Princeton Economic's The World Capital Market Review

Issue #5 June 1995

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.

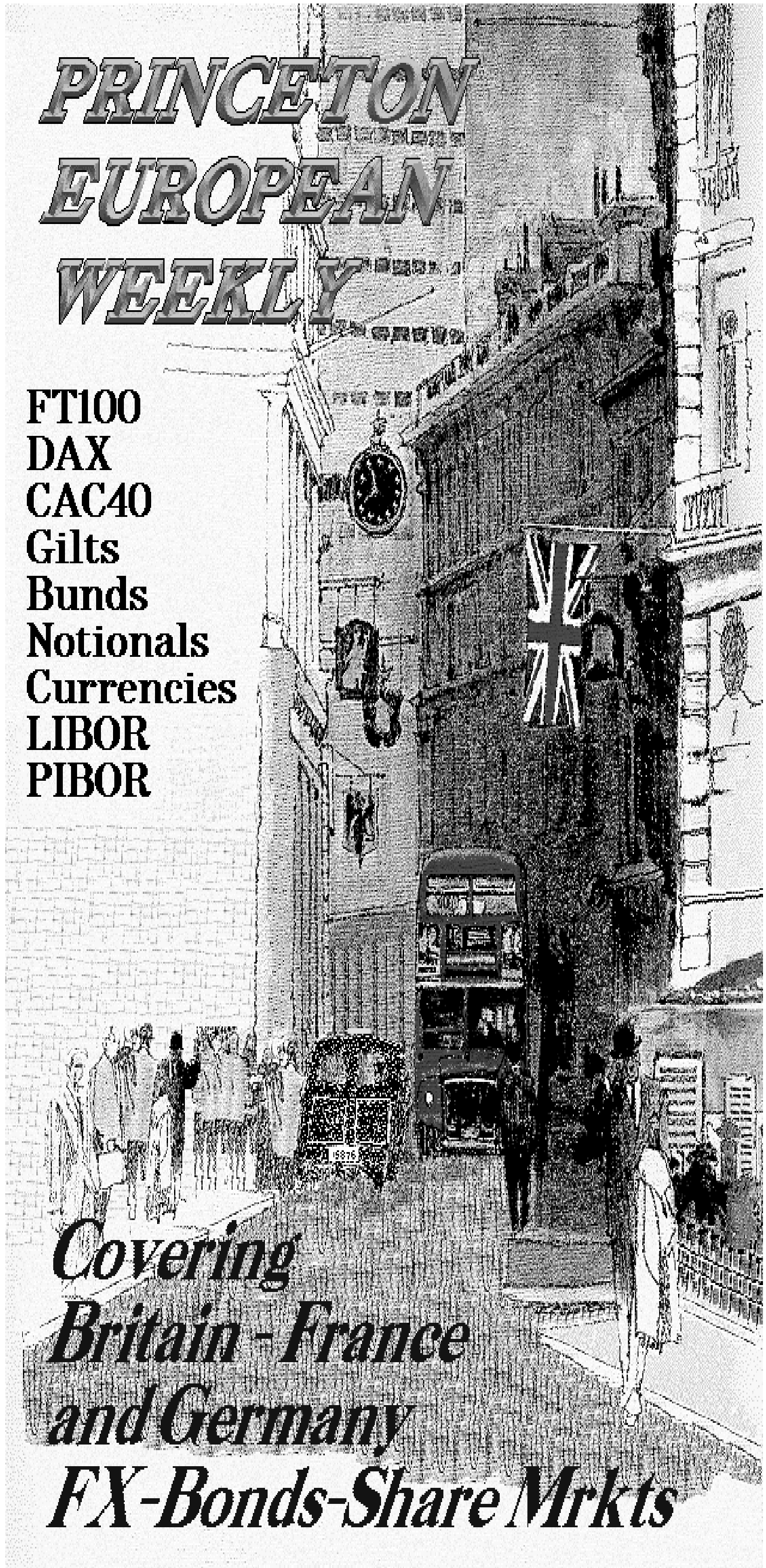
Society has always rebelled when the standard of living has declined in the face of escalating unfair taxation. Stopping talk show hosts around the nation from airing the unrest could lead to even greater frustration that merely explodes in an unpleasant manner. With 33% of the civil work force in the 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.

Fax On Demand

If you would like to keep up on certain markets without the cost of a yearly subscription, then call our US office to discuss the FAX On Demand services available where you pay per FAX rather than an annual subscription fee.

(609)-987-9522



UNITED STATES:

FACTORY ORDERS: Orders to US factories fell by 1.9% in April, the biggest drop for 9 months and the first time in nearly 2 years that such orders have fallen for 3 consecutive months.

GDP: The US GDP, the government's broadest gauge of economic strength, had risen 2.7% in the 1st quarter of this year - down sharply from the 5.1% growth growth recorded in the last three months of 1994.

US TRADE DEFICIT: The US trade deficit narrowed slightly in March as gains from recent efforts to tear down trade barriers around the world helped push up exports nearly 5% to $65.34 billion. But the global trade pacts, such as the one negotiated under the auspices of the GATT, also led to a 4.3%jump in imports to $74.46 billion from $71.40 billion. Overall, the deficit in goods and services shrank to a seasonally adjusted $9.12 billion from February's $9.15 billion, according to the Commerce Department.

DURABLE GOODS: New orders for durable goods fell 4% between March and April, a much bigger drop than expected, raising the prospects of a cut in short-term interest rates. The drop in orders was the third consecutive monthly decline.

INDUSTRIAL PRODUCTION: The prospect for a "soft-landing" for the US economy increased with the release of official figures showing that industrial production fell in April for the second month in a row. This is the first back-to-back fall in production since the end of 1991, when the economy was struggling to emerge from a recession.

INDUSTRIAL CAPACITY UTILIZATION: The Fed reported a sharp decline of industrial capacity utilization to 84.1% against a peak of 85.5% in January - the third drop in a row - suggesting that inflationary pressures may be subsiding.

HOUSING STARTS: The Commerce Department said housing starts increased 0.4% in April after falling for the previous three months, an indication that housing starts are stabilizing. Despite the rise of 0.4%, housing starts still remain 16% lower than in April last year.

Industrial out put declined 0.4% in April, after a 0.3% decline in March and a zero increase in February. More than half of the drop in April reflected a sharp retrenchment in the car industry, where output fell 4.4%. Excluding cars, manufacturing output fell 0.3% from March.

The figures are likely to be interpreted by the Federal Reserve as an encouraging sign that its strategy to curb growth to prevent upward pressure on inflation is succeeding.

UNEMPLOYMENT: The US job market weakened sharply in March, providing the strongest signal yet that the economy was slowing down after last year's hectic pace. The workforce shrank in April for the first time in two years, pushing the unemployment rate up to 5.8% from 5.5% in March. Easing inflationary pressures on the job market and thereby reducing the likelihood that the Fed would raise interest rates later this year, bond prices rose strongly.

The bureau's survey of businesses showed non-farm payroll fell about 9,000 in April to 115.8 million, compared with an average increase of 271,000 a month over the previous six months. Manufacturing employment fell by 28,000 in April to 18.25 million, while construction employment fell by 20,000 to 5.11 million. Retail and other service sectors added workers to their payrolls. Using a separate survey of households, The Bureau of Labor Statistics calculated the April employment rate at 5.8%, back at the level recorded last September.

Ms Katherine Abraham, commissioner of Labour Statistics cautioned that quirks in the calendar may have skewed April unemployment results, possibly overestimating the extent of job creation by between 70,000 and 234,000 jobs, although she did emphasize that the trend in payroll employment growth was clearly down from last year's rapid pace.

Unemployment rates rose significantly in most regions of the country. Michigan and Pennsylvania were the only large states to record lower jobless rates in April than in March.

Average hourly wages in the private sector rose slightly to $11.32 after remaining flat for two months, and average weekly wages rose somewhat faster to $394.09 in March.

UNITED KINGDOM:

ECONOMIC GROWTH: In its monthly monetary report for May, the Treasury said figures for first-quarter GDP show that the economy is growing at a healthy, more sustainable rate than in the first half of last year.

The British economy expanded 0.8% in the first quarter, preliminary estimates show, unchanged from growth in the previous quarter, and climbed an annual 3.9%. Analysts had been expecting growth to slow to 0.6% in the three months to March.

INDUSTRIAL OUTPUT: The pace of UK manufacturing production slowed in March, supporting the government's view that economic growth is falling to a non-inflationary rate, reducing the need for interest rate rises. Overall industrial output rose 0.9% in March, higher than expectations of 0.4% and higher than the 0.2% rise in February.

However, production at factories rose by a lower-than-expected 0.3% in March. In the first quarter, manufacturing production fell 0.1%

from the previous quarter, with declines in all sectors except coke refining and chemicals.

While the Treasury welcomed the manufacturing production figures, some analysts said the report should viewed with caution. The report is in contrast to a recent survey from the Confederation of British Industry which suggest output has risen strongly in the first quarter, although their were signs of a slowdown in the April survey.

PRODUCER PRICES: According to the Central Statistical Office, manufacturers are raising their prices more slowly than at the turn of the year, but the weakness of the pound is still pushing the cost of raw materials up sharply.

Fuel and raw material costs rose by 0.7% in April, after adjusting for seasonal variations. The CSO revised its estimate of March's increase from 0.4% to 0.8%. This left input prices 11.5% higher in April than in the same month a year earlier. This is the same increase as the year to March and one of the highest for a decade. Weakness in the pound has pushed up the price of imported raw materials. Chemicals, many of which are paid in D-Marks, rose by 2% between March and April. Imported metals and foods have also risen sharply. Manufacturers put up prices by 0.4% in April, taking the annual rate of factory gate inflation to a 16-month high of 4%.

M4 MONEY SUPPLY: Britain's broad money supply measure - M4 - climbed a final 1.4% in March from a year earlier, amounting to a year-on-year growth rate of 5.5%, according to the Bank of England. The final estimate for March M4 was unchanged from the original estimate. The annual rate of increase was also unchanged. Growth in M4 aggregate, which includes notes and coins and bank and building society deposits, has held below the middle of the Treasury's 3% to 9% monitoring range since October 1991.

MACHINE TOOL SALES: An estimate from the Machine Tool Technologies Association showed that the US was the leading export market for UK machine tools last year, with exports up 13.4% to nearly £80 million.

Machine tool exports rose 6.5% last year to £361 million, while imports rose 7.3% to £354 million. This meant that the UK had a trade surplus in Machine tools of just over £7 million, down from £9.1 million in 1993. That, however, was the industry's first trade surplus for ten years.

Recession in continental Europe cut the EU's share share of the UK machine tool exports from about 50% in 1991 to 33.7% last year, but UK exporters are now benefiting from the weakness in sterling.

UK machine tool production rose from £645 million in 1993 to £738 million last year, while UK consumption of machine tools jumped from £636 million to £731 million. The association expects consumption and production to rise to about £900 million this year. The projection is not adjusted for inflation.

NEW CAR IMPORTS: Import penetration of the market for new cars reached its highest level last month for several years. The fighter was 61.1% compared with 56.7% in April 1994. Imports for the first 4 months of the year also appeared poised to brake through the 60% threshold, at 59.9% compared with 56.6% a year before.

The overall market for new cars in the UK weakened further last month when the business purchases that have helped offset falling private demand began to falter. Figures from the Society of Motor Manufacturers and Traders showed some leading UK-based manufacturers under pressure and losing ground to imports, mainly from mainland Europe.

Total registrations of new cars in April, at 138,770, were 2.3% lower than the 142,009 of the same month a year ago. Within the total, however, registrations to private buyers were 7.5% lower. In recent months, this weakness in private demand has usually been offset by rises of up to 10% in demand from companies making long overdue replacement of fleets kept running through the recession.

But last month fleet registrations by companies operating 25 cars or more were only 0.8% higher. Registrations by other business users rose 5%, but this category accounts for well under 10% of the total market compared with nearly half of the fleet sector.

As a result, total registrations for the first four months of this year, at 664,134, were 1.1% below the 671,445 of the same period last year. It appears increasingly likely that the society may have to revise downwards its forecast of a 1.95 million market for this year compared with the 1.91 million achieved in 1994.

HOUSING MARKET: The UK housing market remains depressed in spite of a traditional sprig rise in sales. Halifax Building Society, the country's biggest mortgage lender, said prices fell an average 0.3% last month compared with March, and were 1.4%lower than in April last year. Halifax said the fall in prices confirmed that there was still no evidence of a recovery in the housing market.

A survey of British Bankers' Association showed a further decline in Mortgage lending. Net new lending in March fell by 15% to £560 million, compared with £674 million in the same month last year. Gross lending, in spite of rising by 31% compared with February, was still 10% lower than a year ago. A survey by the National House-Building Council showed a sharp fall in applications by builders to start homes in the first three months of this year.

NUCLEAR POWER PLANT SALE: The UK government has proposed to sell more than half of its nuclear power plants next year in a public offering that could raise more than £3 billion. Under the plan announced by Michael Hesseltine, president of the Board of Trade, the government will waive a special tax for nuclear cleanups that could reduce the electricity prices in England and Wales by 8%. The sale of the nuclear utility will come at about the same time the government plans to sell state-owned British Rail, the National Railroad.

Heseltine didn't say how much the sale would raise. It has been the policy of the ruling Conservative government to sell state- owned industries to investors because it believes private ownership is more efficient.

AUSTRALIA:

MARCH RETAIL SALES: Australian retail sales in March fell by 0.8% from February, according to the Bureau of Statistics. That followed a 1% decrease in February. Retail spending in the year rose 2.7%. Forecasts ranged from a 2.5% decline to to an increase on the month of about 1.5%.

The value of sales in January fell to A$9.29 billion from A$9.37 billion in February. Retail sales in the three months to March 31, adjusted for inflation, rose 0.3% from the prior quarter which compares with with a rise of 1.1% in the September-December period. Retail sales account for about 60% of all consumption in Australia. The bureau's trend estimate, which removes volatility in the seasonally adjusted figures, rose 0.2% in March. For the year, the trend was up 6.3%.

ANZ JOB VACANCY INDEX: Australia & New Zealand Bank's monthly index of job advertisements fell 2.6% in April, its third consecutive monthly decline. The index was up 13.8% on the year and about 7% above its average monthly level for 1994.

The index is pointing to slower employment growth in the second half of 1995, according to Graham Hodges, chief economist at ANZ Bank. However, he said job growth should be sufficient to to insure further reduction in Australia's unemployment rate the rest of the year.

In March, the index dropped 1.4% and in February 2.6%. Australia's unemployment rate fell to 8.7% in March, its lowest level since February 1991 when it reached 8.6%, the Bureau of Statistics reported. It was at 8.9% in February and has held below 10% since April last year. Employment declined by 10,800 to 8.15 million in March, following a 75,200 jump in February.

The ANZ job ads series measures the number of job ads ads in Metropolitan daily newspapers. In the past it has proven to be a leading indicator of trends in employment and current indicator of economic activity.

EMPLOYMENT: Australian employment surged to a record in April and the jobless rate plunged to a 52-month low, fueling concern that the economy is still growing fast enough to warrant further rises in interest rates. The number of jobs rose by 90,400 - the second largest monthly increase ever recorded - to 8.24 million.

Adding to the bullish jobs report, the Bureau of Statistics said the bulk of jobs growth was in full-time employment. Full-time jobs, which are considered the most important indicator of employment, rose 80,600 to 6.22 million. The jobless rate fell 0.4 to 8.3% in April, its lowest level since December 1990 when it was at 8%. Employment Minister Simon Cream said it was the first time in four years that all Australia's six states posted jobless rates below 10%.

MARCH BUILDING APPROVALS: Australian building approvals in March fell 4.3% from February, The Bureau of Statistics reported. Approvals in the month were 12,830, compared with 13,403 approvals in February. They were down 17.9% from a year earlier, after a 13.7% decline in February.

The bureau valued the monthly approvals at A$2.124 billion (US$1.56 billion), down from A$2.36 billion in February. Approvals for private-sector homes fell 7.3% to 7,978 in March, following 8,606 approvals a month earlier.

The bureau's trend rate, which smoothes the seasonal adjustment figures, showed a 3.2% decline in the month. On the year, the trend estimate fell 19.6%.

CURRENT ACCOUNT DEFICIT: Australia's current account deficit in March widened 10% to a better-than-expected A$2.319 billion (US$1.71 billion). That compared with a revised A$2.115 billion in February. The December figures, which previously reached a record, were revised down to A$2.323 billion in the latest report. Analysts had forecast the current account deficit to widen to about A$2.6 billion in March.

The Bureau of Statistics reported that the nation showed a merchandise trade deficit of A$756 million in the latest month, compared with a revised deficit of A$515 million in February. Merchandise exports rose 4% to A$5.889 billion. The bureau earlier reported an 8% rise in imports to A$ 6.645 billion in February.

The net income deficit - the amount that Australia pays to service its debt - narrowed to A$1.470 billion from a revised A$1.509 billion in February. The bureau said the unadjusted current account deficit widened to A$2.188 billion from a revised A$1.489 billion. The trend estimate on the current account deficit, which smoothes seasonal anomalies, expanded to A$2.277 billion in March from A$2.243 billion in February.

ANNUAL BUDGET: Australian corporate leaders were not impressed with the government's annual budget for the year starting July 1, saying that spending wasn't cut enough and company tax was raised too much.

Treasurer Ralph Willis said the government plans to reduce its spending A$700 million (US$512 million) in the year. This was regarded as insufficient by business leaders. The government is relying on higher taxes on business to turn its annual budget to surplus for the first time in five years from a deficit of A$12.15 billion in the present year.

The government said from July 1 the corporate tax rate will be increased to 36% from 33% presently. Business groups expected a tax hike to 35%. The government said the increase in the corporate tax rate would raise A$320 million in the coming year and A$1.57 billion in the year to June 1997. The big difference is because companies pay tax on a provisional basis. According to many business leaders, the tax on business is going to have a significant effect on business confidence, investment and jobs growth.

The budget detail plans to raise A$5.35 billion from asset sales, including about A$4 billion from the sale of the government's remaining 50.4% stake in Commonwealth Bank of Australia Ltd.

The Australian government acted to raise the country's lowly savings ratio through an extended superannuating scheme, which will require employees to save 3% of earnings by the year 2000. The superannuating scheme will cost the government A$4 billion a year when fully implemented, and will boost further Australia's fund management industry. While employees will be required to save 3%, the government is to match this on a dollar-for-dollar basis for lower paid workers.

RAW MATERIALS PRICES: The prices of raw materials used in manufacturing in Australia rose 1.2% in March, increasing concern that the nation's inflation rate is on an upward path. On the year, input prices rose 7% as the A-dollar weakened and oil prices rose, according to the Bureau of Statistics. The bureau said that the rise in input prices was caused mainly by price increases for crude petroleum, reflecting both higher world oil prices and the continuing decline in the value of the A-dollar. Oil prices are denominated globally in US dollars.

Prices for imported materials rose 2.5% in March and 9.2% on the year. Prices of domestically produced materials rose 0.6% on the month and 5.7% on the year.

WESTPAC CONSUMER CONFIDENCE INDEX: The widely watched measure of consumer confidence fell in May, apparently in response to the Australian government's annual budget statement. The Westpac- Melbourne Institute of consumer sentiment dropped 5.8% in May after rising 9.8% to a 5-month high in April and gaining 8.9% in March.

Of the 1,201 people surveyed, 28% said they expect their personal finances to improve in the next 12 months, down from 34% in April. The percentage predicting a deterioration in their personal circumstances rose to 21% from 18%. About 50% said it was a good time to invest in major household items, down from 55% in April. About 25% said it was not, against 22%.

Looking back at the past 12 months, 24% of people surveyed said their situations had improved; 37% felt they were worse off. The survey showed 33% of respondents expecting economic conditions to improve in the coming year, and 39% expecting a deterioration.

GERMANY:

UNION PAY ACCORD: Unions representing 3.4 million German public sector workers accepted a 3.2% pay rise and extra benefits. Negotiators for the OeTV public service and transport worker's union and the DAG white collar union said the accord included a one-off payment for April of DM140 ($102).

The deal was well below the average 4% wage increases won by Germany's engineering and chemical workers and also included measures to make working hours more flexible. However, employers accepted a union demand to improve pensions for eastern German public sector employees from 1997. Unions earlier rejected an offer from public employers to raise pay by 2.5% over 15 months and had threatened to strike if no accord were reached in this round of talks.

WEST GERMAN CONSUMER PRICE INDEX: Consumer prices in West Germany rose 0.2% in the month to mid-April and were up 2.3% from a year earlier, according to the Federal Statistics Office. The final report confirmed preliminary estimates.

Prices rose at a monthly rate of 0.1% and an annual rate of 2.3% in March. Food prices rose 0.4% in April and were up 1.6% on the year. The cost of non food consumer goods went up 0.2% on the month and rose 1% on the year. Services cost 0.2% more in April and were up 3.2% from the year earlier. Rental costs increased 0.4% in April and rose 4% on the year. The cost-of-living index climbed 125.9 in April from 125.6 in March (1985=100).

EAST GERMAN PRICE INDEX: Consumer prices in Eastern Germany rose 0.3% in the month to mid April and were up 2% from a year earlier, according to the Federal Statistics Office. Prices had been unchanged on a monthly basis in March and rose at a yearly rate of 1.9%.

Excluding fuels, the April consumer price index rose a monthly 0.2% and was up an annual 2.0%. Taking out residential rents, the index rose 2% from March and was up 1.9% from the year below. Food prices rose 0.8% in April and were up 1.8% on the year. The cost of non-food consumer goods was unchanged on the month and rose 0.3% on the year. Services cost 0.4% more in April and were up 6.0% from a year earlier. Rental costs increased 0.5% in April and rose 2.5% on the year.

The Eastern German cost-of-living index climbed 137.8 in April from 137.4 in March (2nd half 1990/1st half 1991=100).

The government continues to publish a separate price index for the five eastern states, which account for a quarter of the German population but only a tenth of the economic output.

GERMAN M3: German M3 money supply fell at an annualized rate of 1.8% in April from the fourth quarter of 1994, compared with a contraction of 2.7% in March, according to the Bundesbank in a preliminary report. The contraction of the money supply was less than expected. 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. The Bundesbank said M3 rose at an annualized rate of 3.5% relative to the fourth quarter of 1993, compared with 3.6% in March. The Bundesbank said purchases of longer-term dated bonds kept M3 under control in April, offsetting a pickup in bank lending and the Bundesbank's profit payout to the federal government.

M3 averaged a seasonally adjusted 1,859.7 billion marks in April, up from 1,857.1 billion marks in March, the Bundesbank reported. The bank's extended M3 measure fell at an annualized rate of 1.1% in the six months to March. During that period standard M3 contracted at a 2.9% annual rate.

Standard M3, under the Bundesbank's definition, consists of cash in circulation, demand deposits, time deposits with maturities of less than four years and most savings deposits.

The extended measure also includes offshore Euromark deposits, some short-term bank debt and domestic and domestic and offshore investments in Germany's newly legalized money market funds.

HOUSING INVESTMENT: According to the Bundesbank, investment in German housing rose sharply last year to meet the needs of immigration and unification. Total spending on new homes, extensions and renovations increased by 16% to DM252 billion ($174 billion); in real terms the rise was 12%. The Bundesbank said Germany's total population rose by some 4 million between 1987 and 1994. Most of the increase was is West Germany, caused by immigration from eastern Europe.

The Bundesbank said the west German housing market faces its biggest challenge since the 1950's, with the state providing support through building incentives. Housing completions in west Germany totaled 505,000 last year, a level not seen since the 1970's; in 1988, they were down to 208,000

JAPAN:

JOBLESS RATE: Japan's jobless rate rose to a record 3.2% in April. The rate, the highest since postwar records began in 1953, breaches the 3% ceiling seen as acceptable by Japanese industry, unions and government. It also puts extra pressure on a divided coalition government to take more vigorous action to stimulate the economy.

Unemployment touched 3% in March, a fraction below the previous record of 3.1% in May 1987. The jobless figures alarmed government officials, who warned that the Japanese economy could be "gravely hurt if current level's of the yen's appreciation continues. The Economic Planning Agency estimates that Japan's leading exporters can break even at Y107 to the dollar compared with the current Y83.

However, the April rise in joblessness is believed to be a consequence, not of the high yen, but of the rise in business failures which often increase after the bottom of the economic cycle. Most of the Yen's latest rise came after late February, so damage to exporter's profits will not be felt until about now.

The labor market is clearly weakening. The number of jobs available for every 100 applicants fell from 66 to 65 from March to April. 210,000 jobs were lost over the past year, leaving 2.14 million people out of work. The losses were mainly in the manufacturing industries, retailing and restaurants. Employment has risen, by contrast, in construction, transport and public utilities, sheltered from competition by government regulations.

INDUSTRIAL OUTPUT: Industrial output fell by 0.2% in April from the previous month, compared with a ministry of trade and industry forecast of a 2% rise. MITI now expects output to fall again in May and June, the first 3-month run of shrinkage for two years. The decline in output, largely a consequence of lower production by car exporters following the yen's rise in the past year, forced MITI to withdraw its judgment that the economy is in a "gradual recovery".

ECONOMIC REFORM WARNING: In its 1995 paper on trade, The Ministry of International Trade and Industry warned that Japan's highly successful economic system must be adjusted to incorporate market mechanisms more fully if the country is to avoid falling behind in global economic development.

The failure of market mechanisms in certain sectors of the economy has kept many domestic prices much higher than in other countries and risks undermining Japan's competitiveness as an industrial base. According to MITI, government regulations and special business practices are responsible for the high cost structure in Japan. Unless measures are taken quickly to correct the situation, it will "cause huge repercussions in areas such as Japan's economy, society and unemployment. Japan does not have much time to realize this reform" says MITI.

Structural factors in the Japanese economy have prevented the benefits of the high yen to reach consumers:

-In domestic manufacturing, the trade ministry found that business practices were mainly responsible for keeping prices high, as the system made difficult for Japanese manufacturers to replace expensive domestic supplies with cheaper foreign imports.

-At the same time, lack of competition in business sectors not exposed to foreign competition are also keeping prices high.

The overall result has been to drive business activity overseas as companies seek to maintain competitiveness. The high cost structure is leading Japanese companies to move production, and increasingly, corporate functions abroad, while discouraging foreign investment in Japan.

Miti suggests promoting deregulation, correcting price differentials, and increasing domestic investment opportunities and new business opportunities to prevent Japan losing its economic vitality.

CONSTRUCTION ORDERS: Construction orders in Japan dropped for the fourth consecutive year in fiscal 1994, but the trend of the decline has apparently bottomed out, according to the Japanese Federation of Construction Contractors. Orders received at its 57 member companies in the year ending March 31 were down 0.5% on the year before.

The fall was much smaller than the 14.6% decline in fiscal 1992 and an 18% slide in 1993. In fiscal 1994, domestic building orders were down 1.5% in the year before. Private sector orders rose for the first time in four years by 0.7%, but the public- sector orders declined 5% for the second year in a row, given the relatively inactivity in public work projects. Overseas building orders rose by 22.2%, helped by the strong demand in Asian markets.

CURRENT ACCOUNT SURPLUS: Japan's current account surplus shrank 6.5% in March for the first time in four years from a year earlier to $14.825 billion, according to the Ministry of Finance. March's surplus was smaller than expectations.

For the fiscal year to March 31, Japan's current account surplus dropped 4.2% from the previous fiscal year to $125.01 billion. Last fiscal year, the current account surplus came to a record $130.491 billion. In yen terms, the March current account surplus reached 1.346 trillion, down 19.3% from March 1994, according to the Ministry.

The merchandise trade portion of the current account, which measures trade of tangible goods (the largest portion of the account) rose 8.9% to $16.644 billion. Normally, Japan's trade surplus is larger than its current account because Japan usually runs a deficit on its services account.

Separately, the deficit on trade in services more than doubled, from $5.5 billion to $12 billion. Within that, the travel deficit hit a record $28.5 billion, up from $24.1 billion - a result of the 13.74 million foreign trips made by the Japanese last year. Investment income, another component of the services account, fell sharply.

The current account balance is the nation's broadest measure of the import and export of tangible goods, services and monetary transfer such as donations and economic assistance. It is part of the larger balance of payments report compiled by the Ministry of Finance, which includes capital flows in and out of Japan.

IMPORTED AUTO SALES: Sales of imported vehicles in Japan rose 10.1% to 26,708 units, according to the Japan Automobile importers Association. That represents 18 consecutive months that sales have risen.

Vehicle imports from Germany led all the countries during the month, with 11,515 units sold, including trucks, up 16.55 from a year earlier. Imports from the US in April rose 9.1% from a year earlier to 8,560 units.

SPENDING PACKAGE: Japan's cabinet proposed to spend an additional 2.73 trillion yen ($32.84 billion) on measures to both help rebuild earthquake shattered Kobe and ease the pain caused by the high yen. This spending package designed to boost the sluggish economy was regarded by many analysts as inadequate to produce much growth.

The bulk of the new spending, about 1.4 trillion yen, is for Kobe. Only 70.3 billion yen would go toward helping small and midsize industrial businesses survive the rising yen, and only 2.8 billion yen would bolster deregulation efforts.

The spending plan follows an economic package announced in April that included promises to promote imports, trim regulations, and boost spending. But the plan was greeted as insufficient to resolve the problems threatening to tip Japan back into a recession.

CANADA:

APRIL HOUSING STARTS: New apartment construction helped to boost Canada's national housing starts in April, even as home construction is expected to remain quiet through the end of the year.

National housing starts rose 5% to 113,000 units in April, from 108,200 in March, according to Canada Mortgage and Housing Corp. All figures are seasonally adjusted at an annual rate. It was the first gain since January and only the second increase in seven months.

Multiple-unit construction jumped 16% to 46,600 units in April, from an unusually weak 40,100 units the month before. That more than offset a 3% decline in single family starts to 44,800 units from 46,000 units.

In April Canada's major banks lowered their mortgage rates, decreasing the popular 5-year fixed mortgage rate 50 basis points to 9.375% That dropped the monthly carrying cost of a C$100,000 (US$73,600) mortgage by $36 to $850. Even with the reduction, the rate is still 212 basis points higher than its 30-year low of 7.25 % in January 1995. A 1-year fixed rate now stands at 9.125%, in contrast to 5.75% 16 months ago.

FRANCE:

CHIRAC VICTORY: Bonds, the CAC-40 and the french franc all rose sharply in the wake of conservative Jacque Chirac's election as president. Chirac pledged that he would reduce interest rates to boost the economy. He is thought to favor a less stringent monetary policy, which could allow him to reduce rates.

MANUFACTURING OUTPUT: French manufacturing production in the fourth quarter rose 1.2% from the previous quarter, according to the French national institute of statistics, Insee. Industrial production, which embraces manufacturing output and energy production, was unchanged from the third quarter, when it grew 1.9%. The third quarter rise was revised up from an initial growth estimate of 1.1%. The increase in manufacturing output in the third quarter was also revised up, to 1.8%, triple the initial 0.6% estimate.

That increase essentially came from semi-finished goods, for which production grew 3%, and car and other vehicles, for which output rose 5.2%. In contrast, capital goods output declined because of a fall in the production of arms as well as ships and planes.

APRIL CONSUMER PRICES: French consumer prices rose 0.1% in April from the previous month and rose 1.6% from a year earlier, according to provisional figures published by the National Statistics Institute, or Insee. Most analysts were expecting a higher rate. The ministry said that consumer price inflation has returned to levels at the end of last year.

In March, consumer prices were up 0.3% from February, giving an annual increase of 1.8%, ending a first quarter in which prices rose as a result of what the French Economy Ministry called "transitory factors". Analysts have said that inflation is certain to rise, partly as a result of the election of Jacques Chirac as president and partly as wages rise. Committed to reducing budget deficits, Chirac has also pledged to create more and improve wages. Among the steps that could be taken to bridge the financing gap is increasing value added tax to 20% from its current 18.6% level. Added to this has been a series of wage rounds in which workers have secured above annual inflation rate wage increases.

M3 MONEY SUPPLY: French M3 money supply, The Bank of France's preferred gauge of domestic inflation, fell by 0.3% in March and rose by 3.1% in the quarter, compared with the same period a year earlier. M3, the broad measure of money supply, has risen at an annual rate of 4.1% over the last 6 months, according to the bank. That rate is down from a revised comparable rate of 5.2% a month ago. The bank's medium-term target is 5% a year, a figure reaffirmed in December when it outlined its 1995 monetary policy. M3 is composed of cash in circulation, demand and most savings deposits.

The growth in total domestic debt, another inflation indicator, remained firm. It grew an annual 3.7% in February after rising 3.9% inn January and 4.2% in December. Bank lending fell an annual 0.9% in February, compared with a revised decline of 1.7% in January.

CONSUMER CONFIDENCE INDEX: French consumers' confidence remained unchanged in April from March, as did their outlook on the country's future living standards, according to Insee. Insee's monthly survey showed the consumer confidence index remained at - 21. The index had fallen from -20 to -21 in March.

The index is based on household assessments of the county's past and future living standards, their own past and future financial situation and the opportunity to make large purchases. French household's opinions of their current financial situation, as well as their opinion of their past living standards, fell.

Their outlook for their future living standards remained stable. Household's opinion of the evolution of prices remained stable, while their outlook for the labor market improved again last month, continuing a trend which began at the end of 1993. The survey showed households still judged the situation unfavorable for making major purchases in April and for boosting savings.

TRADE SURPLUS: France had a record seasonally adjusted trade surplus of FFr11.84 billion in March, partly due to healthy sales of Airbus jets, according to the Customs Office. The March figure bettered an FFr11.03 billion surplus in February. Exports to Italy, Britain and Spain continued to be damped by the depreciation of their currencies, but exports remained strong to Germany. The French franc has lost some ground to the D-Mark this year. French sales were strong to Africa, the developing countries of Asia and in Latin America. Industrial capital goods, and especially the sale of 20 Airbus aircraft worth FFr8.17 billion, boosted the balance. But even consumer goods, long in chronic deficit, showed a small surplus of FFr661 million in

March. The seasonally adjusted surplus for the first quarter of 1995 was FFr31.60, nearly double the figure reported in the same period last year.

UNEMPLOYMENT: The number of people out of work in France fell sharply in April, declining by just under 23,000 to 3.26 million, according to the Labour Industry. Despite the size of the decline - the biggest monthly fall since 1991 - the unemployment rate remained at 12.2% of the workforce, the highest among the G7 group of industrialized countries. The new conservative government of Mr Alain Juppe, the prime minister, has said it will give priority to the fight against unemployment and has set a target of creating 1 million jobs over the next 3 years. French unemployment has fallen by just under 82,000 since its May 1994 peak and there has been a marked fall - 2.1% - in the number of young out of work.

However, the number of long-term unemployed, those out of work for more than a year, rose by 0.3% to more than 1.2 million. Job creation schemes due to be included in a mini budget sometime in June are expected to include a monthly subsidy of FFr2,000 and reduced payroll taxes for companies to hire the long-term unemployed. The cut in payroll taxes is aimed at easing the structural rigidities of the French labor market.