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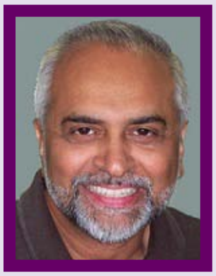
March 25, 2014

U.S. Economy, 2014 –

Excerpt From Global Economy, 2014 - Looming Catastrophe

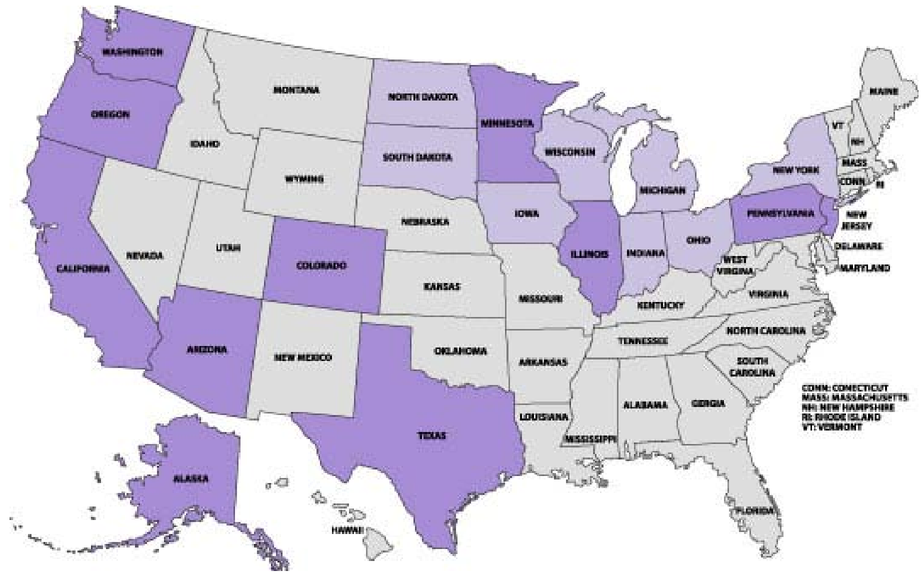
WRITTEN BY: ASHOK DHILLON



Ashok Dhillon has 40 years of front-line business experience in Canada and International markets. He has founded and led companies in construction and international power development.

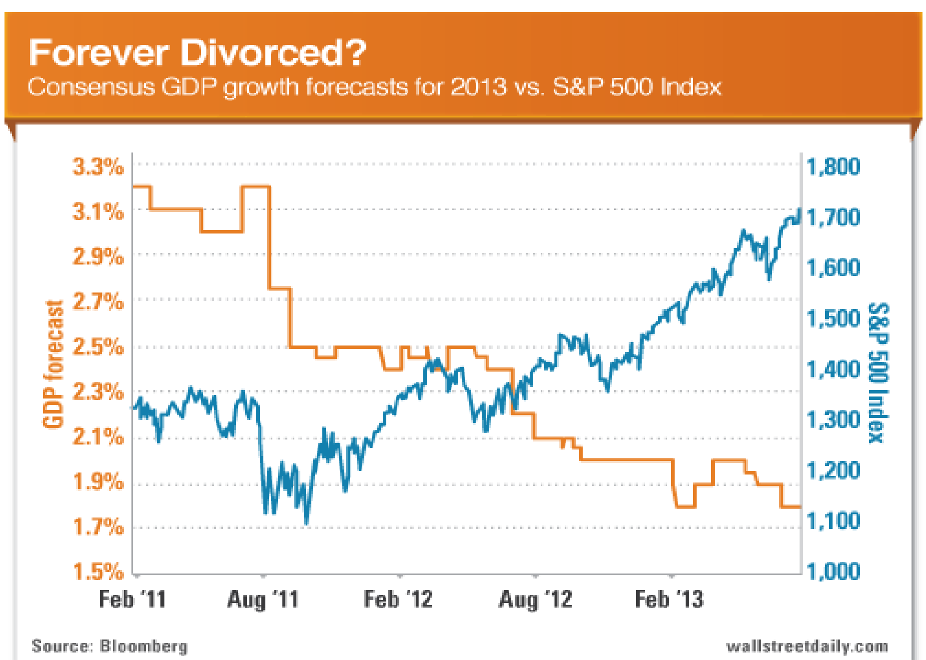
Mr. Dhillon has worked and negotiated with highest levels of Governments in Canada and India. He has pursued and won mandates to develop power plants in Canada, and foreign jurisdictions such as Hungary, Iran, Pakistan and India with uncompromising ethical standards. His extensive experience in securing and negotiating multi-hundred million and billion dollar mandates in power project development, gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends.

Mr. Dhillon has been invited to speak on international business at various forums, including as an expert witness for the Standing Senate Committee, Government of Canada, on “The Rise of Russia, China and India”.



UNITED STATES

The U.S. is supposedly posting the strongest recovery out of most of the developed economies, although the chart below shows something quite different; a steady and substantial decline in the GDP growth rate, which isn’t very encouraging, versus a prolonged and significant stock market rise that is obviously detached from the underlying economy, which is very worrying.



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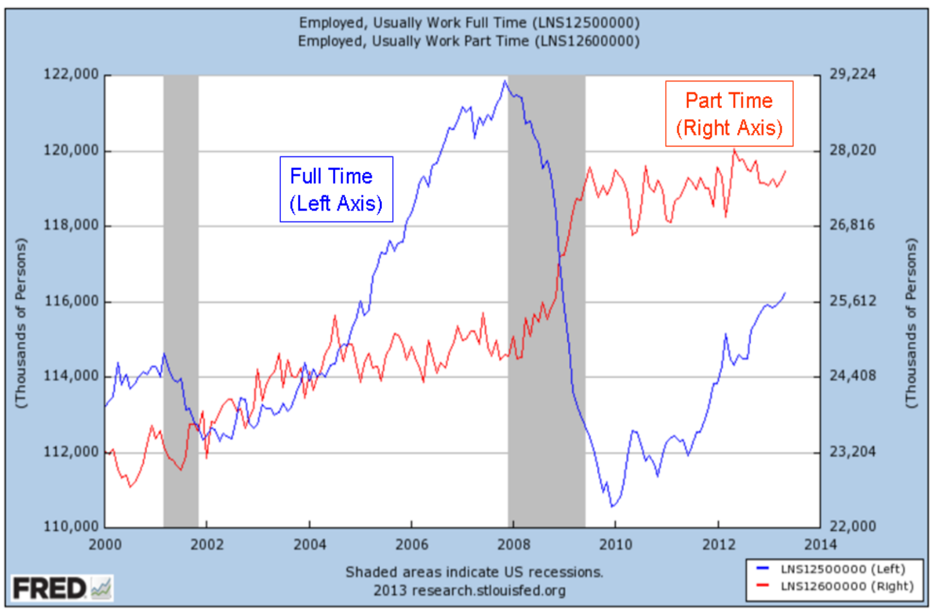
Still, there is broad consensus among most analysts and economists that there is a measurable economic recovery underway in the U.S. which has taken hold, and will only strengthen from here on out. We disagree with that analysis.

In our view, a closer look at the 'recovery numbers' whether they be jobs, housing, manufacturing, wages, consumer spending or capital investment, all show significant weakness and un-sustainability. Additionally, the numbers as trotted out are misleading as they do not tell the real story of what is really happening in the economy. For example: Jobs…

U.S. Full Time and Part Time Workers



The latest unemployment figures, which are steadily lower over the last year, and therefore presented as proof of recovery, are more so from people leaving the labour market than from permanent jobs being created and filled. In fact most of the jobs filled in the last year were part time jobs, and most of the jobs created were part time jobs, as the chart above shows. Additionally, a smaller percentage of the population was participating in the labour force as shown by the chart below. So the 'improving unemployment numbers' are without good permanent jobs and have more Americans choosing to leave the workforce resulting in 'improving' unemployment numbers. The U.S. economy is not producing good permanent jobs, and less rather than more Americans are participating in the job market (*chart on the following page*).

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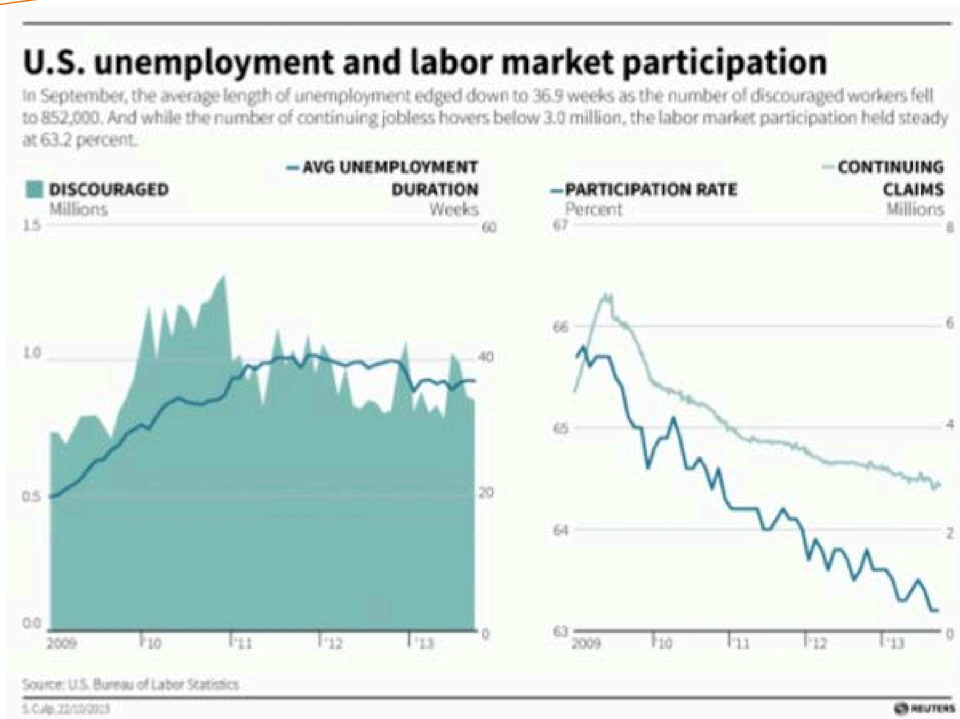
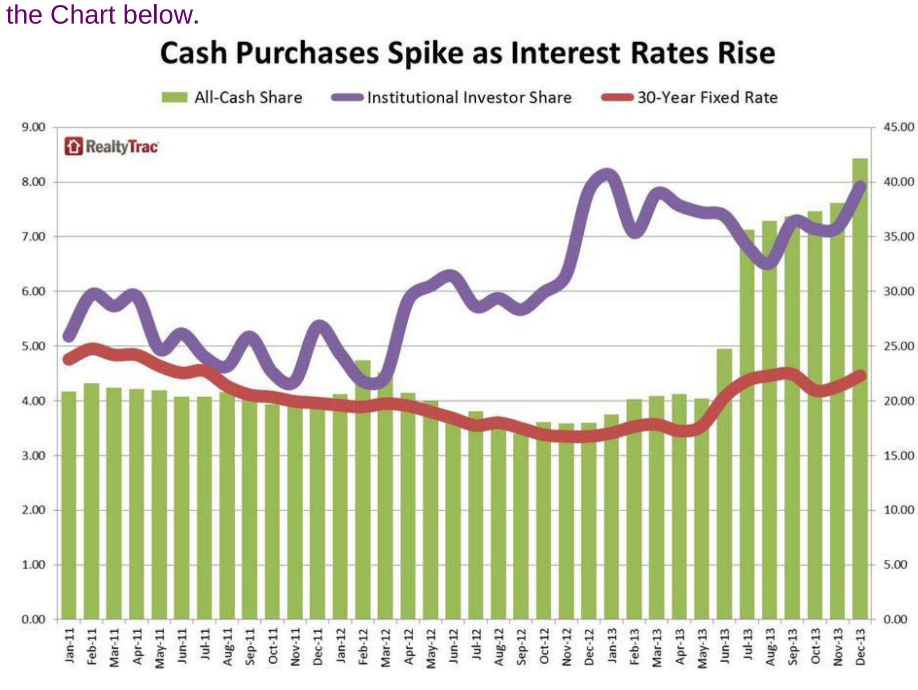


Housing:

The improving housing sales numbers have been trotted out as proof of recovery, but these improved numbers are more due to financial players such as private equity investment funds, banks and speculators buying up large chunks of houses for sale as a speculative investment play, rather than American families or individuals buying based on recovery based financial strength of the average American. The cash coming into play here is due more to the cheap money available to large financial institutions from the Federal Reserve, than rising liquidity of the American family, as indicated by the Chart below.



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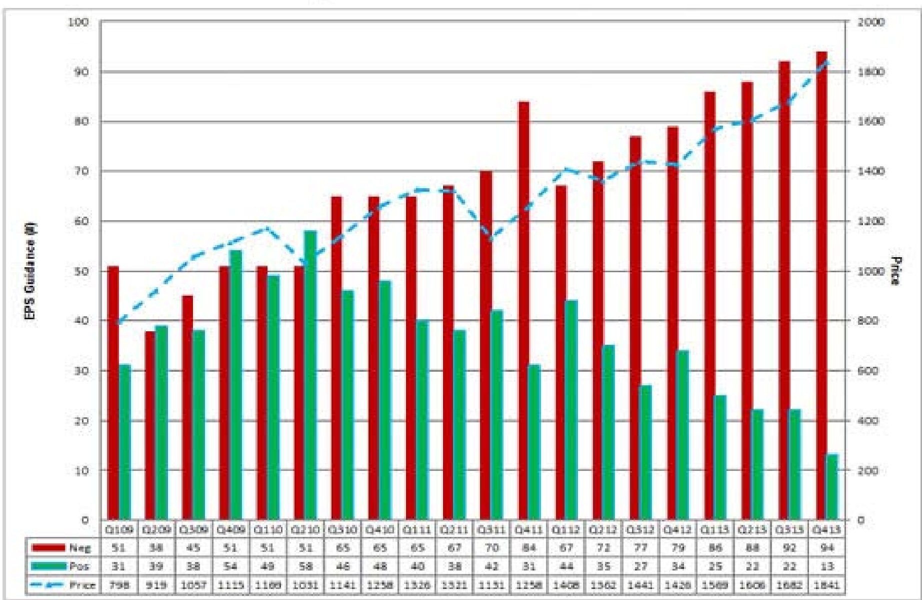
Corporations:

The ultra cheap money available to the large corporations and financial institutions have also allowed them to borrow at practically no cost and then turn around and either buyback their own shares in the stock markets to boost - the share price, market capitalization values, per share profits, and/or to pay higher dividends. Most corporations are not growing their top end revenues (*sales*) and some of the most iconic ones Wal-Mart, Coca Cola, and recently JPMorgan, have been issuing forward earnings warning for 2014. The Chart below shows the dramatic deterioration of earnings expectations by most of the companies comprising of the S&P 500. From a peak in the second quarter of 2010 there has been a dramatic rise in negative earnings pronouncements to the end of the fourth quarter 2013, which is likely to carry on into the first quarter of 2014. Just as dramatically the corporate earnings outlook has been deteriorating, the share prices have been rising (*blue line*) showing the extent of the 'disconnect' of the stock market (*in this case S&P 500*) from the underlying business reality.

S&P 500 Negative & Positive Preannouncements: 5-Year



	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412	Q113	Q213	Q313	Q413
Neg	51	38	45	51	51	51	65	65	65	67	70	84	67	72	77	79	86	88	92	94
Pos	31	39	38	54	49	58	46	48	40	38	42	31	44	35	27	34	25	22	22	13
Price	798	919	1057	1115	1169	1031	1141	1258	1326	1321	1131	1258	1408	1362	1441	1426	1569	1606	1682	1841

And so it is with the other indicators. Apart from the odd ***inexplicable*** eyebrow raising jump to the positive side of some number, there is persistent weakness in manufacturing, consumer spending, wages to cost of living, and capital spending, indicating a less than robust recovery. Corporations continue to horde cash and consumers continue to be reticent in spending, indicating across the board lack of confidence in the so called economic recovery.

The one area that has rebounded beyond expectations since 2009 has been the financial markets. Fueled almost solely by the actions of the Federal Reserve and dangerously disconnected from corporate and economic

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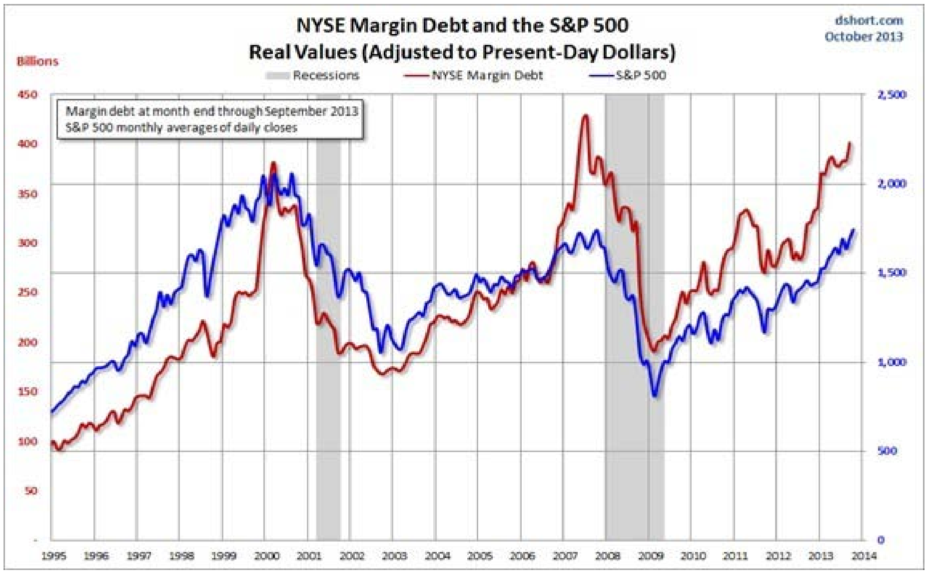
realities, the Dow and the S&P 500 have been consistently reaching new highs and setting records, pumped up by the torrents of liquidity still pouring in from the Federal Reserve.



The much anticipated "tapering" has been cautiously initiated by the Fed, BUT, with the caveat that interest rates will be held near zero indefinitely, and ***the tapering can be rolled back and the spigots of cash reopened*** if the economic numbers weaken significantly.

The ubiquitous phrase of the Central Banker committed to supporting the asset markets in the U.S., Europe, China and Japan has been "whatever it takes". That phrase has taken the majority of the normal requirements and risks out of the asset markets (stocks-bonds-real estate), and understandably they have boomed, as speculation in assets has effectively been underwritten by the Central Banks.

So, the speculative party endures (*albeit a bit abated recently*) as the Federal Reserve continues ***to underwrite the risk in the markets***. How long can this speculative binge last? The answer is, theoretically indefinitely, as the Federal Reserve has unlimited capacity to print money, as do the rest of the Central Banks. But we feel, as some others do, that the time of excess is once again coming to an inevitable end, the question still being, precisely when?

In reality, nothing goes up forever regardless how many reasons are trotted out to prove 'it's different this time', and this time it won't be any different. So, we are feeling the tremors of the tremendous strain of an over extended financial market, as it continues to fly in the face of economic and business realities.