Steve Czech's - Anecdotes From The Road: "...And The Greeks Invented Math!" – Volume IV., No. 39

Ladies & Gentlemen:

Hope all is well with you and yours!

Below, please find the latest installment of *Steve Czech's Anecdotes From The Road "…And The Greeks Invented Math!"* The following are some very interesting anecdotes I've gleaned from reading, meetings and conversations during the past week. (A pdf version is attached hereto for iPad users).

I hope you find the following useful and welcome the opportunity to discuss these at your convenience.

AMERICA ON THE ROAD TO RECOVERY: DAY 371

GM's STOCK PRICE AT THE IPO ON 11.18.10: $33.00/SHARE
GM's STOCK PRICE ON 10.28.11: $26.45/SHARE
ABSOLUTE % CHANGE FROM IPO PRICE: - 19.85%
ANNUALIZED % CHANGE FROM IPO PRICE: - 21.65%

QUOTE OF THE WEEK # 1:

- "So how bad is the U.S. economy? It's so bad that Angelina Jolie just adopted a child from America" – *Cindy Adams, The New York Post, 10.26.11.*

QUOTE OF THE WEEK # 2:

- "As an American, I am not so shocked that Obama was given the Nobel Peace Prize without any accomplishments to his name. America gave him the White House based on the same credentials." *- Newt Gingrich (Source: Insurance Forums, 10.22.09).*

QUOTE OF THE WEEK # 3:

- "It's weird protesting on Bay Street. You get there at 9:00 a.m. and the rich bankers who you want to hurl insults at and change their worldview have been at work for two hours already. And then when it's time to go, they're still there (at work). I guess that's why they call them the "one percent". I mean, who wants to work those kinds of hours? That's the power of greed." – *Quote from Jeremy, a protester outside of the Toronto Stock Exchange on 10.26.11 (Source: "Anecdotes" reader).*

SERIAL FAILURES & "FAILING UP":

- As I write here on the afternoon of 10.30.11, *MF Global*, whose CEO is Jon Corzine, is on the verge of being sold in a fire sale based on published reports.
- Corzine was forced out of *Goldman Sachs*, had an unmemorable stint as a New Jersey U.S. senator, failed miserably as New Jersey governor and in less than 18 months, has managed to drive *MF Global* into the ground.

- Both private-equity firm *J.C. Flowers & Co*. (a former colleague of Corzine's at *Goldman*) and Corzine own stakes in *MF Global* and stand to lose if the company's shares continue their decline.
- But if *MF Global* is sold and Corzine departs, Corzine could collect an estimated $12.1 million in severance pay, bonuses and other benefits, according to a recent *MF Global* filing
- This is a classic example of what's wrong with Wall Street and why movements like Occupy Wall Street exist *(Source: The Wall Street Journal, 10.27.11).*

SO HOW'S THAT OPERATION TWIST DOING?

- *Fed* Chairman Ben Bernanke announced Operation Twist on 9.21.11 and said the program was expected to DECREASE long-term U.S. interest rates by about 20 basis points.
- But since the 9.21.11 announcement, the benchmark U.S. 10-year interest has INCREASED more than 47 basis points to 2.32% from 1.85% on 9.21.11 *(Source: The Wall Street Journal, 10.17.11).*

ANOTHER INDUSTRY THAT STEVE JOBS CHANGED - WRIST WATCHES:

- According to Walter Isaacson's new book *"Steve Jobs"*, Steve Jobs is personally responsible for transforming the personal computer, animated movie, music, phone, tablet computing and digital publishing industries.
- Add to the aforementioned list wristwatches.
- I had a conversation with a senior executive of a wristwatch company last week who shared the following with me.
- Ten years ago, approximately 90% of U.S. high school students, age 14 – 18, wore a wrist watch.
- As of 2011, approximately 5% of high school students, age 14 – 18, wore a wrist watch.
- Why the change?
- The proliferation of mobile phones such as the iPhone.
- Kids no longer check the time on their wrist watch. They check the time using their mobile phones and the iPhone is one of the most popular among teen consumers.

UPDATE: IMPACT OF DODD-FRANK & VOLCKER RULE ON U.S. BANKS:

- In a note the week of 10.10.11, *Bernstein Research* analyst Brad Hintz estimated fixed-income businesses at U.S. banks and investment banks could see pretax margins decline to an average of 17.6% from 24.9%, thanks to *Volcker Rule* restrictions.
- At current leverage levels, and assuming a compensation ratio of 50%, this would imply a return on equity of about 6.5%, Hintz says. That is well below banks' cost of capital.
- Such projections explain why firms like *Goldman Sachs* and *Morgan Stanley* have traded below tangible book value of late. Investors are implying the firms will destroy value.
- Possible ways to counter this are to shrink some businesses (translation: reduce the size of their loan and securities portfolios) or drastically cut compensation.
- Neither, though, will guarantee that all the firm's businesses make sense in today's markets.
- For *Goldman* and *Morgan Stanley*, the turmoil may lead to an existential crisis as much as a financial one *(Source: The Wall Street Journal, 10.17.11)*.

CAN'T MAKE THIS UP!

It Takes One To Know One:

- The Occupy Wall Street protests have drawn huge numbers of confused and directionless young people, but maybe that's not all bad. Some of them at least seem to be getting a remedial course in economics.
- Nan Terrie learned an expensive lesson last week about the importance of property rights. "Stealing is our biggest problem at the moment," the 18-year-old protester told the *New York Post*. "I had my Mac stolen—that was like $5,500." Why? Because she left it in a public place, amid a crowd demanding the redistribution of wealth. Imagine that!
- Perverse incentives were at work at Occupy Boston, where 36-year-old Andrew Warner told the *Boston Herald*: "It's turning into us against them." By "them" he didn't mean rich bankers but street vagrants: "They come in here and they're looking at it as a way of getting a free meal and a place to crash, which is totally fine, but they don't bring anything to the table at all." The same is true in New York, where "sanitation committee" member Lauren Digioia told the *Daily News*: "There's a lot of takers here and they feel entitled."
- The makeshift government at Manhattan's Zuccotti Park is also dealing with the problem of externalities, in the form of percussionists who irritate neighbors and fellow protesters alike by drumming at all hours. That has inspired both regulations (drumming is permitted only at certain hours) and taxes. *New York* magazine reports that the "finance working group" had levied a "percussion tax" of 50% on tips.
- Drummer Shane Engelerdt sounds like a tea party member complaining about taxation without representation: "They didn't even give the drummers a say. . . . They're like the banks we're protesting." Actually, they're like the government the protesters are trying to expand—but perhaps that will become clear in the next lesson *(Source: The Wall Street Journal, 10.27.11)*.

Error: USAJobs.gov - And You Thought The Stimulus Didn't Work:

- The Obama Administration is outputting job-creation proposals at Twitter-speed and ridiculing Republicans for not signing onto the whole package. Which brings us to an already up-and-running federal jobs program called USAJobs.gov. Well, up-and-running is an overstatement.
- Americans in search of federal employment can go to a website called USAJobs.gov, which matches openings with applicants. Since 2004, the feds have outsourced the site's operation to *Monster.com*. Good call by whoever was in charge in 2004. *Monster.com* is the private company that pioneered employment websites and is today the largest job search engine in the world.
- But 18 months ago the "smart" Obama Office of Personnel Management decided the federal government could do a better job of running USAJobs.gov. It spent some $6 million developing a new in-house version of the site, promising to improve the job-search experience. It unveiled its creation two weeks ago. It's a monster all right.
- The volume of requests instantly crushed government servers, slowed the system and locked out thousands of applicants. Naturally, the site has a *Facebook* page. Naturally, the comment queue is boiling over. Examples:
- "Why am I having to do the same search 3 times before anything shows up?" "Over one week now and I still haven't received my password reset email!!" "USAJOBS WEB SITE IS A DISASTER!" "I entered Delaware and got Germany jobs and all of the Forest Service."
- Director John Berry says job seekers will get an additional three weeks to meet application deadlines. *Monster.com* has graciously offered to host free job postings for federal agencies for 30 days, as the government reboots its "improved" website.
- Better yet, the Obama team could turn over fixing USAJobs to the folks at Occupy Wall Street *(Source: The Wall Street Journal, 10.25.11)*.

The following are two examples of policies introduced by Obama last week that are focused on penalizing Americans who acted prudently while rewarding Americans who acted carelessly….in exchange for their vote in 2012…and at the expense of the U.S. economy.

Obama's Plan To Bailout Those Who Bought More Home Than They Could Afford:

- Federal regulators on 10.24.11 unveiled a major overhaul of an underused mortgage-refinance program designed to help millions of Americans whose home values have tumbled.
- The plan is the latest Obama effort to deal with one of the most critical impediments to economic recovery—a stagnant housing market caused in part by a surfeit of homeowners who are unable to refinance.
- The overhaul will, among other things, let borrowers refinance regardless of how far their homes have fallen in value, eliminating previous limits. That could open up refinancing to legions of borrowers in Nevada, Arizona, Florida, California and elsewhere who are paying high interest rates and are deeply "underwater," owing more than their houses are worth.
- ***The plan will streamline the refinance process by eliminating appraisals and extensive underwriting requirements for most borrowers***, as long as homeowners are current on their mortgage payments, according to administration officials and an official at the ***Federal Housing Finance Agency (Editor's Note: Aren't these the types of lapses that CAUSED the current housing crisis?)***.
- *Fannie and Freddie* have also agreed to waive some fees that made refinancing less attractive for some.
- Regulators are revamping a program rolled out two years ago, the *Home Affordable Refinance Program, or "HARP"*, which lets borrowers with less than 20% in equity refinance if their loans are backed by *Fannie Mae or Freddie Mac.*
- Obama announced *HARP* 2.5 years ago. So far, only 894,000 borrowers have used it (versus the 4 to 5 million projected by Obama), of which just 70,000 are significantly underwater.
- "It hasn't worked," said James Parrott, a White House economic adviser, in a speech last month *(Source: The Wall Street Journal, 10.24.11).*
- Which brings us to the latest White House housing gesture, Harp II, to make it easier to refinance mortgages guaranteed by *Fannie Mae and Freddie Mac*.
- Harp I was supposed to help four to five million borrowers refinance, but only around 894,000 have used it so far.
- So why not double down on lack of success? Harp II will remove many of the restrictions on banks and borrowers that were contained in Harp I to protect taxpayers. These include removing the 125% loan-to-value ceiling for underwater borrowers, dealing with bank litigation concerns, and eliminating the need for a new appraisal. It also extends the end of the program to December 31, 2013, from June 30, 2012.
- No doubt this will help some homeowners refinance, especially with the *Federal Reserve* continuing to (unsuccessfully) push long-bond rates even lower. But it is not a free lunch, especially for investors who hold mortgage-backed securities ("MBS").
- Those mortgage-backed securities will fall in value as borrowers prepay their old loans, and sure enough the MBS market fell out of bed after the White House announcement on 10.24.11.
- The *Congressional Budget Office* tested an economic model of the mock refinancing plan in September 2011 and estimated that while government enterprises like *Fannie and Freddie* would save $3.9 billion from refinancing, they'd also lose $4.5 billion from the reduced value of their mortgage-backed securities.
- Pension funds, banks and others would lose as much as $15.0 billion according to the same *CBO* analysis which, incidentally, underestimates the cost of virtually everything by 2x-3x *(Source: The Wall Street Journal, 10.27.11)*.

Editor's Note:

- For those of you who lost track of the myriad, ineffective programs designed to "cure" the U.S. housing crisis, the following is a list of futile programs that have been launched and failed since the housing crisis began in 2007:
- The Bush Administration's "Hope Now Program";
- The Barney Frank-George W. Bush "Hope for Homeowners Plan";
- The Obama Administration's "Home Affordable Modification Program" ("HAMP");
- The Obama Administration's "Homeowners' Emergency Loan Program" ("HELP")
- And this week, an expanded version of the March 2009 Obama Administration's "Home Affordable Refinance Program" ("HARP") *(Source: The Wall Street Journal, 10.27.11).*
- I contacted the White House and suggested they employ my program, a program consisting of doing nothing and letting the free market take care of itself.
- The program, designed to address the problem of loans given to people who never could afford a home, is called the "Can't Really Afford Property Program", or "CRAP".
- As of this writing, I have yet to hear back from the White House.

Obama Lays Out Student Debt Plan:

- Obama will announced a plan on 10.26.11 that would allow Americans to consolidate and reduce interest rates on their student loans, the latest in a string of narrowly tailored moves designed to jolt the economy.
- The centerpiece of the plan Obama unveiled would allow the estimated 5.8 million people who hold both direct government student loans and government-backed private loans to consolidate their debts into one government loan.
- The switch would help borrowers because the U.S. would essentially be refinancing the private loan at the lower government rate. Administration officials estimate borrowers would receive a reduction of up to 0.5% in their interest rate.
- Obama said the administration is moving up the start of a program approved by Congress that caps monthly student-loan payments for borrowers with low incomes, from 2014 to 2012.
- Last Wednesday was the third day in a row Obama announced an executive action aimed at bypassing Congress, including a housing refinancing plan and a proposal to train and hire veterans. The switch in emphasis comes in the wake of the failure of Obama's jobs package, which hasn't advanced in Congress despite weeks of presidential advocacy.
- The student loan program is particularly popular with key Democratic constituencies. The issue is of great concern to young people, who make up an important part of Obama's political base. And many in the Occupy Wall Street movement say there should be relief for what can be crushing student debt.
- Alexandra Haynes Sollberger, spokeswoman for the *House Education and Workforce Committee,* called the move "another example of the Obama administration making changes to federal education policy behind closed doors." Julie Margetta Morgan, a policy analyst at the liberal think tank *Center for American Progress*, called the Obama plan a step in the right direction, but said that without Congress on board, the White House can't advance "the kind of really big changes we want to see."
- Some student lenders are concerned about the White House move to encourage borrowers to refinance their loans because it could cut into their business. Banks and other firms that supply student loans stand to lose assets and likely lose income because of the conversion, said Shelly Repp, president of the *National Council of Higher Education Loan Programs, Inc*., which represents lenders.
- Investors sharply sold off the stocks of some lenders, such as *SLM Corp*., parent of *Sallie Mae,* which saw its stock fall by nearly 13% on 10.25.11. Shares of education-finance company *Nelnet Inc.* fell by nearly 7%.

- American consumers are starting to shed debt as a result of the recent recession, with student loans being the exception. In June 2010, total student-loan debt exceeded total credit-card debt for the first time, according to Mark Kantrowitz, a student financial-aid expert and publisher of *FinAid.org and Fastweb.com*. College tuition, meanwhile, is rising at an average rate of 8.3% a year, according to the *College Board,* a nonprofit association.
- In September 2011, the *U.S. Department of Education* released data showing the percentage of federal student-loan borrowers who defaulted in fiscal 2009 rose to 8.8% from 7% the previous year.
- The loan consolidation effort is aimed only at borrowers who hold two types of student loans—government-backed loans issued by the private sector known as *Federal Family Education Loans* and direct loans issued by the government.
- The second move will accelerate a program designed to cap repayments. Existing rules allow graduates to limit payments to 15% of their income, with all debt forgiven after 25 years of payments. Congress has changed the program to allow borrowers in 2014 to pay 10% of income, with loans forgiven after 20 years.
- Obama said the program will start next year, not 2014 *(Source: The Wall Street Journal, 10.26.11)*.

Tuition Continues To Climb At Public Colleges:

- Tuition and fees at the nation's four-year colleges climbed sharply again this year, though rising federal grants and loans took some of the sting out of the increases.
- At four-year public colleges, in-state tuition and fees for the school year beginning this fall rose by an average of 8.3% from the previous year, to $8,244, amid declining support from state legislatures, according to annual reports from the *College Board,* a nonprofit that conducts collegiate research. The total cost including room and board rose 6% to $17,131,

Tuition and Fees

Average published tuition and fees for undergraduates.

Sector	2011-12 costs	2010-11 costs	$ Change	% Change
Public Two-Year In-State	$2,963	$2,727	$236	8.7%
Public Four-Year In-State	$8,244	$7,613	$631	8.3%
Public Four-Year Out-of-State	$20,770	$19,648	$1,122	5.7%
Private Nonprofit Four-Year	$28,500	$27,265	$1,235	4.5%
For-Profit	$14,487	$14,040	$447	3.2%

Source: *The College Board*

- At private colleges, tuition and fees rose by an average of 4.5% to $28,500, as total costs including room and board jumped 4.4% to $38,589.
- The markedly quicker rate of increase at public schools continues a decade-long trend that has narrowed the price gap between the two. This year, the average tuition-and-fees price of a four-year public college is 29% of the private-college price, compared with 22% a decade ago.
- "While the importance of a college degree has never been greater, its rapidly rising price is an overwhelming obstacle to many students and families," said Gaston Caperton, *College Board* president.
- Yet the actual price that students are paying is often much lower than the sticker price, thanks to big jumps in federal Pell Grants and veterans benefits, combined with the 2009 implementation of the American Opportunity Tax Credit. While the published rates of public-college tuition and fees rose by a total of about $1,800 over the past five years, the

actual increase paid by students after accounting for grants and federal tax benefits was only $170, according to the *College Board*.

- In the 2009-10 school year, average grant aid jumped 20% from the previous year for the average full-time undergraduate. During the three years ended last spring, grant aid and federal loans per student each separately jumped by about 30% in inflation-adjusted dollars, the Board said.
- Average price increases obscure variations between states. At California's four-year public colleges, in-state tuition and fees rose 21%—the highest increase in the nation—followed by jumps of 17% and 16% in Arizona and Washington, respectively. In Connecticut and South Carolina, tuition and fees rose only 2.5%.
- For the class of 2012, it is no surprise college costs have continued to rise. What surprises some seniors is that the economic crash that occurred during their first semester as freshmen in 2008 still reverberates.
- "We thought the economy would be fine by the time we graduated," said Zoe Mendelson, a Chicagoan in her final year at Barnard College in New York. "Instead, it's terrifyingly bleak." *(Sources: The College Board & The Wall Street Journal, 10.26.11).*

…AND THE GREEKS INVENTED MATH!

Background:

- Global equity and debt markets couldn't contain themselves this past week in the wake of an announcement from Euroland that they had "solved" the European debt crisis.
- Regrettably, as it becomes obvious that there are no details behind the "plan" and most market participants have no clue re: the collateral damage the "plan" is going to cause to the global economy, those of you who were buyers of all things debt and equity last week are likely to be very disappointed.
- In an effort to put things in perspective, below I summarized each of the three elements of the "plan" in an effort to allow to you draw your own conclusions re: the viability of said "plan".
- As you will read below, the plan announced last week is likely to cause enormous damage to the world economy and its implementation will likely be felt for the remainder of the decade.

Greece's Financial Overview:

- To get a flavor for how bad things are in Greece, consider the following from the *International Monetary Fund ("IMF").*
- Greece has $483 billion (and growing each day) of government-issued debt.
- In addition, Greece recently realized that its debt to pensioners amounts to an additional $800 billion for a total of $1.28 TRILLION of national debt.
- Greece's 2010 GDP was approximately $310.0 billion *(Source: Global Finance, 10.30.11)*.
- Hence, Greece's true Debt/GDP ratio is approximately 413% vs. the 66% required by the *Maastricht Treaty*.
- Keep in mind that Greece has a population of 11 million people, two million fewer than greater Los Angeles and the 2010 GDP of California is $1.9 trillion or 13% of total U.S. GDP *(Source: Greyhill Advisors, 9.7.11).*
- Greece's most recent bailout of $145 billion doesn't even scratch the surface of Greece's needs.

- An *IMF* official who was part of the team sent into to get its arms around Greece's total debt recently said the following about Greece: "Our people went in and couldn't believe what they found. The way they (the Greeks) were keeping track of their finances – they knew how much they had agreed to spend, but no one was keeping track of what was actually spent. It wasn't even what you would call an emerging economy. It was what you see in a third-world country".
- The average Greek government job pays almost 3x the average wage of a Greek private sector job.
- The Greek National Railroad has annual revenue of $138 million and an annual wage bill of $552 million, plus $414 million in "other expenses".
- The average Greek railroad employee earns $89,700 per year. The average income of a U.S. family is approximately $46,000 per year as of 2010 *(Source: U.S. Census Bureau, 10.30.11).*
- Twenty years ago, former Greek finance minister Stefanos Manos highlighted the fact that it would be cheaper to put all of Greece's rail passengers into taxicabs and it's still true.
- The Greek public school system exhibits breathtaking inefficiency. Despite the fact that it's one of the lowest-ranked systems in Europe, the Greek public school system employs 4x as many teachers per pupil as the highest ranked European public school system in Europe, Finland.
- The retirement age for Greek jobs classified as "arduous" is as early as 55 for men and 50 for women. More than 600 Greek professions managed to get themselves classified as "arduous", including, but not limited to: hairdressers, radio announcers, waiters, and musicians.

The Greek Bailout 3.0:

- The deal agreed to last week enables Greece to borrow an extra $41.0 billion—on top of the $138.0 billion in bailout funds it is already getting—from the *European Financial Stability facility "EFSF")* to provide guarantees for bondholders who accept the deal (Editor's Note: Greece is getting more debt to pay back debt it already can't afford to repay).
- Cutting Greece's debt has been complicated by the fact that private creditors hold only about $289.0 billion of Greece's $483.0 billion government debt. This makes it harder to reduce Greece's debt substantially, given that official creditors such as the *IMF* refuse to accept losses.
- The deal agreed to last week envisages Greece's debt falling to 120% of gross domestic product ***by 2020***.

EFSF Facility:

- The leaders, in their plan to boost the firepower of the *EFSF* to stop further contagion, agreed on two ways of doing this, which would run side-by-side.
- Under one method, the *EFSF* would indirectly finance guarantees covering the initial losses that buyers of Spanish and Italian bonds would suffer in the event of default.
- The other is to set up a fund seeded with *EFSF* money as well as with contributions from cash-rich nations such as China.
- The head of the *EFSF*, Klaus Regling, was due in China Friday to discuss how Beijing might contribute to the fund's finance.
- In a parallel effort, Sarkozy called China's President Hu Jintao Thursday to discuss the matter, a French government official said Wednesday, 10.26.11.

Banks:

- Details also emerged over policymakers' plans for strengthening the continent's banks.
- The most important new element was a call by European leaders for a plan to provide guarantees on banks' medium- and long-term debt funding. While details aren't clear, the provision is aimed at helping alleviate a drought in the market for bank bonds threatening to leave some banks short on funding next year.
- The other component of Europe's bank-strengthening plan calls for large banks to maintain so-called core Tier 1 capital ratios of 9%, after adjusting the values of their government bond portfolios to reflect market prices *(Sources: The IMF, The Wall Street Journal, 10.28.11 & "Boomerang", by Michael Lewis, 2011).*

"WE DON'T NEED TO GET BETTER. THE WORLD JUST NEEDS TO GET WORSE":

The U.S. Drops Again In ANOTHER Category – As A Place To Conduct Business:

- The *World Bank* released its annual "Doing Business" report last week, and friends of the Obama Administration are crowing that it debunks the notion that the U.S. has become a regulatory jungle since Obama took office. Maybe they should read it more carefully.
- The report, which uses various indicators to rank 183 countries on the ease of doing business, puts the U.S. in fourth place for 2012, behind Singapore, Hong Kong and New Zealand. That's up a notch from its fifth-place finish last year, but down one from third place in 2007.
- But then there are the trend lines in the sub-rankings.
- In 2007, the U.S. ranked third in the "ease of starting a business" category.
- This year it ranks 13th.
- On the "paying taxes" front, the U.S. dropped to 72nd place from 63rd.
- The cost of starting a business, measured as a percentage of per capita income, has doubled to 1.4% from 0.7% in 2007.
- On "ease of registering property" the U.S. has dropped to 16th from 10th.
- In the "trading across borders" category, the U.S. dropped nine spots to 20th.
- In 2007, the "cost to import," as measured in dollars per container, was $625. Today it's more than doubled to $1,315.
- The rankings are relative to the rest of the world. And it's good news that policy makers in 163 countries have made domestic regulations more business-friendly in the past six years, with the outliers being the likes of Venezuela and Zimbabwe.
- But that makes it all the more imperative for the U.S. to compete in a global economy that isn't sitting still. The "Doing Business" report is one of the few things the *World Bank* does well.
- Its message is that the U.S. needs to be "Doing Better" *(Source: The Wall Street Journal, 10.27.11)*.

Editor's Note:

- Recall that in the 10.16.11 installment of *"Anecdotes",* we reported the following:
- Searching for ways to boost job creation at home, the Obama administration is trying to focus the machinery of the federal government on drumming up foreign investment in the U.S.
- The White House is considering a plan aimed at attracting at least $1 trillion of new investment from abroad over the next five years, according to people familiar with the matter. But that target could prove difficult to reach, given that the sluggish U.S. economy may hold smaller potential payoffs to global investors, experts say.
- Compounding this are some U.S. policies outsiders deem unfair, from antitrust rules to the federal government's "Buy American" programs.

- The administration is trying to change the sentiment with a new effort to encourage foreign investors to take a second look at the U.S. market.
- The $1 trillion investment initiative is one of several recommendations that were made on 10.11.11 by the President's Council on Jobs and Competitiveness, a board of outside advisers to the administration led by *General Electric Co*. Chief Executive Jeff Immelt. A target of $1 trillion over five years would represent a 15% increase over the $174 billion average of the past decade, but it would still be below the peak level before the financial crisis.
- New foreign direct investment in the U.S. plunged 59% to $135 billion in 2009 (Obama's first year in office) from $328 billion in 2008 (Bush's last year in office), when the financial crisis struck, according to *Commerce Department* data *(Source: The Wall Street Journal, 10.10.11)*.

BUSINESS FACTOIDS:

- ***U.S. Consumer Confidence Plunges In October 2011:*** Americans' outlook became even more downbeat in October 2011. An index of consumer confidence fell to 39.8 in October 2011 from 46.4 in September 2011. It isn't clear if the decline reflects a souring economy or if consumer's bleaker outlook will incline them to spend less. Indeed, the survey the index is based on showed that in October, more people said they planned on buying a major appliance than in September *(Sources: The Conference Board & The Wall Street Journal, 10.26.11).*

- ***U.S. Food Inflation Projected To Increase By 4x in 2011 – Highest Year-Over-Year Increase Since 1978:*** The *U.S. Department of Agriculture ("USDA")* on 10.25.11 said it expects U.S. retail food prices to increase 3.5% to 4.5% this calendar year, after increasing 0.8% in 2010. The new *USDA* outlook signals the sharpest acceleration in the U.S. food inflation rate from one year to the next since the "Glory Days" of the Carter administration in 1978. Many shoppers are trading down to cheaper products and even buying less of staples such as milk and baby diapers. As a result, many supermarkets and vendors are sacrificing volumes on products targeted for price increases *(Sources: The U.S. Agriculture Department, The Wall Street Journal and Carter Administration editorial comment by Steve Czech, 10.26.11).*

- ***U.S. Restaurant Chains Struggle To Survive As Soaring Commodities Prices Hurt Profit Margins:*** U.S. restaurant chains are having a harder time passing along their higher ingredient costs, as consumers opt for the cheaper alternative of eating at home. According to the *Bureau of Labor Statistics*, retail grocery prices were 6.3% higher in September 2011 than September 2010, while retail prices of food eaten away from the home were up 2.6% during the same period *(Sources: Bureau of Labor Statistics & The Wall Street Journal, 10.26.11).*

- ***U.S. Home Prices Decline 3.8% Annualized in August 2011:*** U.S. home prices inched 0.2% higher in August 2011 but declined 3.8% on an annual basis, according to the *S&P/Case-Shiller* composite index. Detroit and Washington, D.C. were the only cities to post annual growth. Incidentally, Detroit is one of the largest recipients of federal bailout money and Washington, D.C. is the largest dispenser of bailout money. Another monthly index released Tuesday showed similar weakness. *The Federal Housing Finance Agency ("FHFA")* said home prices slipped 0.1% on a seasonally adjusted basis, and 4% over the prior year; the index is calculated from the purchase prices of homes backed by mortgages sold to or guaranteed by *Fannie Mae or Freddie Mac (Sources: S&P/Case-Shiller, FHFA, Fannie Mae, Freddie Mac & The Wall Street Journal, 10.26.11).*

- ***Wary U.S. Industrial Firms Are "De-stocking" Inventory:*** While many big industrial companies still sound optimistic about 2012, a few, including *3M Co*. and *DuPont Co.*, that typically take it on the chin in the early stages of an economic downturn are starting to warn that they're feeling pain. Their customers, mostly other manufacturers, in some cases are "de-stocking," or cutting their inventories of raw materials, in the face of increased caution about the year ahead *(Source: The Wall Street Journal, 10.26.11)*.

- ***2010 American Relocations Hit Lowest Level Since World War II:*** Fewer Americans moved last year than at any time since World War II, the *Census* said, the result of a housing bust and historically high unemployment *(Sources: The U.S. Census Bureau & The Wall Street Journal, 10.28.11).*

Should you have any questions re: the aforementioned, please don't hesitate to ask.

Sincerely,

Stephen J. Czech
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