Click here for Full Issue of EIR Volume 33, Number 44, November 3, 2006

Business Briefs

World Economy

Economist Roach: Hard Landing Coming

Morgan Stanley chief economist Stephen Roach, warned from South Africa Oct. 25, that the world's economy will make a hard landing. Roach cited two causes for his forecast: a drop in U.S. consumption ("This consumption is not supported by income," but was fueled by the "wealth effect" of the assets markets, first in equities and then in property); and secondly, the cooling of the Chinese economy due to the consumption slowdown in the United States.

As reported by the Oct. 26 *South Africa Business Day,* Roach told an audience, "If you travel to the United States today and get off the aeroplane, the first noise you will hear will be a hissing sound—the air coming out of the housing bubble." He asserted that the plunge of the home-building sector will knock a large chunk out of U.S. economic growth.

Housing

The September Sales Increase That Wasn't

The U.S. Commerce Department reported Oct. 26 that nationwide sales of new homes rose 5.3% during September, compared to the same month one year ago.

So, that big bad housing crash has gone away, right? No way. The price of a new home in September was cut to $217,000 from $240,000 in September one year earlier, a fall of 11.2%, the steepest home-price fall since 1970. What happened is that panicked builders slashed prices: Only then would home buyers buy. Taking everything into account, the total expenditures on new home purchases fell nearly 6% during September.

In September 2005, the U.S. inventory of unsold existing homes was 4.6 months' worth; this September, it jumped to 7.3 months. However, consider the inventory in specific regions, most of which had been sizzling markets due to speculation: San Diego, 8.5 months; Boston, 8.6 months; Cincinnati, 9.4 months. New York City, 10.8 months; Las Vegas, 12 months; Atlanta, 12.6 months; and Miami, 14.6 months.

Stock Markets

'Plunge Protectors' Move Into High Gear

The *New York Post*'s John Crudele noted in his Oct. 26 "Taking Stock" column, entitled, "Treasury's Paulson Plays With the Plunge Protectors," that "someone—and I don't know who—wants us all to know that since July, Henry Paulson, the Secretary of the Treasury, has spent a lot of time on a little known Washington operation called the President's Working Group on Financial Markets." Referring to the Oct. 23 *Wall Street Journal* publicity for the group, a.k.a. Plunge Protection Team, Crudele notes that since Paulson's involvement, stocks have been moving steadily upward—and "there is less risk in stocks if the government is providing a safety net. Less risk, that is until something bad happens."

Other commentaries are even more direct. The freemarketnews.com website wrote Oct. 25: "One would have to be brain dead, or more naive than a kindergarten child, or politically corrupted to the core not to observe clear pervasive patterns of PPT effects. Some call it the '10 am lift,' or '3 pm lift' at work. Critical support and stimulation has been delivered routinely to the stock market via S&P futures contracts, major stock index options, US Treasury Bonds, gold, euro currency, yen currency and probably even crude oil. . . .

"It gets deeper, as hedge funds are under intense attack in some corners by key Wall Street players. Their agenda is to bring down the energy costs nationwide, perhaps regardless of the littered dead casualties among hedge funds. . . . They are unregulated. They are toys of the very wealthy. Their unbridled leverage at times puts the entire financial system at risk. So who cares if some of them are killed? Not the public. For every dead hedge fund humiliated with press coverage, my guess is 10 to 20 died a quiet death without publicity.

"There is a problem though. Most hedge funds set up their financial structure with 20% ownership by the managers of the fund. Their principal credit and equity partners tend to be Wall Street firms. . . .

"Enter the Counterparty Risk Mgmt Policy Group (PPT2), designed to preserve the stability of the hedge fund community. . . . The PPT2 probably draws ample supply of green water liquidity from profoundly deep funds. . . ."

Electricity

Steep Price Hikes Hit Texas, Pennsylvania

In the poster states of electricity deregulation, Texas and Pennsylvania, consumers are being hit with soaring utility rates. In Houston, the "sin city" of dereg, consumers are paying among the highest rates in the country. The Texas Public Utility Commission made public on Oct. 20 that the wholesale arm of TXU Corp., the unregulated conglomerate servicing Houston, is under investigation for manipulating wholesale power markets to constrain supply and boost prices.

Pennsylvanians are joining Baltimore- and Chicago-area residents, in facing double-digit electricity rate increases, as caps on prices expire at the end of this year, and unfettered deregulation goes into effect. Pennslyvania Power Co. customers, in the western part of the state, could see their bills rise by 33% on Jan. 1, the *Patriot-News* reported on Oct. 19.

But deregulation has served financial pirates such as Goldman Sachs, the Blackstone Group, and Kohlberg Kravis Roberts well. They have made off with billions, as detailed in the Oct. 23 *New York Times.* As state legislatures were dragooned into passing dereg laws in the late 1990s, requiring utilities to sell their generating plants, financial pirates bought up the plants for 20 cents on the dollar, then often resold them to unregulated subsidiaries of the very companies that built and sold them.

© 2006 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.