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Top Trends: Breaking Point 2010

THE CRASH OF 2010

By the end of 2009, it was official. President Obama's top economic advisor, Lawrence Summers, proclaimed, "Everybody agrees that the recession is over." And he declared, "Most professional forecasters are looking for a return to job growth by the spring." (ABC News, December 13, 2009.)

But since Summers, Fed Chairman Ben Bernanke, the business media, and "most professional forecasters" had not seen the recession coming, there is every reason to distrust their forecasts. The Great Recession has not ended. There will be no recovery – double dip, V, L or U-shaped. It's a cover up. The "Crash of 2010" is at hand.

In 2007, The Trends Research Institute forecast the "Panic of '08." There was a Panic.

In 2008 we forecast the "Collapse of '09." There was a collapse.

In March 2009, the global equity markets collapsed. But before they could crash all the way to the ground, a scaffold of emergency props was erected. From China to India, the UK to the US, Australia to Russia, central banks shored up failing economies with trillions of

stimulus dollars, pounds, yen and yuan. In America, an array of government cash infusions – rescue packages, bailouts, Cash for Clunkers, tax breaks for homebuyers and near-zero interest rates – papered over the crisis.

In response, global equity markets recorded high double-digit gains from their March lows. By the end of 2009 the US job loss rate was decelerating and the unemployment crisis was said to be easing. These facts and figures were interpreted as sufficient evidence: the Great Recession had ended.

The rising equity markets, a world away from the reality of the streets, were not a legitimate indicator of recovery or the state of the economy. Playing the markets is simply gambling. For example, *The New York Times* wrote that Goldman Sachs is regarded as "... a bank driven by hard-charging traders like Mr. [Lloyd] Blankfein who wagers vast sums in world markets in hopes of quick profits."

The expectation of the small-time player is the same: by investing money in a company's future, or a financial instrument, more money will be returned than wagered. The basis of "investing" is that you can make money by doing nothing.

But playing the markets is a game of risk, and in this case was no indication of recovery. Rather, the numbers were merely a reflection of the trillions of cheaply borrowed dollars that were being used to gamble. Most working people had neither the means nor skills to play – much less win – in games rigged by inside traders, hi-frequency trading, black

IN THIS ISSUE

THE TOP TRENDS OF 2010

The Crash of 2010	1
The "Greatest Depression" High	5
Terror 2010	8
Not Welcome Here	13
TB or Not TB	16
Mothers of Invention	20
The Next Big Think	23
Neo-Survivalism	27
Not Made in China	29

pools, book cookers, Ripoff's and Madoff's.

The employment numbers told a different story. They counted. Unlike the trillions in digital money – not worth the paper it's *not* printed on – used to float the financial system, unemployment figures represented real money; real money that millions of people no longer had, couldn't get and wouldn't get, no matter what the markets did.

Pundits cherry-picked the employment data.

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Granted, that by year's end the rate of job losses had eased. But more jobs were still being lost than created. More than twice as many people were out of work than when the recession began.

What also wasn't being noted was that, while the employment numbers may have improved, the quality of jobs being created had declined. Since the Great Recession "officially" began in December 2007, over two million high-paying manufacturing jobs had been lost, and unemployment in the construction sector topped 20 percent. What was being created were mostly low-paying and mostly non-productive service sector jobs: government, retail, education, home health aides and personal home-care aids, waiters, security guards.

Moreover, even as the short-term unemployment numbers declined, the number of long-term jobless (out of work six months or longer) grew to 5.9 million, up 18 percent from August. One in six workers was without a job or underemployed.

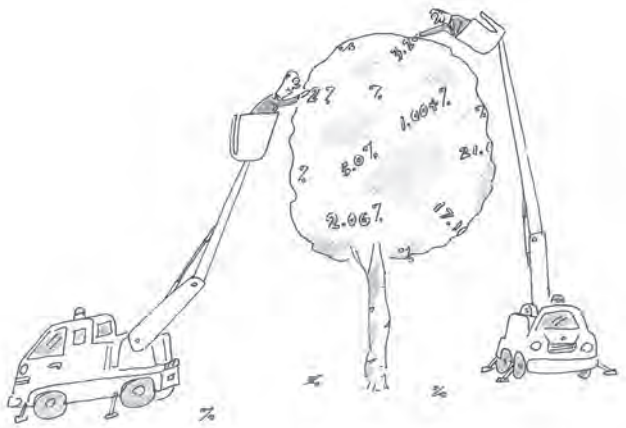
Overall, 38 percent of the 15.4 million total jobless Americans were long-term unemployed. These figures highlight the more significant challenge: finding a way for the millions of US workers laid off since the Great Recession began to find work. According to the US Department of Labor, more than 55 percent of the unemployment in this recession will result in permanent position cuts.

LESS, WORSE?

Also absent from the good news, and barely acknowledged, was the fact that 1.5 million new jobs have to be created each year just to keep pace with population growth. Thus, those 1.5 million new workers, having never attained gainful employment, were not being counted as unemployed. And neither were the self-employed who had gone out of business, or were operating at a loss or making a fraction of what they had once earned.

What, then, made unemployment look "less worse?" What was behind the numbers?

The Administration maintained that President Obama's \$787 billion stimulus saved or created 1.6 million jobs. "I think you have to give our interventions a lot of credit," said Jared Bernstein, Chief Economist for VP Joseph Biden. Pure and simple, it was government stimulus money that had titillated



PUNDITS CHERRY PICKED
THE EMPLOYMENT DATA

the economy – not the production of goods and services. But these jobs came at a steep price. By October, the Administration had spent \$157.8 billion for 640,329 jobs it claims to have created, or \$246,436 per job. Since total compensation earned by an average payroll employee was \$59,867 per year, if the government had used the funds to pay for a year's worth of labor instead, 2.6 million jobs could have been funded.

In 2010, with mid-term elections looming and some two-thirds of the stimulus kitty still to be tapped, employment will continue to be artificially supported. Political points will be scored, but the measures will do little to repair and reverse the broader global economic crisis brought on by cheap money/easy credit policies, excessive debt loads, and the financial deregulation that prompted Wall Street's speculative binge.

Faced with currency pressures brought on by the profligate printing of phantom money backed by nothing and producing practically nothing, already heavily indebted governments that attempt to stimulate their economies by injecting yet more liquidity will risk the destruction of their currencies.

END GAME

Acknowledging the “high uncertainty” of a strong economic recovery, Jean-Claude Trichet, the European Central Bank president, warned of the dangers of such unrestrained easy money policies. In December, he promised to “... gradually phase out, at the appropriate time, the extraordinary liquidity measures that are not needed to the same extent as in the past.”

Meanwhile, back in the States, Fed Chairman Ben Bernanke promised that the cheap money policies would remain in place for an “extended period.” Since September, the Fed has added another \$3 trillion in debt to lend to favored financiers at low rates while buying up mortgage-backed securities and consumer debt.

The deal went like this: commercial banks put up assets of “varying quality” (read: worthless junk) with the central banks as collateral in exchange for cash at low or near-zero interest rates. Rather than fulfill their obligations to make loans to small businesses and homeowners (the stated purpose of the bailouts), the banks instead loaned the money back to governments, traded on the markets, and awarded billions to themselves for being such astute financiers. In layman's terms, it was one big global financial circle jerk. And at some point the liquidity will dry up.

Harbingers of the “Crash of 2010” began to appear in late November 2009.

Dubai's Move on Debt Rattles Markets Worldwide

“Global financial markets swooned Thursday, with London seeing its most precipitous drop in nearly nine months, a day after Dubai stunned investors with the news that it was asking banks to allow its main investment vehicle, Dubai World, to suspend its debt repayments for 6 months.” (*The New York Times*, 27 November 2009.)

To forestall panic over the serious implications of Dubai World's \$59 billion default, as with so many crises, they were immediately downplayed. “A relatively modest event,” scoffed Jean-Claude Trichet, at the same time dismissing concerns about Greece's debt, which was unsettling bond markets. Mr. Trichet expressed “confidence that the appropriate decisions will be taken” by Athens to resolve its problems.

It had nothing to with Trichet's “confidence.” Confidence was an attitude. Ireland, Iceland, Spain, Latvia, Estonia, Lithuania, Romania, Hungary, Ukraine, Greece: all had unsustainable debt levels, and those in the Eurozone had budget deficits in

multiples far beyond the 3 percent ceiling set by the European Monetary Union.

Trend Forecast: *Conceived in 1992, coinciding with the unleashing of unfettered globalism, the EMU's 3-percent formula was based upon an expectation of perpetual growth in which a unified Europe would play a major role. Debate ensued as to which countries' economies would be strong enough to comply with the Maastricht Treaty and qualify as members. Despite knowing that weaker countries would be unable to meet the conditions, impending dangers were brushed aside by politicians and business interests determined to create a more unified Europe.*

Already proven unrealistic under current conditions, as the global economies continue to deteriorate, more struggling Eurozone nations will breach the 3 percent budget deficit-to-GDP ratio established by the EMU. Since economic problems do not exist in a vacuum, the geopolitical and sociological fallout will threaten the entire European Union as member countries blame others for their problems and/or decide to go it alone. A major remaining issue will be whether or not defecting, bankrupt countries will abandon the euro for their own currencies.

In a climate of such deep currency concerns, gold will shine with increased luster as the one unassailable coin of the realm.

Deep in debt and going deeper, the United Kingdom continues to mirror the US policy of keeping interest rates at record lows while issuing record amounts of government debt. And as with the US, there is no foreseeable way to pay it off. "We must continue to support the economy until recovery is established," said Alistair Darling, Chancellor of the Exchequer. Like prescribing more drink for a drunk as a way to sober up, the government's logic was that incurring still more debt would bring about recovery, rather than add to over-indebtedness.

China and Brazil, the big two of the BRIC nations, though faring better at the end of 2009, will not escape damage in 2010.

China's large stimulus packages and generous lending policies, financed by budget surpluses and foreign reserves, have spurred domestic consumption. Nevertheless, as an export driven economy

(two-fifths of GDP), unable to perpetually replenish itself from within, it too will feel the repercussions of the global meltdown. As their economy stagnates, civil unrest, always simmering (70,000 disturbances per year on average), could intensify to levels that interfere with growth and production.

Brazil, experiencing slower-than-expected third quarter growth (1.3 percent, while second quarter GDP was revised downward to 1.1 percent), will be among the many nations that will further curtail economic growth, should they raise their interest rates as reported. As with other world equity markets that have soared (Brazil is up 83 percent in 2009), there is a disconnect between what the financial statistics suggest and the modest gains on the street.

Trend Forecast: *There is no recovery. The only real economic question facing the world is: Will the economic bottom fall out all at once or will it be a chain reaction? The guillotine, or death by a thousand cuts?*

The Trends Research Institute cannot predict what undreamed-of schemes central banks and governments will dream up this time to bail out the too-big-to-fail financial fraudsters, and artificially prop up sagging economies, thereby taking on more debt.

What we can predict is that the commercial real estate collapse, which we forecast for 2009, will intensify in 2010. Though briefly forestalled by government intervention (in the US, TARP, TALE, American Recovery and Reinvestment Act, etc.), the Dubai World debacle is a resounding signal that commercial is crashing. Neither "contained" nor isolated, as alleged, the world is awash in Dubai World clones: overbuilt developments with no possibility of renting and therefore no possibility of paying off highly-leveraged loans. (\$3.1 trillion of debt finances the estimated \$6.5 trillion of commercial real estate in the US alone.)

When commercial real estate collapses, the props will be pulled out from under the banks holding the loans. Absent governments coming to the rescue with more prop trillions, the shock from the free-falling commercial sector will irreparably damage the equity markets and reverse modest gains made possible by central bank interventions.

In all likelihood, history will repeat itself and once again the "too big to fails" will be shored up.