

Business Briefs

Britain

Bank of England Gov.: The Outlook Is Grim

In presenting the Bank of England's Quarterly Assessment on the economy, Bank Governor Mervyn King warned in a Feb. 13 press conference that the outlook is grim.

He warned that "the higher level of energy and food prices [means] a genuine reduction in our standard of living, relative to where it would otherwise have been. This is because of the higher prices that all of us are having to pay." Nothing looks good in the real estate market either, he added. "Looking several years ahead, there's no reason to expect house prices to be markedly above where they are now." In fact, he continued, "it's conceivable that there might be falls in housing prices."

In his pessimistic presentation, King pointed out that while interest rates could be cut further, they wouldn't be as deep as some are hoping for.

As far as inflation and economic slowdown are concerned, "both developments are now more acute than in November. As a result, the near-term outlook is one of inflation rising sharply alongside a marked slowing in growth," he said.

Foreclosures

Top Metro Rates Up 78% Over 2006

When Treasury Secretary Hank Paulson announced a 30-day "pause" or "suspension" of home foreclosures by six big mortgage lenders Feb. 12, Lyndon LaRouche noted that Paulson and company are under greater and greater pressure from the nationwide mobilization for LaRouche's Homeowners and Bank Protection Act (HBPA), which will freeze mortgages and stop bank insolvencies.

For example, the number of California homes auctioned off as foreclosures jumped 55% in January, compared to December, and were up 454% from January 2007. A total of 19,821 homes were auctioned off in that

state in that one month, said Foreclosure-Radar.

Eighty-six of the nation's 100 largest metropolitan areas reported increases in 2007 in the number of properties entering some stage of foreclosure, compared with 2006, said RealtyTrac, an online market of foreclosure properties. The total number of foreclosure filings in the top 100 metro areas soared 78%, to 1.775 million, according to its Year-End 2007 Metropolitan Foreclosure Market Report.

Fifteen of the 20 metro areas with the top foreclosure rates were located in four states: California with six, Ohio with four, Florida with three, and Michigan with two.

Bond Markets

Insurance Pythons Profess 'Sympathy'

Some of America's infrastructure is being squeezed by the unquestioned "right" of bond insurance operations to collect their escalating "due."

The current default rate on municipal bonds, according to Moody's Investment Service, is 0.1%. Nonetheless, the bond insurance rates being paid by many local governmental institutions and agencies have more than doubled since the beginning of this year. More than 100 governments, hospitals, and colleges have had their rates rise as much as seven percentage points. The Port Authority of New York and New Jersey had its rate go from 4.3% to 20% in just one week.

A Bloomberg.com article Feb. 11 notes, for example, that Park Nicollet Health Services in Minneapolis (which has some 960 doctors) may have to pay an extra \$5 million to \$6 million this year, because the interest on its \$375 million floating-rate debt has doubled in the past six weeks. The increase represents about a quarter of its operating profit. The rate on the portion of the debt insured by Ambac Financial Group went from 3.02% on Jan. 2, to 6% Jan. 30.

State and local government debt, in both fixed- and floating-rate bonds, totals some \$2.6 trillion.

The immediate cause for the rate in-

creases is that bond insurers owned by the biggest guarantors, such as Ambac, MBIA, Security Capital, and FGIC, have had some of their credit ratings lowered. As the spokesman for Park Nicollet said, the hospital paid Ambac to "count on that AAA insurance for 30 years. Now it's going away on us."

And as a result, "We'll have to reduce our capital expenditure program, which means less equipment, less modernization of facilities."

The Bloomberg article, headed "Bond Insurance Turns Toxic for Munis as Rates Soar," quotes Michael Gormley, a spokesman for Security Capital's XL Capital Assurance Inc. Gormley, in an e-mailed statement, said that the bond insurers are "sympathetic" to the difficulties facing their "clients."

He assured us all, "We are exploring different alternatives with our clients to address the issues they face due to the currently volatile market."

Banks

Brits Forced to Eat Northern Rock Debt

The British office of National Statistics has called on Chancellor Alistair Darling to add the debts of Northern Rock onto the government debt. This means adding anywhere from the 24 billion pounds the Bank of England has lent to the bank, to the 100 billion pounds of Northern Rock's total outstanding debt. This would increase the budget deficit of about 40 billion to at least 60 billion for this year alone. As far as overall debt, the government debt stands now at 537 billion, or 37.7% of gross domestic product. Add Northern Rock's debts, and it will go up to at least 45%.

The real question here, is, if the Northern Rock bankruptcy is putting the British government deeply in debt because of its bailout, what happens to the government debt if the government also has to bail out HSBC, Barclay's, and all the other British megabanks, which are as debt-ridden as Northern Rock?

If that happens, how far is it to Weimar?