994, it was steady at 9.6%. In January 1994, it stood at 11.4%.

February's improved results stemmed from 33,000 people who dropped out of the labor force and stopped looking for jobs, leaving a force of 14.91 million. The employment level fell 20,000 to 13.474 million. That compared with a gain of 15,000 jobs in January and 1994's monthly highest growth of 95,000 new jobs in November.

Recent competitive strength in manufacturing and strong US demand for cars, auto parts and consumer items helped Canada's economy expand 4.5% last year. Canadian wages climbed a record low of 0.3% in 1994 and a 6% devaluation of the Canadian dollar against its US counterpoint in the past year keeps exports cheap.

According to StatsCan, manufacturing again provided most of the new jobs created in February. After two small months of gains, employment in manufacturing grew 53,000 in February, up 2.6% the previous month. Since the start of 1994, manufacturing employment has grown 13.1%, accounting for 58% of total growth, StatsCan said. Primary industries, like logging and mining, also increased employment in February, gaining 9,000 new jobs. Over the past 13 months, this primary employment has advanced 12.7%.

These gains were offset in part by losses of 21,000 jobs in wholesale and retail trade, 18,000 in construction work and 18,000 jobs in public administration. StatsCan said the number of unemployed people fell 13,000 to 1.436 million. The number of full-time jobs rose 12,000 to 11.269 million. There were 32,000 part-time jobs lost last month for a total of 2.205 million, according to StatsCan.

The participation rate, or percentage of people over 15 years of age working or looking for jobs, slipped 0.2 percentage point to 65.12%. The employment/population ratio, or ratio of those holding jobs as a percentage of those over 15, slipped 58.8%.

JOBLESS CLAIMS: The number of people receiving unemployment insurance in Canada fell 4.2% in January from December to the lowest level in 14 years. Some 766,000 Canadians received benefits at the start of the new year, the federal statistics office said. That was down from 800,000 in December and the lowest level since December 1981. The number of people receiving regular benefits has declined 36.2% since July 1992, when it peaked at 1.2 million. In January, the number of people who filed new claims fell 0.1% to 251,000. New claims were down 5% from the year-earlier month. All figures are seasonally adjusted.

M1 MONEY SUPPLY: Canada's M1 money supply rose C$893 million (US$632.6 million) to $58.118 billion in February from January, the Bank of Canada said. M1, which includes currency in circulation and demand deposits, totalled $57.225 billion in January, the bank said.

M2 money supply, all the components of M1 as well as savings deposits, rose $1.396 billion to $366.791 billion from $365.395 billion. Canada's M3 money supply in February totalled $441.020 billion, down $516 million from January's $441.536 billion, the bank said. M3 consists of M2 along with non-personal fixed term deposits and foreign currency deposits of Canadian residents deposited in Canada.

EXISTING HOME SALES: Sales of existing homes in Canada's 25 largest cities plunged 38% in January, according to the Canadian Real Estate Association. It was the ninth consecutive monthly decline. Preliminary figures show sales last month fell to 11,565 homes, which compared with 18,735 homes in February 1994.

On March 3, Canada's major banks lowered a five-year fixed mortgage to 9.875 from 10.25%. That, however, was still 263 basis points higher than levels at the start of 1994.

COMPOSITE INDEX: Canada's composite leading index rose 0.5% in February from January as strong durable goods orders offset a week housing market, according to StatsCan. The indicator climbed to 173.4, up from January's 172.5, the federal statistics agency said. The index stood at 100 in the base year of 1981.

February's advance was powered by a 2.8% increase in new orders for durable goods, many destined for US export. This was offset by rising interest rates that took their toll on the three components related to the financial and housing markets, Statscan said. The report stated that this weakness had not yet spread to other sectors of the economy.

Six of the 10 index's components increased in February. The housing index dropped 1.5%, the TSE 300 stock price index fell 0.8% and the money supply index edged down 0.1%. The component tracking the average work week was unchanged. The biggest increase was in new manufacturing orders for durable goods, which climbed to 12.578 billion, up from the month-earlier 12.239 billion.

There was a 0.6% increase in furniture and appliance sales and a 0.2% gain in the component tracking business and personal service employment.

JAPAN:

EFFECTS OF KOBE QUAKE - EMPLOYMENT AND OUTPUT: The Kobe earthquake in January momentarily stopped industrial Japan in its tracks, according to output and employment statistics released at the end of February. Manufacturing output fell by 1.4% from December to January said the Ministry of International Trade and Industry. Officials attributed half the decline to the direct damage in the area around the quake, as well as related disruptions across Japan caused by parts shortages. However, this did not break the moderate upward trend of industrial output, which showed a 5.9% rise by comparison with January of last year.

Unemployment, meanwhile, rose by 0.1 percentage point in January, the first increase in six months, to 2.9%, said the Management and Coordination Agency. Separately, construction orders received by Japan's top 50 contractors fell by 16.7% in January from a year earlier, the fist such drop in four months.

HOUSEHOLD EXPENDITURE: Real household expenditure fell by 4.2% in January from a year earlier, according to the government's household survey. Analysts said the decline, the steepest for nearly a year, suggested consumer confidence may have been damaged by the Kobe earthquake.

INDUSTRIAL INVESTMENT: Industrial investment, the motor of previous recoveries for Japan, remains chronically weak, so the current upturn will be weaker than earlier ones, said the central bank in its quarterly bulletin. On an index measuring the balance between those reporting better and worse business conditions, manufacturers improved from minus 29 at the last Tankan survey in November (The Tankan survey of business confidence is the most authoritative guide to Japan's short-term outlook), to minus 21 in February.

Service companies moved only a fraction from minus 30 to minus 29. In November, service companies had forecast that the confidence indicator would reach the same level as manufactures by now.

The central bank will probably take this latest Tankan survey as evidence that it should continue its neutral to firm monetary policy, according to economists in Tokyo. This is despite the latest resurgence in the yen, which has refueled criticisms that Japan's high real interest rates are delaying investment in new plants. Large companies told the survey that they plan to cut fixed investment by 1% this year, considered by some economists as an encouraging improvement on last years 5.6% investment decline. Fewer companies feel they have too many workers or too much capacity. Yet the improvement is slight: the index balance of those reporting excess employment fell from 25 to 24 during the quarter, while those reporting surplus production capacity fell from 34 to 27.

Export demand encouraged Japanese companies to increase investment during previous recessions and accelerate investment in the upturns, thus ensuring strong economic recoveries, the BoJ bulletin pointed out. The report also pointed out that this recovery has to struggle not just against changes in the global economy, but also greater competition in Japan's distribution industry, domestic consumers' preference for cheap products and greater corporate cost cuts. These pressures will not stifle the recovery, but rather moderate

MACHINERY ORDERS: Machinery orders in Japan fell by a seasonally adjusted 6.1% in January, marking the first decline in three months, according to the Economic Planning Agency. The decline, however, was in reaction to a substantial rise the preceding month, and the EPA believes the trend is still upwards. On a year-on-year basis, orders rose 1.7%.

In December machinery orders, a key gauge of the level of plant and equipment investment in Japan, rose by 9.1% month-on-month, after a 0.1% rise in November. The agency has not seen any direct impact from the January earthquake. It attributed this to the long-term nature of machinery orders.

TRADE SURPLUS: Japan's trade surplus rose 5.3% in February from the month a year earlier, as export volume surged in the aftermath of the Kobe earthquake. The increase in the surplus, to $11.46 billion, marked a reversal from January, when the imbalance fell 52.3%, in part because no goods could leave the devastated port after the quake. While the port remained closed in February, Japanese goods were sent to other ports for shipment.

Despite February's increase, economists and Finance Ministry officials said the surplus was expected to decline in the long run because consumers were buying less expensive imports. The strong yen makes imports to Japan less expensive in terms of the local currency.

Imports increased 27.8% in February, to $23.89 billion, while exports rose 19.5%, to $35.36 billion, according to the Finance Ministry. Japan's trade surplus with the US rose 13% in February from 4.89 billion from $4.33 billion in February 1994. Exports to the US totalled $10.14 billion, up 12.1%, while imports rose 11.4%, to $5.25 billion. As the yen strengthens against the dollar, the dollar-denominated value of the trade surplus increases. In contrast, when calculated in terms of the yen, February's overall trade surplus fell 4%.

DEREGULATION: The Japanese government presented its main trade partners with draft plans to curb barriers to competition in its highly regulated domestic market. This is the final stage of a 5- year deregulation program to squeeze extra growth out of Japan's economy. Japanese and foreign business lobbies have been urging the government to step up previously cautious efforts at economic deregulation, to cut business costs and stimulate demand for imports. The dollar's recent fall has added has added urgency to calls for deregulation, a strategy that could help weaken the strong yen, Japanese industry's biggest headache.

However, the draft was criticized as ineffective by the Japanese press. It includes more than 1,000 deregulation proposals, yet many have already been put into effect. Among the new projects in the draft are the introduction of insurance brokering, plans to double bank savings deposits maximum maturity to 10 years, and a proposal to build houses on the tracts of urban land still zoned for farming. The ceiling on shares that companies are allowed to own in other Japanese concerns is to be raised and takeover reporting requirements are to be eased.

BANKRUPTCIES: Japanese bankruptcies grew in February, according to Teikoku Databank, a credit research agency. The number of corporate bankruptcies with liabilities of more than Y10 million rose 10.7% in February from a year earlier. Total liabilities rose 9.6% to Y556.29 billion, breaking a four month pattern of year-on-year declines. General recession was blamed for most of the 1,140 bankruptcies, but seven were attributed to the high yen, and 22 companies went bankrupt as a direct result of the Kobe earthquake.

FOREIGN RESERVES: Japan's foreign reserves rose to a world record $125.94 billion in February, as its central bank bought the US currency in a fruitless attempt to weaken the Yen. Its continued strength further erodes the international price competitiveness of domestically-made goods. This increases pressures on manufacturers to move abroad, to cheaper currency companies, a headache for Japanese industrial policymakers.

Foreign reserves rose by $2.07 billion from January to February, the 12th monthly rise in a row, the finance ministry said. This new high compares with the then previous foreign exchange record of $125.2 billion, set by Germany in September 1992.

CAR SALES: Strong demand for leisure and cheaper vehicles is expected to prompt a rise in Japanese domestic vehicle sales in the year to the end of March - the first gain in for years. Japan's domestic vehicle sales totalled 4,300,684 units in the 11-months to February, up from 4,128,721 in the same 11-month period a year earlier. This year Japanese carmakers have introduced cheaper versions of existing models and inexpensive new models. At the same time, foreign car dealers cut prices and provided cheaper loans to customers. Imported vehicles rose a steep 63.4% from a year earlier to 29,111, the 16th successive month of gains.

MONEY SUPPLY: Japanese money supply growth crept ahead in February, but remains well below the level most economists accept is needed to accelerate the weak economic upturn. The annual growth in the benchmark measure of M2 plus certificates of deposit rose to 3.6% in February, the Bank of Japan announced. That compares with a revised 3.2 % in January, but is less than half the growth rates achieved in the late 1980s. A more broadly defined measure of liquidity, also including postal savings, rose by 4% in February.

GROSS DOMESTIC PRODUCT: Japan's gross domestic product declined in the October-December quarter by 3.4% at an annual pace, the Economic Planning Agency said. GDP shrank 0.9% from the previous quarter, and grew by 1.0% over the same period last year, the agency said. That brought the total growth for 1994 to 0.6%. The GDP deflator, a figure the agency subtracts from GDP to account for inflation, was negative 0.7%, the agency said.

Gross National Product, or GDP plus net income earned overseas, declined by 3.3% at an annual pace in the fourth quarter. Compared with the previous quarter, GNP contracted by 0.8%, and grew by 0.9% over the year ago period, the agency said.

The economy has switched direction in each of the past five quarters, in line with the ups and downs of private consumption. But averaged out over a year, the figures show that the recovery was weaker than expected, rather than dipping into recession at the end of 1994. Nonetheless, the figures were poor enough to evoke a poor economic assessment from the Bank of Japan's governor, Yasuo Matsushita. He told a business conference that there was "no sign of accelerating upward momentum seen anywhere in Japan's economic scene." Structural problems, such as banks' bad debts were obstructing growth he warned. The central bank planned to maintain its present "soft grip" on monetary policy, but only assuming a moderate economic recovery.

Economists took this to mean that the central bank was preparing to push down overnight money market rates, at which commercial banks lend to each other. They believe the central bank will still resist a cut in the official discount rate, at which it lends to the markets, despite calls from industry for action to restrain the renewed rise of the yen.

The Economic Planning Agency admitted that, as a result of the 4th quarter reversal, it would be hard to hit the official target of 1.7% GDP growth in the fiscal year ending in March.

AUSTRALIA:

CURRENT ACCOUNT DEFICIT: Australia's current account problems deepened in January when it recorded another large monthly deficit of A$2.29 billion ($1.69 billion) on a seasonally adjusted basis. This is the sixth month in the past seven when the deficit has topped A$2 billion. The January figure compared with a revised December number of A$2.36 billion and a January 1994 figure of A$1.1 billion.

The 1995 was slightly worse than the market had feared: analysts' forecasts had ranged around A$1.8 billion to A$2.2 billion. Merchandise exports rose by 4% overall, on an adjusted basis, from the December figure, although drought-depressed rural exports were 2% lower, to stand at A$5.44 billion compared with A$5.28 billion a year ago. But imports totalled A$6.1 billion, up from A$5.21 in January 1994.

Government ministers said the numbers were in line with revised projections, although not acceptable. The gap was again blamed on the strengthening economy, high levels of business investment, and the drought's impact on rural exports.

INFLATION: Inflation fears were kindled in Australia with the release of statistics showing a 0.7% rise in manufacturing output prices in January. This is the largest monthly increase since November 1990, and follows a static month in December 1994. It means that manufacturing output prices have now risen by 2.7% year-on-year, the biggest increase since February. However, some economists noted that the largest price increases were concentrated in export-related areas, such as basic metal products and petroleum products, and attributed the January rise to worldwide increases in commodity prices rather than domestic demand pressures.

FRANCE:

UNEMPLOYMENT: French unemployment fell sharply in January, declining by 17,300 to 3.31 million, 12.3% of the workforce, according to statistics released by the labor ministry. Both long-term and youth unemployment fell. The number out of work for more than 12 months declined by 0.6% to 1.23 million. The number of young men out of work fell by 2.7% to 323,300, while for young women the fall was 3.1 % to 378,800.

Unemployment is one of the key issues in the contest to succeed president Francois Mitterand. Mr Balladur, the Gaulluist prime minister and candidate for the presidency said the January figures supported his claims that could be cut by 200,000 this year. He set an objective of reducing joblessness by this amount for each of the next 5 years.

CONSUMER CONFIDENCE: French consumer's confidence was steady in February, while they took a brighter view of the prospects for jobs. The French National Institute if Statistics (INSEE) said in its monthly survey that the overall consumer confidence index was -20 after falling to -21 in January, its lowest level since June. The index is based on household assessments of the country's past and future living standards, their own past and future financial situation and the opportunity to make large purchases.

Consumer's views on unemployment improved sharply. Those expecting a deterioration still exceeded those expecting an improvement, but to a far lesser degree than in January. The indicator, which has optimistic answers subtracted from pessimistic ones, fell to 31 from 45 in January. The survey was carried out before the release of the January job report.

Although households are more optimistic about the country's future living standards, they expect their personal financial situation to deteriorate slightly. Fewer plan on making large purchases in coming months

ECONOMIC GROWTH FORECAST: The French government revised up its economic growth forecast for this year, as consumer demand picks up faster than expected. It said that GDP should expand by 3.3% compared with 3.1% forecast at the time of the budget presentation, six months ago. The Economy ministry said a "robust" and "sound" recovery would spawn around 300,000 in the private sector compared with 220,000 last year, not counting state-subsidized jobs. It expects the economy to grow at between 2.8% and 3.5% in 1996 and 1997, which should keep job creations at the same pace of 300,000 a year. That could help trim France's unemployment rate, which is one of Europe's highest.

Despite the stronger-than-expected economic growth, the government expects the public deficit to still represent 4.6% of GDP this year. But it said it will fall below 3% of GDP in 1997. That is the ceiling set by the Maastricht treaty on European economic and monetary Union for members of the European Union that want to qualify for a single currency.

France's bloated public deficit hardly budged in 1994, representing 5.7% of the country's GDP, down from 5.8% in 1993. The Economy ministry said last year's deficit was boosted by about 20 billion French francs ($4 billion) worth of one-off debt forgiveness to African countries, or 0.3% of GDP.

The 1994 public deficit includes 299 billion francs in budget deficit and a hole of just under 60 billion francs in the social security system the French government has to plug. Detailing the components for this year's GDP growth, the government said consumer demand would grow a higher than expected 2.5%, compared with an initial 2.3% forecast and a 1.7% rise in 1994.

It also revised up the volume of both exports and imports, to 6.1% and 7% respectively. That will leave the trade surplus about 10 billion francs below the near-record of 88 billion francs scored last year. The government also says that inflation will stay under control, with retail prices increasing 1.9% year-on- year. That compares with 1.6% in December 1994.

INDUSTRIAL OUTPUT: French industrial production rose in February, according to the latest monthly survey of company executives by the bank of France. The executives said production of consumer goods and processed food expanded, while output of intermediate goods and business equipment was stable. The executives reported overall demand growth slowed particularly in the domestic market.

M3 MONEY SUPPLY: France's M3 money supply, the Bank of France's preferred indicator of inflation, shrank in January from December, but rose 1.7% in the 3 months ending January from a year earlier. The January contraction was caused by the withdrawal of funds from sight deposits and in money market funds. The month-on-month rise in December was 0.3%. Comparing January 1995 with January 1994, M3 grew 2.5% after 1.9% annual growth in December. It rose an annualized 5.2% in the 6 months to January, the bank said. Total domestic debt, another inflation indicator the Bank of France is monitoring, grew an annual 3% in November after 3.4% in October. The target for M3 growth is 5% a year. The bank has stopped setting a growth target for domestic debt.

CONSUMER PRICES: French consumer prices rose between 0.3% and 0.4% in February from the previous month, and by 1.7% from February 1994, the National Statistics Institute (INSEE) said. The figures were in line with expectations. In January, prices rose 0.3%, also giving a 1.7% rise during the year. French inflation, more subdued than in other European countries, has been hovering within a range of 1.5% to 1.8% since March 1994, the lowest since the 1950s. Economists have maintained for the past year that there is minimal risk of a significant acceleration in the French inflation rate, particularly as the high level of unemployment, currently 12.3% and above 12% since August 1993, is preventing a build-up of pressure for higher wages.

TRADE SURPLUS: France maintained a strong trade performance in January, recording a surplus of FFr9.49 billion for the month, a slight fall on the FFr9.9 billion achieved in December. Customs officials said the statistics revealed continued strength in manufactured products and in exports of energy and metals. A slight fall in overall exports, from FFr117.4 billion to FFr115.3 billion reflected a decline in the number of Airbus aircraft sold, from fifteen to three.

Imports remained relatively stable at just under FFr106 billion, with purchases of consumer goods remaining weak. The customs office said, however, that imports of semi-finished and intermediate goods had continued to rise. France's trade surplus with the rest of the European Union jumped from FFr2.78 billion in December to FFr4.15 billion, despite a FFr1.05 billion deficit with Germany. The trade deficit with the US narrowed from FFr2.18 billion, to FFr1.06 billion, and widened slightly with Japan, from FFr1.4 billion to FFr1.8 billion.

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TOKYO FEB 1995 WORLD OUTLOOK TRANSCRIPT

We have made available to all our clients around the world, an exclusive transcript of the full speech that was delivered by Martin A. Armstrong to 250 top institutional clients in Tokyo. This transcript is available in English & Japanese and includes both the complete text and all slides that were used in the lecture.

The content of this special presentation provides a good overall outlook of the primary forecasts that our computer models have generated. The topics that have the most immediate impact upon the investment future remains that of the debt crisis and its influence upon the capital markets.

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