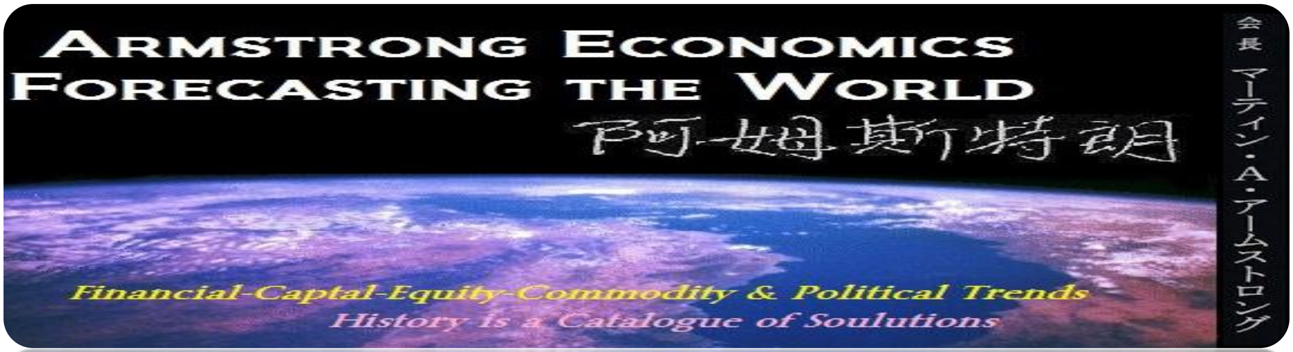

Is the End Near?

By: Martin A. Armstrong
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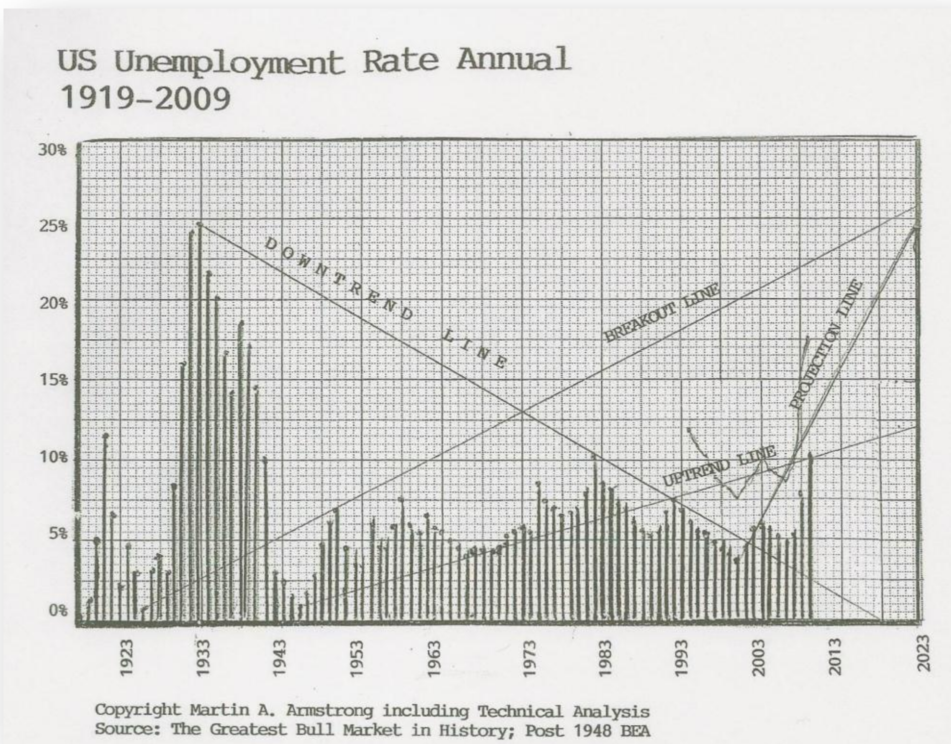
SUDDENLY everyone is in a tizzy worrying about a structural economic decline realizing that the only way the economy will **EVER** recover, is when it pulls itself up all by itself. **Marxism** and **Keynesian Economics** that advocates Government intervention and manipulation cannot create a sustainable economic change in trend any more than Japan. While **Ben Laden** won and stripped all Americans of their Constitutional Rights transforming America into a Middle East version of a police state, our insane policies that mimic precisely what the Japanese did, has transformed the American economy into a period of great economic decline that will last for 26 years from 2007 – 2033. But things are just not that easy to describe. We are entering the final stage of the **Internet Revolution** that is creating jobs in that area more so than any other trend. Just as the USA was still 40% agrarian before the **Great Depression** began and the **Dust Bowl** contributed to unemployment reaching 25% forcing workers to become skilled, we are in a similar situation where the economy is starting to shift once again. The age of the **Industrial Revolution** was completed by the Great Depression, this time it is the **Internet Revolution** that will be completed by the current economic implosion.

The financial regulation imposed was simply insane and has now stressed the economy so that the US will now lose **the Financial Capital of the World** title. When I say this, critics will immediately point to the CDOs and the turmoil created by the Investment Bankers. They are NOT the whole financial industry. With all the regulation imposed, those who created the problem will not be impacted very much. They can move operations offshore and their political connections will ensure they will never have to account for anything now or in the future. However, the pile of regulations will, as always, be enforced against the small firms killing the industry and preventing the rise of meaningful competition. Let's face the facts. Name just one new major Investment Bank that has appeared in the last 25 years! There are none. Anyone who could be a threat to New York is taken down. This is strangling the industry and ensuring the sun is now setting on the financial industry. Because of the hatred of the investment banks among the common people, it is very unlikely that there will be another bailout like TARP so the next time the New York boys blow up, their hands will not be allowed to dig into the coffers.

Structural Unemployment



The official unemployment rate is hanging just below 10%. Illustrated above, was the forecast for unemployment as published in the November 11th, 2009 edition. While real unemployment is not likely to exceed that of the Great Depression, the official numbers will still rise by about 50%. The low in unemployment was 1945 and this was simply due to the fact that war took up the slack. We look ahead at continued rising unemployment even though the **Economic Confidence Model** turns up June

13th/14th. The forecast provided in the November 11th, 2009 issue appears to be still on target. There will be some oscillations, but there is no prospect of dramatically shifting the trend toward massive private sector job growth. We face declining state and municipal employment. Business is unlikely to hire or expand with the constant yo-yo trend in American tax rates that always keep long-term planning in check. The obsession with the debt limit and reducing the deficit can lead only to rising taxation even if it is not in RATE terms, it will certainly be in enforcement terms.

> You will notice that the 2000 low comes 17.2 years after the high in 1982, which is 37.33 years up from the 1945 low. The 1945 low is 12 years from the major high (2x6). From a cyclical perspective, the next major high in **Unemployment** will come in 2024. For now, there should be a rise into 2010, with perhaps a brief pause in 2011, and a sharp rise beginning in 2012 going into 2019.

When we look closely at the numbers, we find that the household survey indicates an increase of about 105,000 jobs in the last month. Over the last year, only 426,000 jobs have been added. Over this very same year, the size of the non-institutional population has increased by 1.8 million and the number of people "**not in the labor force**" has increased by 2.3 million!

The numbers reveal a shocking problem emerging from the really under-educated under-class suggesting there is a serious problem unfolding as the economy evolves into a highly skilled **Internet Revolution Economy**. Among the African-American segment of the population, not-seasonally adjusted U-3 unemployment rate for May 2011, including both sexes of the age group 16-19 year olds, unemployment is clearly a structural problem coming in at **40.6%**. These numbers are reflecting a very serious structural problem that is going to progressively get much worse.

Economic News Release

Employment Situation Summary Table A. Household data, seasonally adjusted

HOUSEHOLD DATA
Summary table A. Household data, seasonally adjusted

[Numbers in thousands]

Category	May 2010	Mar. 2011	Apr. 2011	May 2011	Change from: Apr. 2011-May 2011
Employment status					
Civilian noninstitutional population	237,499	239,000	239,146	239,313	167

HOUSEHOLD DATA
Summary table A. Household data, seasonally adjusted

[Numbers in thousands]

Category	May 2010	Mar. 2011	Apr. 2011	May 2011	Change from: Apr. 2011-May 2011
Civilian labor force	154,237	153,406	153,421	153,693	272
Participation rate	64.9	64.2	64.2	64.2	0.0
Employed	139,353	139,864	139,674	139,779	105
Employment-population ratio	58.7	58.5	58.4	58.4	0.0
Unemployed	14,884	13,542	13,747	13,914	167
Unemployment rate	9.6	8.8	9.0	9.1	0.1
Not in labor force	83,262	85,594	85,725	85,620	-105
Unemployment rates					
Total, 16 years and over	9.6	8.8	9.0	9.1	0.1
Adult men (20 years and over)	9.8	8.6	8.8	8.9	0.1
Adult women (20 years and over)	8.1	7.7	7.9	8.0	0.1
Teenagers (16 to 19 years)	26.4	24.5	24.9	24.2	-0.7
White	8.8	7.9	8.0	8.0	0.0
Black or African American	15.5	15.5	16.1	16.2	0.1
Asian (not seasonally adjusted)	7.5	7.1	6.4	7.0	-
Hispanic or Latino ethnicity	12.4	11.3	11.8	11.9	0.1
Total, 25 years and over	8.3	7.4	7.6	7.8	0.2

HOUSEHOLD DATA
Summary table A. Household data, seasonally adjusted

[Numbers in thousands]

Category	May 2010	Mar. 2011	Apr. 2011	May 2011	Change from: Apr. 2011-May 2011
Less than a high school diploma	14.9	13.7	14.6	14.7	0.1
High school graduates, no college	10.8	9.5	9.7	9.5	-0.2
Some college or associate degree	8.3	7.4	7.5	8.0	0.5
Bachelor's degree and higher	4.6	4.4	4.5	4.5	0.0
Reason for unemployment					
Job losers and persons who completed temporary jobs	9,194	8,209	8,144	8,274	130
Job leavers	966	896	942	908	-34
Reentrants	3,430	3,262	3,375	3,433	58
New entrants	1,192	1,360	1,346	1,231	-115
Duration of unemployment					
Less than 5 weeks	2,763	2,449	2,691	2,664	-27
5 to 14 weeks	3,060	2,914	2,907	2,892	-15
15 to 26 weeks	2,174	1,957	2,006	1,984	-22
27 weeks and over	6,710	6,122	5,839	6,200	361
Employed persons at work part time					
Part time for economic reasons	8,776	8,433	8,600	8,548	-52
Slack work or business conditions	6,141	5,595	5,689	5,834	145

HOUSEHOLD DATA
Summary table A. Household data, seasonally adjusted

[Numbers in thousands]

Category	May 2010	Mar. 2011	Apr. 2011	May 2011	Change from: Apr. 2011-May 2011
Could only find part-time work	2,299	2,332	2,480	2,473	-7
Part time for noneconomic reasons	17,977	18,417	18,282	18,468	186
Persons not in the labor force (not seasonally adjusted)					
Marginally attached to the labor force	2,223	2,434	2,466	2,206	-
Discouraged workers	1,083	921	989	822	-

- Over-the-month changes are not displayed for not seasonally adjusted data.
NOTE: Persons whose ethnicity is identified as Hispanic or Latino may be of any race. Detail for the seasonally adjusted data shown in this table will not necessarily add to totals because of the independent seasonal adjustment of the various series. Updated population controls are introduced annually with the release of January data.

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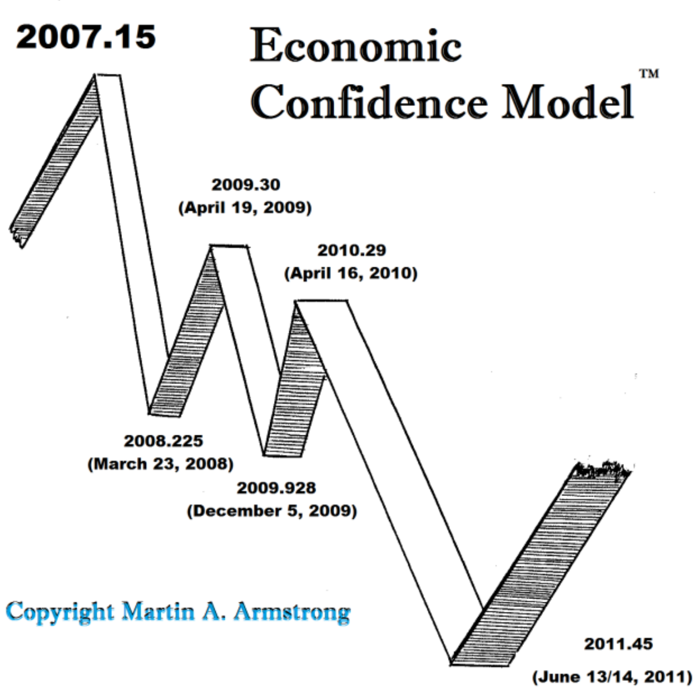
There is a danger that some brain-dead economists are actually saying that we may need a war to drag the economy out of the depths for where it lies currently. Let me make this **PERFECTLY CLEAR!** War destroys the economy it does NOT reverse a economic downtrend. As usual, the shallow analysis offered illustrates just how those who purport such a maxim just live in the dark. Europe was the center of the world economy. They destroyed their culture by embarking on World War I. The US was nearly bankrupt in 1896 when J.P. Morgan lent it tons of gold. By the end of World War II, the power shifted to America and it now became the **Financial Capital of the World** with 76% of the world gold reserves. Because of that, they claim war is good for the economy. That is about authoritative as a study showing that everyone who has ever eaten a potato has died, and thus, potatoes must be lethal long-term. The US benefited **BECAUSE THE WAR WAS NOT IN AMERICA** and therefore the infrastructure was not destroyed as it was in Europe. The USA became the arms dealer and the supplier of food. That is why the gold flowed from Europe to America leading to the superficial maxim that war is good for the economy. Every other war, Korea, Vietnam, Iraq, Afghanistan, Grenada, Mexican War, you name it, eroded the economy and set in motion inflation. Rebuilding Iraq does not benefit the US Economy. After the conquests of Rome that filled the treasury with a fortune, the continued military expenditure of Rome created inflation, rising taxation, and a systemic economic decline.

The old industries are dying. There was some gain in manufacture due to the Japanese tragedy. But the US is shifting toward an Internet Economy as the young are far more computer savvy than the current dominant generation. The uneducated will continue to find employment opportunities decline and government is not about to understand the evolution process of the economy. They have always tried to manipulate and intervene to maintain the status quo. For example, when automobiles were just starting, many New England states enacted laws against these newfangled contraptions. If you drove an automobile down the road and it frightened a horse, the owner had to drive the gadget off the road and shut it down. If the horse was still frightened, he was required by law to disassemble it. Around 1985, I was in a Royal Park in London taking pictures on a Sunday. A bobby approached and told me I had to stop taking pictures. He informed me it was a £50 fine. I thought I was on Candid Camera. He became quite indignant because I thought it was a joke. Afterwards, I looked up the law and when cameras were first invented, they used a flash with gunpowder. The noise would frighten horses. The solution, they outlawed taking photographs in a Royal Park on a Sunday. Government always intervenes against technology just as the Catholic Church imprisoned Galileo for life when he dared to say the sun was the center of the solar system.

The law books are filled with enactments against technological advances in every century. You will also find legal persecutions of those who threaten the status quo on a variety of levels. Our economic understanding of the evolution process of the economy is just about zero. Unfortunately, there is this presumption that government has a **RIGHT** and the **POWER** to intervene and manipulate the economy. It is this presumption of authority that **PREVENTS** us from considering what to do and how the economy really functions. The socialists will **NEVER** agree to let go for they demand the **POWER** to intervene even though they refuse to learn how the economy functions. The right wing simply wants a police state to read everything every person writes and laments they cannot yet read minds. Both the left and the right agree on one thing. They both seek to increase the **POWER** of the government to the detriment of human rights to the freedom of individuality to control society forcing it to be as they desire.

With the turning point of June 13th/14th on the doorstep, this appears to be a subtle quiet change in trend that will not even be noticed except with hindsight as was the case in 1985.65, 1994.25, and 2002.85. The first produced the Plaza Accord and the birth of the G5 that unleashed government intervention that manifested 2.15 years later in the 1987 Crash and then 2.15 years after that the peak in Japan. The 1994.25 turning point was the shift in capital flows from Asia back to the US and Europe. That marked the precise day of the low in the S&P 500 just as the 1987.8 target produced the precise day of the low for the 1987 Crash. The 2002.85 target produced the low in the share markets after the DOT.COM Bubble in 2000. Each of these turning points represented with hindsight important shifts in long-term trend.

The June 13th-14th Turning Point



There appears to be no major market that will peak or bottom in a big dramatic way. Most of the base metals appear to be poised for lows such as Aluminum, Copper, Lead, Nickel, Tin, and Zinc. Gold does not appear to be in a serious over-bought phase whereas silver has always been the target of manipulators and as such it tends to be extremely volatile compared to gold. The markets that tend to be approaching highs are the interest rate markets. This tends to suggest that the debt crisis will get worse over the next 4.3 years into 2016 and that we are more likely than not going to see rising interest rates regardless of what the governments wish to create. By trying to keep interest rates artificially low, as was the case in Japan, they send tons of cash flowing out of their country seeking investment elsewhere. The idea of lower interest rates will stimulate the economy is nonsense. If the return is so low, capital leaves and thus you end up with lost decades. The US is looking very Japanese of late. It appears we will see rising interest rates overall globally as capital shifts to private sector assets (non-real estate) as an alternative to bond investment. Business is still not likely to borrow to expand for the same reason it did not at the bottom of the Great Depression. **WITHOUT CONFIDENCE IN THE FUTURE, NOBODY WILL BORROW TO INVEST.** Until they start to figure this out, we are in a downward spiral. The elderly rely upon interest income and the politicians are destroying the living standards of the elderly with the stupidity of manipulating interest rates down. They have attacked the elderly by reducing the Social Security payments thanks to ending indexing to inflation, and the states raise property taxes forcing them out of their homes. Now that they cannot even sell their homes, the states and extorting larger proportions of net income from the elderly to support greedy state official pensions.

The only currency approaching a high is the Swiss franc. Nevertheless, keep in mind that if Europe submerges first into economic debt chaos, this will be positive for the dollar. However, the higher the dollar rises, the worse the domestic economy will develop. The dollar Index on the ICE is within striking distance of retesting the 2008 low. Therefore, we need to watch the dollar as we move into the target.

Gold, The Dollar & Munis

Charting gold in Euros shows it has continued to make new highs as contrasted with the dollar. This divergence indicated that gold is not in a bubble top formation. However, this does not preclude a pause in the uptrend for a brief period. This also strongly suggests that the rally in gold is far from over, but the timing will extend into 2016 at the earliest and 2020 for the latest where we will see the dramatic high that should reach at least the $5,000 level. This is NOT a bullish forecast for gold in a traditional sense. This reflects an overall collapse in our monetary system for nobody is even yet questioning stopping the Sovereign Debt Crisis by ending the perpetual borrowing. The collapse will be violent and overnight similar to the Lehman collapse.

Traditionally, a high for gold on June 13th/14th with a low in the dollar would signal a reversal of fortune leading to an opposite move for each. However, we cannot lose sight of the problems presented by the Sovereign Debt Crisis. Unemployment will rise from the public sector in the state and municipal levels. In the USA, we should expect no real action at the Federal Level, while the next phase will see rising debt problems in the city and municipal levels. Debt defaults and restructuring will take place at this level. Europe, on the other hand, will continue to show the cracks in the whole Euro concept. There is a high risk associated with the Euro inasmuch as Southern Europe will have to break away for the deflation imported by remaining in the Euro will cause tremendous civil unrest.

Gold is not really backing off, and this raises the possibility of a pause in trend in dollar terms, while gold is likely to remain generally high and base-building for the next launch. Without question, we are in a serious position for the next 8.6 years and things will get much worse rather than better.