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The Coming Revolution

by Martin A. Armstrong

Since the Oklahoma incident, President Clinton has been lashing out at what he terms as **"hate"** radio. In a very shallow attempt to place the blame for the bombing upon the conservative camp within American politics, Clinton has sought to turn this tragedy into a political windfall. By using this incident to say that talk shows should stop preaching anti-government themes, Clinton is seeking to silence his critics and suppress free speech - particularly those who feel very frustrated over the current decay in the political process and American society in general. By blaming talk radio, Clinton illustrates the very core of the **"liberal"** agenda that has turned-off so many. This core philosophy is that individuals who commit violent acts do not do so because they are violent, but because society drives them to it. There is a complete lack of personal responsibility that is nurtured by this line of thinking, which permeates from violent crime right down to the woman who spilled coffee in her lap and blamed McDonald's for brewing their coffee too hot. No single individual is responsible for their own behaviour - society somehow creates it. Unless of course you are dealing with the IRS where even if a agent gives you advice and that advice is wrong, the taxpayer bares full responsibility exclusively!

The hypocrisy in this debate is that is highlighted by the fact that Clinton himself found it necessary to travel to Russia in order to protest against his government when he disagreed with its political direction. Now the President seems to feel that while he is in office, no one should call into a talk radio show and complain about government. Obviously, the President is in favor of free speech **ONLY** when it is in line with his personal political agenda.

Talk radio in New Jersey is rather upset over a number of issues. But the one issue that sticks in the throat of most residents is how we as a nation have lost our way when it comes to democracy. In New Jersey, as it is in many other states, a proposed municipal tax increase is put on the ballot. If the people vote against the tax increase, the municipality then appeals to the state for relief. The state **ALWAYS** and without exception, grants the municipality the right to go ahead and raise the taxes anyway therefore pushing the people's vote aside. It is ironic that in this nation we have the guts to criticize Russia, Cuba and countless other nations for holding mock elections, while our state and local governments have made a mockery of our constitutional right to representation. Perhaps our elections for individual politicians may be real, but when it comes to voting on taxation issues - the US is equally as guilty as the nations we criticize.

The principle that the state uses when it overturns the votes of its own citizens is one that the state claims financial expertise and that the citizens are too uninformed (stupid) to realize that the tax increase is necessary. Oddly enough, the Russian government holds on to its power using the same theory that they are merely protecting its citizens who would otherwise not understand what they truly need.

The political corruption within the United States has become so widespread that tempers are flaring and frustration is building. Just this past week in New Jersey, an enraged motorist, who had been ticketed several times for minor speeding offenses, suddenly snapped. He drove his car directly into a state trooper who was hiding in the middle of the road looking for unsuspecting motorists. The trooper was killed.

A couple of years ago in Texas, a man climbed on top of a building directly across from the Internal Revenue Service office in Dallas. He began shooting **ONLY IRS** agents who were leaving work. A swat team was called in and the man was immediately killed.

There is a common theme between these two incidents and the recent attacks at the White House. In all cases, government spokesman are stating publicly that these were unusual incidents that were not direct attempts to protest against the government. In the case of the motorist, the state is simply saying for **"some unknown reason"** the driver suddenly drifted off the highway and crashed into the state trooper when the evidence suggests that the motorist may have had to deliberately aim for the trooper. In Dallas, the story line was that the gunman was crazy and shooting at random. Despite the fact that no other people on the street were shot other than IRS agents suggests that the shooter had a grudge against the IRS. And as far as the attempts made against Clinton, well every statement immediately released after a White House incident gives the party line, **"this was not an attempt upon the life of the President."** Only after the press dies down is the man charged with attempted assassination.

A serious problem that we have is that government just doesn't realize how unfair it has been with the American people. Any act of violence that emerges, has been ignored and classified as something other than what it was. It appears that the Oklahoma incident did seem to break that barrier of denial the government continually portrays. The question that remains is quite simple. How many more innocent lives have to be lost before government comes to realize that a vast number of its citizens are upset, frustrated and dissatisfied. Within any group, there are always the extremists. In this case, there are extremists who will resort to violence against the government out of pure and simple frustration. This is not the result of talk radio, Republicans or anarchists. It is the direct result of too much government.

One of the fastest growing financial markets is state paper that is being backed by tax liens placed against its citizens. This is essentially a real estate scheme. The notes are being offered around Wall Street where local governments, like those in New Jersey, are seeking to raise money based upon the tax liens that they have filed. The security backing of the notes is the actual real estate owned by the defaulting taxpayer. The incentive for the note holders is the potential to make big profits of 10% or more. If the tax lien is not paid by the citizen, then the title to the real estate becomes the property of the note holder. This sick government scam seriously brings into question the whole incentive of government to file a lien against an individual whereby the government can immediately sell the lien to waiting investors. A mutual fund has even emerged whereby tax liens from several states are purchased to offer the investor some diversification no less. The dangerous element to this scheme is that a home of $100,000 could be confiscated and sold to satisfy even a tax lien of only a few thousand dollars if the original owner is unable to come up with the necessary cash within the time limit imposed by the state. As such practices become more widely known among the people, it will be incidents like this that stir additional political dissatisfaction and doubt.

Mr. Wheeler, a noted researcher into the cycles of war, created an important database stretching back to 6,000 B.C. where all battles where indexed according to the geographical area involved in combination with the number of troops called into the field. This invaluable database (available through the Foundation for the Study of Cycles, Wayne, Pa) clearly distinguishes between international vs civil conflicts. Feeding this database into our computer models warned that there is a direct correlation between the cycles of war and that of our Economic Confidence Model. Consequently, our computer is forecasting the worst period just ahead in terms of the war for the history of mankind. What this forecast has been warning about is simply this: the period between 1998 and 2003 is most likely going to produce the greatest activity of war known to history. This rise in war activity will be more focused in a civil war nature than in terms of a major conflict of one group of nations against another. This cycle is not exclusively focused upon the United States. This cycle is one based upon global activity. Any civil conflict within the United States might be mild in comparison to what we see in Europe and Asia.

Our computer models have been warning since 1985 that this tendency of greater civil stress is directly linked to the decline in the confidence in government. The 1992 Perot capture of 19% of the popular vote in the United States was the single greatest vote for any third party in the history of this nation. The huge third party vote was the first warning sign that our long-term computer forecasts just might be correct. The 1992 forecast that we issued in our reports (copyright on file in Washington), called for a sweeping victory in both houses for the Republicans in 1994. While the Associated Press carried that forecast nationwide in 1994 after it had been proven to be correct, political scientists at several universities claimed that nobody could make such a forecast because fundamental events change often and the success of that forecast was purely coincidence.

What political scientists fail to understand is that just because they are surprised by the outcome of an event does not mean that such events are totally random. The truth of the matter is that such trends may be isolated events on the surface, but in reality they are completely consistent with the long-term trend of the whole. In other words, the shocking uprising in Russia could be classified as a fluke or coincidence **ONLY** if there was no other collateral trend taking place. What this means is that the uprising would **NOT** have taken place as long as the underlying economic trend was stable. The long decline in the economic trend within Russia resulted in a steady decay in the standard of living among its people. At some point, that decay within its economy rises to the surface and explodes.

In the United States we too have been suffering from a steady economic decline whereby the standard of living among its citizens has sharply declined just since the 1960s. The median family in 1964 paid 25% in federal taxes compared to 36% by 1992. Add to this federal trend the explosive trend in state and local taxation in the past two decades where taxation has more than doubled, and what we are left with is a very concerning issue. As states are forced to look for ways to raise revenue other than through direct taxation, we end up with police forces that have been transformed into IRS agents on wheels and clever notes being issued backed by the confiscation of assets of the homeowner.

It is the very greed for greater and greater levels of revenue on the part of government that is bringing Western society as a whole to the dangerous brink of civil unrest. The higher the taxation levels, the lower the economic growth and the standard of living of the people. In Europe, the economic growth has averaged below 2.5% for the past two decades. This lethal combination of rising taxation and lower economic growth has propelled the national debts of nations in an upward spiral of never ending expansion. Belgium, Canada and Italy will be the first three to fail. As long as each nation continues to merely raise taxes in an effort to gain more revenue, economic growth will decline even further causing their debt to GDP ratios to rise above 150%. Sweden is also in serious trouble. The national debt of Sweden stood at only 57% of GDP in 1987. This ratio has exploded to 81% last year. We expect to see this debt to GDP ratio exceed 100% by 1996.

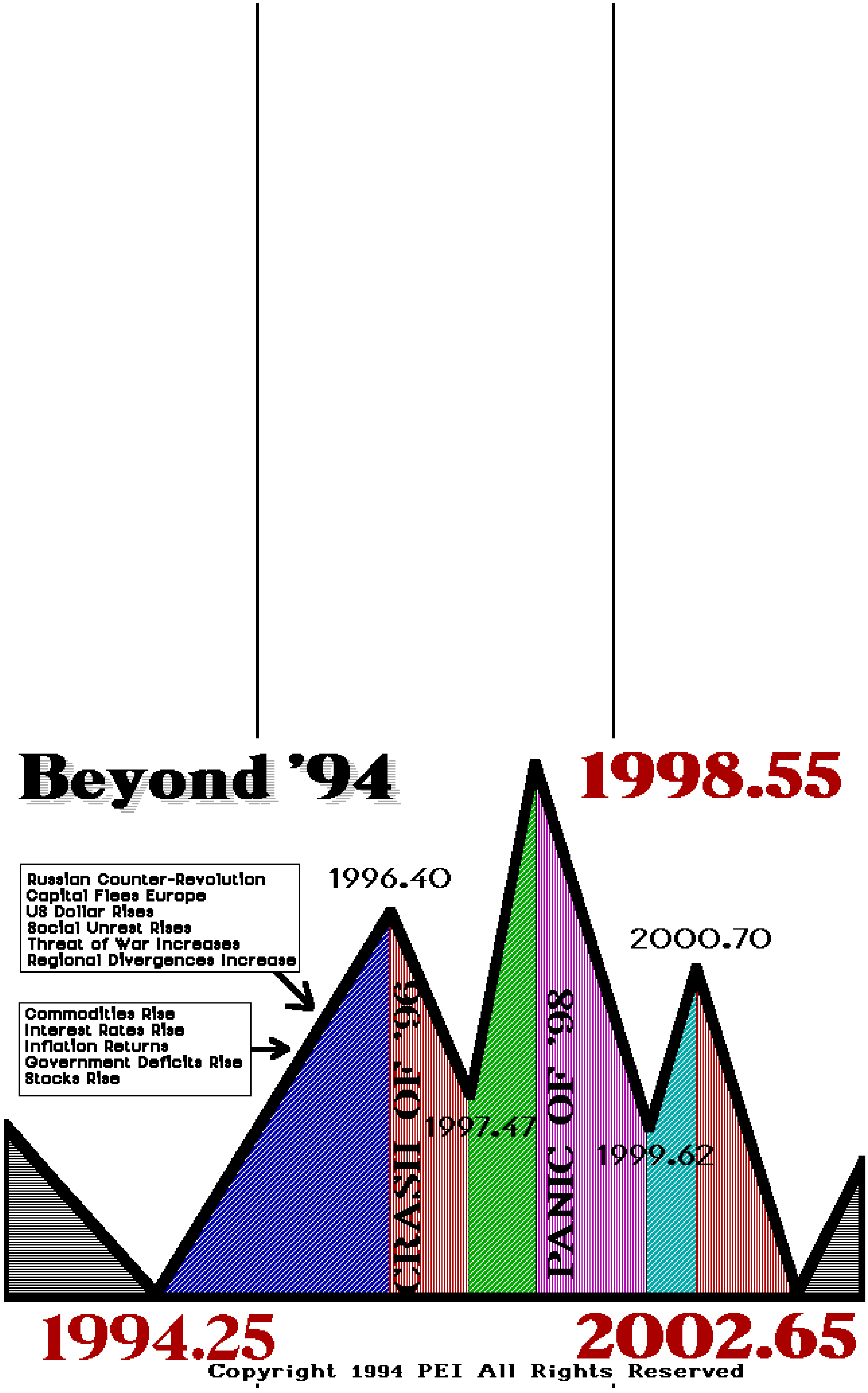
Civil unrest is rising in every country within the West along with Australia and Japan. This rising tide of tension is being caused by the greed and over expansion of government regardless of the political slogan. In Britain, where the conservatives have ruled for more than 10 years, the standard of living for its people has still declined. Conservative or not, the cost of government in Britain has simply been rising too high. Our own property taxes on our London office is 110% of the rent! New business is simply too hard to create in Britain with local taxation as high as it is. This has caused chronic levels of unemployment that at their lowest levels are equal to that of the United States during the peak of a recession.

According to the OECD, the total sum of world debt to GDP ratios stood at 42% in 1980 compared to 71% in 1994. Unfortunately, if this trend is NOT reversed, this global ratio could easily reach 100% as early as 1998, but no later than 2003.

It is also unfortunate that in the United States the media and the liberal Democrats fail to see that there is any problem at all. No matter what t he program, they argue and characterize those who are trying to bring some sanity back to our nation's finance as evil people bent upon benefiting the rich. The problem concerning this Marxist style class warfare is that not even a Republican seems to understand what has been taking place with respect to the definition of the rich, which had once stood in 1940 at $5 million. That definition of the rich, according to the IRS, came down to a mere $51,900 by 1992. Even President Clinton, who raised taxes on the so called rich, did so by adding another bracket at $250,000 while leaving all other brackets unchanged. So yes, Clinton raised taxes on anyone earning $250,000 or more, but he did nothing to relieve the tax burden upon those who earned less.

Society has always rebelled when the standard of living has declined in the face of escalating unfair taxation. Stopping talk show hosts around the nation from airing the unrest could lead to even greater frustration that merely explodes in an unpleasant manner. With 33% of the civil work force in the US employed directly or indirectly by government combined with those dependent upon government through welfare, we find that this group is quickly approaching the 45-47% level of the total civil work force. If this situation rises any further, then everyone in the private sector will find their votes to be totally worthless. Once the majority dependent upon government is attained, they will always outnumber those in the private sector. In effect, private citizens will find themselves mere indentured servants of government with no reasonable hope of civil relief.

Government must come to realize that we are reaching a dangerous threshold in the cycle of public vs private. Our greatest concern is that Wheeler's cycle will be correct once again and we could see a disintegration of the political process even within the United States. If our politicians continue to lie and misrepresent this issue as cutting the size of government for the sole benefit of giving a tax cut to millionaires and billionaires, they will merely allow the continued decline in economic growth and the standard of living to unfold. Such a continuance of this trend will not merely jeopardize our long-term economic prosperity, it will force more extremists to take action combined with a general rise in political unrest that will ultimately result in the political disintegration of the American system. This is no longer a Democrat vs Republican debate - it is an economic debate within which the future of the entire western society rests. It is fundamentally and morally wrong for society to attempt to raise the living standards of the poor by undermining the living standard of the working class. The moral responsibility is to provide equal opportunity and to insure that no one starves. America's poor have become the rich by third world standards and we should not allow some to gain the same living standard by government aid that the majority must earn through their hard labor. Society should not be held hostage by public service unions that demand higher benefits than those that are standard within the private sector. In fact, government jobs should be elastic whereby the bulk of those jobs should be available on a temporary basis for those who suddenly find themselves unemployed. We should also not allow the truly disabled to lose their benefits due to the greed of those who would prefer to live off of government aid rather than work. It is time the truth be told. It is time for honesty and moral justice to rise to the surface within the ranks of our political process. If this is not forthcoming and soon, then our computer models are not forecasting a very rosy scenario for the period 1998 to 2003. What politicians do not restore willingly, could result in society's usurpation by disorienting means.



Beyond '94
1998.55
Russian Counter-Revolution
Capital Flees Europe
US Dollar Rises
Social Unrest Rises
Threat of War Increases
Regional Divergences Increase
1996.40
2000.70
Commodities Rise
Interest Rates Rise
Inflation Returns
Government Deficits Rise
Stocks Rise
CRASH OF '96
1997.47
PANIC OF '98
1999.62
1994.25
2002.65
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UNITED STATES:

CONSUMER CONFIDENCE: The sharpest drop in US consumer confidence for three years was registered in June, reflecting fears that jobs are becoming scarcer as the economy slows. The Conference Board, a New York business analysis group, said its closely followed confidence index fell more than 9 points to 92.8. The index reached a peak of 104.6 in April. The size of the decline was unexpected.

Nonetheless, by historical standards, the confidence index remained at fairly reassuring levels. Mr. Fabian Linden, the board's director of consumer research said that " anything above 80 is usually associated with a reasonably lively economy.

The drop in the overall index reflected a steep decline in a component measuring consumer's expectations for the economy over the next 6 months.

US-JAPAN TRADE AGREEMENT: The US and Japan struck a deal in the car trade dispute hours before Washington was set to impose tough sanctions on Japanese carmakers. President Clinton dropped the sanctions threat after the Japanese government agreed to deregulate its car parts market and Japanese car manufacturers promised to increase purchases of US car parts for factories in North America.

PRODUCER PRICES: US producer prices were flat in May and up 2.2% in the year to May, indicating that inflationary pressures remained subdued, according to the Labor Department. Economists had expected producer prices to rise by about 0.3% following a 0.5% gain in April. The flat reading in May largely reflected declines in the prices of food and energy. The figures were consistent with recent signs of a sharp deceleration in economic growth.

RETAIL SALES: The government said that retail sales rose only 0.2% last month, an improvement from the previous month's decline but less than economist's had forecast. Excluding auto sales, retail prices rose an anemic 0.1%.

The weaker-than-expected consumer spending underscores worries about the economy's health and revives speculation that the Fed, despite inflation concerns, might lower interest rates this summer.

CONSUMER PRICES: The government said consumer prices rose 0.3% in May, slower than April's 0.4% rise but still too rapidly for some hard-line inflation foes on the Fed. Despite the weak economy, consumer prices have risen at a 3.5% rate over the past 3 months.

INDUSTRIAL OUTPUT: US industrial production fell for the third consecutive month in May, making the recent downturn in factory output the longest since the 1990-91 recession. The Federal Reserve said that industrial output fell 0.2% last month, following declines of 0.5% in April and 0.2% in March. The weakness last month was concentrated in the car industry, where output dropped nearly 4% from April. Excluding cars, production was flat. Manufacturing output fell 0.3% in May, its fourth consecutive monthly decline.

CAPACITY UTILIZATION: Figures also showed a sharp drop in capacity utilization from 84.2% in April to 83.7% last month, the lowest level in more than a year. This drop is likely to be welcomed by the Fed as a sign that upward pressure on inflation is easing.

TRADE DEFICIT: The US trade deficit in goods and services rose to 16% to a record $11.37 billion in April as imports surged to $75.4 billion, their highest level ever, according to the US Commerce Department.

Exports of goods and services fell during the month by 1.3% to $63.98 billion. The trade deficit goods leapt to $16.5 billion in April, from $14.7 billion in March, powered by increased imports of cars, computers and semi-conductors.

The US deficit with Japan narrowed by 4.3% to $5.9 billion, although car imports rose by $200 million. Trade with western Europe fell sharply during the month, moving from a surplus of $10 million to a deficit of $418 million. The US deficit with Mexico dropped from $1.7 billion to $1.5 billion

CANADA:

RATE CUT: The Bank of Canada, in a surprise move, cut its key overnight interest rate in a bid to boost the country's lagging economy. The Bank lowered the range it charges on overnight loans to commercial banks by 25 basis points to between 7-7.5%. The bank rate, which sets the tone for consumer rates, fell 19 basis points to 7.19, which led Canada's major banks, led by Royal Bank, to cut their prime-lending rates to 8.75% from 9%.

The economy is said to be in a recession if it contracts for two consecutive quarters. The economy is forecast to contract in the 2nd quarter and there is a chance it also could contract in the 3rd if the US economy doesn't rebound. Canada and the US are each others largest trading partners and a surge in Canadian exports to the US last year was key to Canada's economy expanding by 4.5% in 1994.

ECONOMIC GROWTH: Canada's economic growth, according to StatsCan, sputtered at a 0.7% annualized rate in the first quarter, less than 1/4 the pace it marked in 1994. First quarter output of goods suffered from rising interest rates, March's rail and port strikes, and a slowdown in growth in the US.

CURRENT ACCOUNT: Canada's current account deficit was unchanged at C$3.956 billion (US$2.89 billion) in the first quarter, according to StatsCan. The fourth quarter gap was revised downward to C$3.950 billion from the originally reported C$5.383. All figures are seasonally adjusted.

The current account deficit was made up of a record surplus of C$5.811 billion on merchandise trade, up from C$5.499 billion in the fourth quarter, and a deficit of C$9.768 billion on non- merchandise transactions, which increased from the fourth quarter gap of C$9.449 billion according to StatsCan. Working in Canada's favor in the first quarter were higher exports of goods and an increase of foreign travelers spending money in their country.

The current account measures not only trade in merchandise, but also in services and investment between countries. Interest payments on higher treasury bill borrowing abroad helped push up the non-merchandise trade gap, StatsCan said.

BANKRUPTCIES: The number of personal and business bankruptcies in Canada fell 6.6% in April to 5,396 from 5,777 a year earlier, the government said. Personal failures accounted for 4,398 of April's total. The number of businesses folding added 998, figures showed. In the first four months of the year, bankruptcies fell 7.6% to 21,984.

DEPARTMENT STORE SALES: StatsCan said that Canada's department store sales are forecast to rise 8.3% in May from a year ago. Canadians spent C$1.108 billion in both major department stores and discount chains in May. Sales at discount stores are expected to have climbed 18.3% to C$585.3 million, while spending at major department stores is seen falling 1% to C$522.7 million.

JOBLESS RATE: Canada's jobless rate rose 0.1% in May to 9.5% as a slowing economy kept job creation stagnate for the third consecutive month. The StatsCan report was further proof that the 1994'S export led expansion is evaporating on slack US demand for cars, electronic products and raw materials. In April the rate was 9.4%

MOTOR-VEHICLE SALES: Canada's new motor-vehicle sales in April fell 9.2% to the lowest monthly total in 12 years amid a big drop in truck sales. The report was worse than expected. April sales totalled 88,721 vehicles, while March's sales were revised lower to 97,693 units from 99,088 originally. It was the lowest seasonally adjusted monthly level since July 1993, when 86,803 new vehicles were sold. More than half the decline in April came from a 12.7% drop in truck sales to 36,634 units from 41,980 units in March. April's car sales fell 6.5% from March to 52,087 units from 55,713. It was the lowest level since October 1982, when 50,898 vehicles were sold.

UNITED KINGDOM:

CONSUMER CONFIDENCE: A Gallup survey showed that 36% of adults expect the economy to deteriorate over the year, while only 18% expect it to improve. The resulting negative 18% is the weakest figure this year - leaving the composite consumer confidence index barely above its 1992 levels.

The survey showed that gloom about the economy did not prevent many households from being a little more upbeat about their personal prospects. 18% of households expected their personal financial situation to improve over the next year, compared with 28% who expect a decline. Unemployment fears rose last month, the survey showed, with 45% of people expecting more jobs to be lost next year.

HOUSING MARKET: A survey by the Royal Institution of Royal Chartered Surveyors showed the number of house buyers pulling out of purchases or demanding last-minute price reductions rose sharply last month amid increasing concern that house prices in England and Wales might remain permanently depressed.

In May, the housing market slumped to its worst performance for 12 months. Agents blamed wide media coverage of comments by Mr. Douglas Wood, NatWest Professor of Banking and Finance at Manchester Business School that house prices were likely to fall in real terms for the next 20 years.

UK CAR OUTPUT: UK car output reached its highest May level for 17 years in May as production of cars and trucks continued to rise strongly on the back of additional capacity and strong exports. Total car production rose 9.4% to 140,642 compared with May of last year. Output for export soared by 17.8% to 63,102, helped by sterling's weakness against many other European currencies and the growing contribution of UK factories owned by Japanese car manufacturers.

Between September 1994 and April 1995, production for export exceeded domestic output for the first time since records began in 1977. Last month, however, the pattern was reversed, fueling debate about the relative rates of economic recovery in the UK and the rest of Europe. Car production in the first five months rose by 12.9% to 684,764, reinforcing expectations that output levels in 1995 will be among the highest for years. Exports surged by almost 44% to 351,130 in spite of the static trend in car sales in much of western Europe this year.

Output of commercial vehicles rose substantially in May. Production for the UK rose 22.5% to 21,505, while export output increased by 22.6% to 8,945, according to provisional figures from the government's Central Statistical Office. Total commercial vehicle production in the first five months of the year climbed almost 12% to 106,549 with output for the home market rising by 15.3% to 60,865 and production for export up by 7.3% to 45,684.

RETAIL PRICE INFLATION: The government's Central Statistical Office said that underlying inflation - which excludes interest payments on mortgage for housing - rose to a seasonally adjusted 2.7% in May from 2.6% in April. Headline inflation, which includes all items, rose from 3.3% to 3.4%. Although low by historical standards, it is the fifth consecutive month in which price growth has been outside the government's target of bringing underlying inflation below 2.5% by the end of the current parliament.

Figures showed that manufacturing price pressures are increasingly feeding through to shops. Non-seasonal food prices showed the largest monthly rise in May for 13 years. Household goods prices also showed their sharpest monthly rise for four years. Although leisure goods prices fell, they rose in most other sectors. Consequently, "core" price inflation, which excludes tax and housing costs, rose to 2.2% in May, its highest level for 18 months.

FACTORY OUTPUT: The Central Statistical Office said manufacturers had cut production by 0.2% in April, confounding expectations among London economists of a third successive monthly rise in factory output. The figures bolstered the conviction of London economists that Mr. Kenneth Clark, the chancellor of the exchequer, would have rebuffed any request from the governor of the Bank of England for a rise in interest rates.

Official factory production figures remain more downbeat than surveys of manufacturers by the Confederation of British Industry. Disparities between the soundings of official statisticians and those of the CBI are also evident in retailing, with a recent distributive trades survey showing a slightly more optimistic picture than the official data.

The CBI survey also showed 46% of retailers reporting higher sales last month than a year earlier, while 38% said sales were down. This was weaker than in April, when trade was boosted by Easter, but otherwise the strongest figures this year. Official figures have shown retail sales broadly flat in recent months.

TRADE DEFICIT: Britain's quarterly trade deficit has fallen to its lowest level for 8 years. The deficit fell from a seasonally adjusted £3 billion ($4.7 billion) to £2 billion between the last quarter of 1994 and the first quarter of 1995. The surprising improvement was partly caused by a surge in oil sales. However, the data also reflected the unbalanced nature of Britain's export-led recovery.

Although overseas sales have continued to rise, the sluggish state of the domestic consumer market left imports relatively flat. With the figures considerably stronger than expected, the data deepened the debate about the current state of the UK economy.

Measured overall, the Central Statistical Office said exports rose from £12.4 billion to a record £12.6 billion between February and March this year. Imports rose from £13.1 billion to £13.2 billion. The resulting monthly trade gap of £512 million was the smallest deficit since mid-1991.

A more accurate guide to the trend can be seen in the quarterly volume figures, measured without oil and erratics. These showed that exports rose 0.5% between the last quarter of 1994 and the first quarter of this year, while imports actually fell 2-4%.

CURRENT ACCOUNT: Official figures showed that the current account recorded a deficit in the first quarter of this year, raising fresh doubts about the outlook for the UK economy.

The Central Statistics office said the UK had a seasonally adjusted current account deficit of £397 million ($623 million) in the first quarter of this year. This compared with a surplus of £446 million last autumn. Although the CSO had original recorded a surplus in the last quarter of 1994, this has been revised into a deficit of £514 million. The latest deficit was partly due to lower levels of overseas profits by UK companies.

AVERAGE EARNINGS GROWTH: The Department of Employment said that average earnings grew at an underlying annual rate of 3.5% in April. This was the same rate as in February and March, but below the level seen in the second half of last year.

The lowest level of earnings growth occurred in the service sector, where wages increased at an annual rate of 2.75% - slightly higher than the previous month. Earnings growth in manufacturing was unchanged at 5%, while in the production industries it fell back slightly from 5.25% to 5%.

Because earnings growth remains very low by historical standards, London economists said the data should give a powerful boost to the government's attempts to keep inflation low.

UNEMPLOYMENT: Unemployment fell in May at the slowest rate for 17 months. The Department of Employment said that the number of people claiming unemployment benefits fell by a seasonally adjusted 10,000 between April and May, leaving the unemployment rate at 8.3%

The rate at which people have been leaving the unemployment register each month has been slowing continuously since the start of the year. The figures, which come amid signs that job growth has also fallen, provide fresh indications that the British economic recovery may be easing.

TRADE DEFICIT: In May, the UK recorded its biggest trade deficit so far this year with countries outside the European Union. That was in spite of biggest monthly drop in import prices for seven years. The shortfall between imports and exports was an unexpectedly large £607 million ($953 million) in May, up from £516 million in the previous month, according to the Central Statistics Office.

Exports fell by about 1.5% between the two months while imports rose fractionally. Excluding oil and erratic items, the deficit almost doubled in May to £636 million. The non-EU visible trade deficit has been on a widening trend since the middle of last year, although the figures have been volatile from month to month.

Imports have generally been rising more quickly than exports. Import prices fell by 3.5% in May after excluding trade in oil and erratic items, the biggest fall since 1988. This reflected 2.25% strengthening in the pound vs the US dollar in the previous 3 months. About 60% of the non-EU imports are paid for in foreign currency, of which 80-90% are paid for in dollars.

JAPAN:

GROSS DOMESTIC PRODUCT: Weaker-than-expected growth figures show that Japan's economy is sliding back into a second recession. GDP was almost stagnant in the first quarter of this year, up 0.1% from the final quarter of 1994, or 0.3% annualized, according to the government's Economic Planning Agency.

The existence of any growth at all in the first quarter was entirely thanks to the government's decision to revise the previous three month's decline from 0.9%, quarter-on-quarter, to 1%. Without that adjustment, GDP would have shrunk for two quarters in a row, the standard definition of a recession.

These figures bring growth for the fiscal year to March to 0.6%, the same as the previous year. Japan's economy has now been on the slide, with two abortive pickups, for 4 1/4 years, the longest period of decline since the 1930s.

COMPANY PROFITS: Current profits at Japanese corporations rose an average 10.7% in the January-March quarter from the same period in 1994, according to the Finance Ministry. Total current profit for the period came to Y7.0123 trillion (US$84.8 billion. Current profit is profit excluding taxes and extraordinary items.

Manufacturers' current profits for the quarter rose 26.8% on the year to Y2.84 trillion. Non-manufacturer's current profits rose 1.9% to Y4.17. Sales at all corporations rose 4.8% to Y336.562 trillion.

Capital investment by Japanese companies during the February/March quarter sank 4.7% from the same period last year to Y12.268 trillion. Manufacturers' spending on capital investment rose 1.3% during the quarter, while non-manufacturers' spending dropped 7.2%, the ministry said.

BUSINESS CONFIDENCE: The Bank of Japan's "tanken" or short-term survey - an influential quarterly survey of business confidence - surprised economists by showing a further improvement in industry's judgement of the economic climate in the last three months.

The result, however, failed to lift the stock market, which appears to be contradicting the study. The Nikkei dropped to 34- month low amid fears about the stability of the banking system and the faltering economy.

The central bank dismissed fears that the sharp rise in the yen in the last year had put an end to the fragile recovery. The survey, taken in May, reported that the key index of business confidence, the balance of manufacturers saying economic conditions were favorable against those that found them unfavorable, improved for the fifth consecutive quarter from -21 in February to -16. Non-manufacturers reported a similar outlook.

Most economists had been expecting little improvement in the index and saw the results as evidence of the resilience of the Japanese economy. But the bank warned that prospects were less promising than current judgements. For the first time in three years, manufacturers said they expect no improvement in the economic climate in the next three months.

JULY ECONOMIC PACKAGE: The embattled coalition government plans to launch its second economic stimulus package of the year before the July 23 upper house elections, following an estimated Y3,300 billion ($38 billion) of public spending and deregulation measures in April, widely seen as insufficient.

The decision coincides with growing demands from business leaders for vigorous action to stimulate the economy and curb the trade surplus, a source of the yen's strength, which is further depressing growth.

The ruling Liberal Democratic party has called for cuts in property and securities transaction taxes to be included in the package, to halt the decline in asset prices which has held up bank lending and industrial investment.

MERCHANDISE TRADE SURPLUS: Japan's merchandise trade surplus, inflated by the yen's appreciation against the dollar, grew 7.1% in May from a year ago to $6.977 billion, according to the Finance Ministry. Japan's trade gap with the US widened 8.7% to $3.302 billion, the seventh straight monthly gain.

While the numbers aren't likely to have any influence on US-Japan auto talks, economists said, it certainly is not welcome news. The US has repeatedly said Japan's massive trade surplus indicates that it is difficult for foreign goods to enter Japanese markets.

The number of US bound vehicles from Japan fell 2.8%, according to Fumio Tomori, a ministry official, and the volume of cars shipped to the US with engines of 3 liters or more (which includes many luxury cars) dropped 21.7% on the year. This may reflect some of the cut-backs in exports of luxury models targeted by the US for 100% tariffs.

The report showed that imports are growing at a healthy pace, in response to looser regulations and a strong demand for foreign products and raw materials made cheaper by a stronger yen. Exports are also strong. Led by computer chips, machine tools, plastics and automobiles, exports rose 26.3% from a year ago to $35.497 billion, the ministry said.

The dollar-based trade balance figures are being distorted by the sharp appreciation of the yen. The Japanese currency is 20% stronger than it was a year ago. The high yen inflates Japan's trade surplus calculated in US dollars by increasing the dollar value of the exports, most of which are priced in yen, and reducing the value of imports, which are priced in dollars and other foreign currencies.

Calculated in yen, Japan's trade surplus in May shrank 12.3% to Y591.072 billion. The yen-based surplus has declined now for 6 months straight and for 11 of the last 12 months.

INDUSTRIAL OUTPUT: Japan's industrial production for April was revised to a 0.9% month-on-month fall from a preliminary 0.2% decline, according to the Ministry of International Trade and Industry (MITI). That represents the first decline since January's 1.3% fall. Compared to a year earlier, industrial output in April was revised to a 6.0% increase from 6.7% rise in the preliminary, MITI said. The production index stood at 96.1 against a base of 100 for 1990.

The manufacturers' shipment index in April was revised to 1.3% rise on month from an earlier 2.0% increase. The inventory index was revised to a rise of 0.8% from the preliminary increase of 0.6%. The inventory-to-shipment ratio in April was revised to 114.0 from an original 113.1. That is a rise of 1.3% on the month, according to MITI.

The capacity utilization index, which measures how much Manufacturers are using their facilities, rose 7.7% on the year to 88.7. Compared with March, the utilization rate fell 0.7% The capacity index, which measures manufacturers' expansion rate, showed a decline of 0.3% on the month.

STEEL PRODUCTION: For the tenth consecutive increase, Japan's crude steel production in May rose 6.4% from a year earlier to 9.03 metric tons, according to Japan's Iron and Steel Federation.

Compared with April, Mays crude steel production increase 3.7%. Steel production is an important coincident indicator of industrial production, because almost all types of manufacturers use steel.

INDUSTRIAL PRODUCTION: According to the Ministry of International Trade and Industry, output will show no growth in the three months ending in June, after five consecutive quarters of increase. MITI expects a 1.4% in output in June, followed by a 1.5% decline in July, as the dollars fall to the low Y80's begins to damage export contracts. That would mean the first four-month run of declines for more than two years. This comes after a 0.3% production fall from April to May, less bad than the market had expected. It was lead by the car industry as it curbed output of small cars in anticipation of a fall in domestic sales.

MITI said that output of larger vehicles, threatened with sanctions by the US, had started to fall in May, but is likely to decline faster in June and July.

CONSUMER SPENDING: The outlook foe consumer spending is poor, according to a Labor Ministry survey, confirming that Japan's largest companies gave workers the lowest wage rise on record last spring, of 2.83%. That compares with 3.13% last year.

FRANCE:

CONSUMER CONFIDENCE: French consumer confidence rose to its strongest level in five years during May, after the election of conservative Jacques Chirac as president, figures from the national statistics institute, Insee show. Insee's monthly survey of 2,000 French households revealed the biggest rise in confidence since April 1993, when conservatives won 83% majority in parliamentary elections.

Insee said its confidence index rose to -16 from -21. The last time the index was at -16 was in April 1990. The rise in confidence has been attributed to expectations of lower unemployment. The index of household's expectations for unemployment went from 22 to 1.

CONSUMER SPENDING: French household spending on manufactured goods rose a higher-than-expected 1.3% in the month of May, as people made purchases put on hold until after the elections. Insee said year-over-year spending by households in May jumped 2.9%

CONSUMER PRICES: French consumer prices rose 0.2% in May, giving an annualized inflation rate of 1.6%, according to Insee. The figures showed the continued weakness of inflationary pressures in France, despite the economic recovery after the recession of 1992-93. Gross domestic product is forecast to rise about 3% this year, similar to the 1994 level. Although inflation is subdued, the central bank has remained cautious about monetary policy. Economists believe it is awaiting details of the new government's fiscal plans, particularly concerning the reduction of the budget deficit, before easing borrowing costs.

CURRENT ACCOUNT: France's seasonally adjusted current account surplus fell in March to FFr6.72 billion ($1.37 billion), against FFr8.5 billion the previous month and 6.17 billion a year ago, according to the finance ministry. Unadjusted, the surplus was FFr9.89 billion compared with a FFr2.24 billion deficit in February. The adjusted surplus was slightly the FFr7 billion - FFr8 billion forecasts. The outflow from financial transactions totalled FFr35.8 billion, including short-term investment outflow of FFr18.6 billion. The long-term capital outflow was FFr7.2 billion, while the deficit on direct investments widened as the French invested more abroad. The deficit on securities investment dwindled to FFr200 million. The current account surplus for the first quarter was FFr47.63 billion, compared with FFr19.52 billion for the same period last year.

OECD GROWTH OUTLOOK: France is on course for robust growth, provided downward pressure on the French franc subsides, according to the Organization of Economic Cooperation and Development. Assuming short- and long-term interest rate fall, in the second half of the year, the Paris-based research body expects investment to be very dynamic, in the order of 10% or more, pushing the economy forward.

HOUSING STARTS: French housing starts fell 1% in the first five months of this year from the same period in 1994, according to the Housing Ministry. That brings the increase over the 12 months to the end of May to 7.5%. Housing permits declined 3.6% in the first 5 month, bringing the increase over 12 months to 3.3%

INDUSTRIAL PRODUCTION: French industrial production rose across the board in May, driven by foreign demand, the Bank of France said in its monthly industry survey. Capacity utilization rose, having fallen in the first months of the year. The survey does not include numbers. Demand for French products came mostly from abroad as the French consumer remains thrifty. Orders, notably for food, semi-finished and consumer products, are particularly strong from Germany, Asia and South America.

COMPANY STARTUPS: Company startups in France slowed in May in nearly all lines of business but construction, according to Insee. Some 23,900 new businesses were started last month, down from 24,500 in April and a six-month peak of 27,500 in December. About 3,200 construction companies were set up in May, up from 3,000 in April.

GROSS DOMESTIC PRODUCT: The French economy measured by gross domestic product grew 0.7% in the first quarter of 1995 as investment and consumer demand picked up. Insee said investment rose 1.5% after climbing 0.9% in the fourth quarter of 1994. Consumer demand grew 0.4% after falling 0.1% in the previous quarter. Foreign trade also boosted the economy. In contrast, inventories shrank, meaning the increase in domestic demand slowed to 0.3% from 0.5% in the fourth quarter.

Growth in the fourth quarter of 1994 was revised to 0.8% from 0.6%, bringing the average rate of growth for 1994 to 2.8%, up from the 2.7% growth rate original reported.

BUDGET: France's new budget, announced by prime minister Alain Juppe, combines tough tax increases and public spending cuts with a series of measures designed to create employment. He called for a spirit of cooperation from employers in a package aimed at helping reduce public spending and encourage a reduction in interest rates to boost the economy.

He said the objective of his center-right government was to reduce the total budget deficit to 3% of GDP by 1997 by 1997 from its current 5.1%, and to cut the escalating social security deficit to zero by 1998.

The government said it would be increasing the rate of value added tax in August 5 from 18.6% to 20.6%, which officials forecast will generate FFr17.4 billion during the rest of the year. It also announced a temporary increase in the corp[orate tax rate from 33.3% to 36.6% in an effort estimated to raise an additional FFr12 billion as a contribution towards reducing the budget deficit. It will also increase the wealth tax on the very rich - those with personal assets of more than FFr4.5 million - by 10%, which should bring in a further FFr880 million.

Mr. Juppe also unveiled a plan to cut government spending this year by FFr19 billion, with FFr8.4 billion coming from defense expenditure alone. He announced a 4% rise in the minimum wage, a 0.5% increase in pensions. He also promised a series of policies designed to stimulate low-income housing construction and promote job training.

JOBLESS RATE: Insee revised the nation's unemployment rate down to 11.6% in April from 12.2% - the first time since August 1993 the jobless rate has been below 12%. The change, which comes amid the new conservative government's pledge to place job creation at the top of the political and economic agenda, follows Insee's annual survey of 150,000 work-aged people in 75,000 households.

Insee said that unemployment fell by 180,000 in the year to the end of March. During that time, 322,000 jobs were created, reflecting an increase of 374,000 in the number of salaried positions, and a decline of 52,000 in the number of people working in non-salaried work.

GERMANY:

MONEY SUPPLY: The Bundesbank said final M3 money supply for April contracted at an annualized rate of 1.5% against the fourth quarter of 1994.

INFLATION: The Bundesbank said Western German consumer prices rose at an annual rate of 2.1% in the six months through May, down from 2.3% in April. The statistics office said in its final report that consumer prices rose 0.2% in the month to mid-May, faster than the previous estimate of 0.1%. It raised the yearly rate to 2.2% from 2.1%. The Bundesbank said its inflation index rose to 125.8 in May from 125.7 in April and 123.1 in May 1994. The index sets prices equal to 100 in 1985.

Bundesbank Vice President Johann Wilhelm Gaddum said the German central bank wasn't disturbed by the upward revision in inflation. Gaddum said the Bundesbank, which has set an annual inflation target of 2%, is pleased with the decline in the rate from as high as 4.8% in March 1992. He said that the appreciation of the D-Mark is helping restrain upward pressure on producer prices in Germany's growing economy

Consumer prices in Eastern Germany rose 0.1% in the month to mid- May and were up 1.9% from a year earlier. Inflation slowed from a monthly rate of 0.3% and an annual rate of 2% in April. The Eastern German cost-of-living index climbed to 138.0 in May from 137.8 in April and from 135.4 in May 1994 (2nd half 1990/1st half 1991 = 100). The government continues to publish a separate price index for the 5 eastern states, which account for a quarter of the German population but only a tenth of the economic output. Later in 1995, the statistics office plans to compute a pan- German price index in addition to publishing separate indexes for the western and eastern halves.

WHOLESALE PRICES: Wholesale prices in Western Germany rose 0.1% in May from April and were up 3.2% from a year earlier, according the Federal Statistics Office. The increase follows a decrease of 0.1% in April. The yearly rate of wholesale inflation fell from 3.6% in April. The index for wholesale prices, or WPI, rose to 100.2 in May from 100.1 in April and from 97.1 in April 1994. The index with 1985 levels equal to 100.

RETAIL SALES: Retail sales in Germany rose 3% in April from March and were up a lower than expected 1% from a year earlier. The figures take inflation and seasonal variations into account, as calculated by the Federal Statistics Office. On a nominal basis, retail sales in Germany fell 1% month-on-month and advanced 2% from a year earlier. In the first four months of the year, the country's retail sales fell 2% after inflation from last year and were down 1% in nominal terms.

UNEMPLOYMENT: The number of unemployed in Western Germany fell 2,000 top 2,544,000 in May from April, according to the Federal Labor Office. The decrease was expected. On an unadjusted basis, the Western German unemployment rate fell to 8.0 % in May from 8.3% in April. The number of jobless in the region declined to 2,465,910 from 2,564,387 on an unadjusted basis.

In Eastern Germany, the jobless count declined to 995,178 from 1,040,305. The region's unemployment rate slipped to 13.3% from 13.9%. Unemployment in both halves of Germany totalled 3,461,088 on an unadjusted basis, compared with 3,604,692 in April. The all-German jobless rate fell to 9.0% from 9.4%

EXPORTS: The Federation of Chambers of Commerce (DIHT) said the rise in German exports will slow this year, following strong growth in 1994, mainly because of the continuing strength in the D-Mark against the dollar and other European currencies. Exports are likely to rise about 5% this year, compared with 9.1% last year, according to a regular survey compiled by 66 DIHT offices abroad. German companies would try to maintain their market shares in foreign markets by reducing prices but this could not be maintained in the long run. The DIHT is one of several organizations which have recently revised down their economic growth forecasts this year because of a high wage round and the D Mark's strength. Mr. Franz Schoser, a DIHT director said that imports were likely to rise by about 6% this year, down from 7.9% in 1994.

M3 MONEY SUPPLY: Germany's money supply picked up slightly in May, with M3 0.7% lower than the fourth quarter level of 1994 on an annualized, seasonally adjusted basis. In April the decline was 1.5%. The continuing slack M3 trend - the Bundesbank's target is 4-6% growth for the year - has fuelled forecasts of further cuts in interest rates. Compared with the last quarter of 1993, M3 showed a 3.5% gain after its 3.5% rise in April, in line with economists expectations.

The central bank said credit growth remained lively. Bank lending to the public sector strengthened, while loans to the private sector and companies slowed down. Monetary capital formation, in which funds move to long-term investments outside M3, rose at an annualized rate of 10% in the last 6 months and thus continued the restraining influence on money supply. In May, long-term investments deposited with banks totalled DM17.8 billion ($12.8 billion) compared with DM12 billion in the same month of last year.

AUSTRALIA:

FOREIGN DEBT: Australian net foreign debt in the March quarter rose 2.3% to A$166.919 billion (US$119.16 billion), reflecting the depreciation of the local dollar, according to the Bureau of Statistics. That compared with a revised A$163.22 billion in the previous 3-month period. The record for the nation's foreign debt is A$174.50, reached in the September quarter 1993. The A-dollar shed about 6% of its value against the US dollar in the 3-month period, increasing the cost of servicing the nation's overseas debt.

As a percentage of gross domestic product (GDP), net foreign debt rose to 37.2% from a revised 36.9% in the December quarter. That measure reached an all-time high of 42.6% in the September quarter of 1993. Treasurer Ralph Willis said the government is committed to stabilizing the size of the nation's borrowings.

Net foreign debt includes government and corporate borrowing overseas, foreign investment in Australia and Australian investment abroad. On the year, the bureau said foreign debt fell 0.6%.

JOB ADVERTISEMENTS: Australia & New Zealand Bank's monthly index of job advertisements rose 1.2% in May, the first monthly increase in Four months. The rise in seasonally adjusted terms compared with a 2.6% drop in April. The index was up 12.8% in the year.

In trend terms, the job advertisement index fell 0.7% in May, following a 0.8% decline in April. The trend data smooth seasonal anomalies from the seasonally adjusted figures. The ANZ job ads series is viewed as current indicator of trends in employment and a current indicator of economic activity.

WAGES ACCORD: Australia's government and its trade unions have reached a four-year wages agreement aimed at achieving solid economic growth, cutting unemployment, and keeping the core inflation rate below 3%. The agreement locks in a target for core inflation between 2 and 3%. Annual core inflation was running at 1.9% in the year to March 31. Analysts predict it accelerated in the June quarter to an annual rate of about 2.1%. Core inflation, which excludes volatile items such as mortgage interest rates, is what the central bank watches when adjusting monetary policy.

The key elements of the agreement are for a minimum 600,000 new jobs to be created by March 1999, provision for 12 weeks maternity payments available on a means tested basis and four safety-net wage increases for low-paid workers. The accord only covers workers operating under union-brokered wage agreements.

FOREIGN INVESTMENT IN STOCKS: Net foreign investment in Australia's stock market fell to just A$20 million (US14.5 million) in the first quarter of this year from A1.1 billion in the December quarter and A$5 billion in the year earlier quarter, according to the Australian Financial Review. The AFR cited concerns about the nation's ballooning current account deficit and declining Australian dollar as reasons for the decline.

WESTPAC LEADING INDEX: The Westpac-Melbourne Institute leading index of economic activity in Australia rose 0.9% in April, its third consecutive monthly rise, mainly due to the approval of construction of a casino in Sydney. The rise followed a revised 0.3% in February, which broke a run of five successive monthly declines.

Westpac warned that without the Sydney casino approval, the leading index would have fallen 0.3% in April. The approval lifted non-residential building approvals by 98%. Share prices increased 5.4% in April while the money supply gained 0.4%. Home building approvals was the only component to worsen in April.

The leading index, which is a measure of how the economy is likely to be performing in six month's time, is only 0.7% below its peak touched last August. The smoothed annual growth rate, which measures the current month's leading index as a ratio to the average in the preceding 6 months, was 1.8%, up from 0.3% in March.

The coincident index, which measures the current state of economic activity, rose by 4.8% in April and its smoothed annual growth rate increased to 16% from 7.6% in March.

HOUSING FINANCE APPROVALS: Approvals for housing financing in April fell 5.9% from March, according to the Australian Bureau of Statistics. That followed a 3.1% slump a month earlier. The bureau said housing approvals in April fell 34.3% on the year, seasonally adjusted.

In the month, 32,172 home loans were approved, down from a revised March figure of 34,188. The bureau said housing financing was valued at A$3.13 billion (US$2.27 billion), down from a revised A$3.13 billion in March. The bureau's trend estimate on housing financing fell 2.9% in April, and was down 32% on the year. Trend figures smooth anomalies in the seasonally adjusted data.