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The Decline & Fall of the American Political System

by Martin A. Armstrong

Far too often the majority prefers to assume that whatever trend is in motion, the future will bring more of the same. Unfortunately, long-term changes within the political-economy are as difficult to comprehend or observe in the day to day events as the gradual silent encroachment of the aging process itself. Each day we rise from our restful slumber to confront ourselves in the mirror never once noticing the minute subtle changes that are taking place as time marches forever onward. Yet when we relax and pull out a photograph of years gone by, we are faced with the harsh reality of just how much has changed with each passing day.

Long-term political-economic changes are very much the same. There are monumental changes that take place every second of the day combining to move and shape the long-term events of tomorrow. Often we are shocked by what might appear to be dramatic change in the blink of an eye - like

Russia for example. While the media loves to rush in and bring us the news of shocking events as they unfold, they are never there to reflect the images of daily injustices that slowly undermine society as a whole. A woman who is raped. A home is robbed. A man is killed for his car. A child is killed for his shoes. As daily events become more widespread, slowly society is transformed from a trusting community into one of suspicion and skepticism. A man who loses a job.

A business closes its doors. Another political promise broken. Another rise in taxation. A policeman writes yet another ticket to fulfill his political monetary quota. With each passing day, confidence is lost and frustration builds spreading from individual to individual until groups begin to question collectively what posterity might have in store.

The frustrations of society always, and without exception, build over time. In some way society as

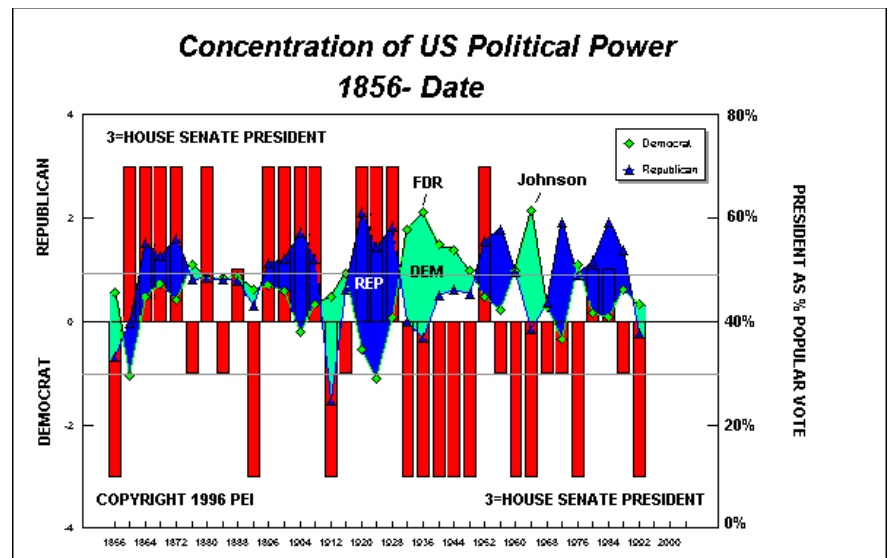


Figure #1

the individual, endures the every-day injustices of community life. The quest by one special interest to benefit at the expense of another. These subtle trends build in magnitude until they afflict the moral of the whole. In what might superficially appear to be the blink of an eye, is in reality the tears, frustrations and countless injustices of society that burst forth demanding immediate change.

As America approaches a new dawn, the subtle frustrations are building within society. The consequences of unsound finance are sitting on our doorstep, waiting to be addressed in the eyes of our children. The swings in political power within the United States have been hyped up by both sides forever placing the preferred interpretation carried to the people through the filtered versions of our once great free press. Rarely do we hear the truth from either the politicians or the media. Instead, the prevailing debate of left vs right becomes an endless chatter and truth the only victim.

Our free press, once cherished by the founding fathers, has become the soap box for political activists forever seeking the correct spin to further promote their own personal political goals. It is highly debatable whether or not we truly enjoy the freedom of the press as originally intended when one views the major newspapers and television. It was wisely recognized that if the press could be controlled by the politicians, then truth would never surface. What if the press is not controlled by the politicians in a direct outright manner but rather controlled by politically minded individuals seeking the same political ends? Should we call this a free press? Does this serve the same function to safeguard our nation against the political corruption that always breeds within the bowels of government historically? Is it ethical for any major newspaper or television network to be widely considered left or right rather than an unbiased beacon of the truth no matter who it effects?

Indeed the long-term trend is moved and shaped by many components each in their own way contributing to the sum of the whole. To some extent, the bonds that tie society oscillate back and forth drifting through the current of global trends. The experience of major war during the first half of this century forged together ever tighter the bonds within that generation. But subsequent generations lack the depth of such experience allowing the bonds within society to gradually loosen changing the goals and expectations as the community as a whole evolves. Such philosophical changes are self-evident within our legal system. Today, liability insurance has skyrocketed because there is no sense of community, only the greed of individualism that shrugs off the responsibility of self.

And then there are the philosophers who seek to change the behavior of mankind in their quest to create the perfect world. Economists argue that we must tax the rich at a higher proportion than the middle class because it is to them a matter of "**fairness**" or "**ethics.**" They ignore the contributions to society and the vast creation of jobs by such men as Henry Ford, J. D. Rockefeller or even Bill Gates. Instead, their own material jealousy prevents them from seeing the changes that computers have brought to all of mankind because they cannot get past the wealth of a single man. Ethics? Fairness? Should we try to change nature ending forever the cruelty of one species survival being dependent upon the kill of another because it is a matter of fairness or ethics? What economists and politicians alike have forgotten is that we must strive to understand how things work be it the genius of an individual or the prowess of the lion rather than try to go against the trends of nature. If we could only learn that ethics and fairness mean a guaranteed human right to equal opportunity for all rather than the exploitation of one for the benefit of another.

The future that we face is actually set in motion by the accumulative trends of the many. As Rome stood firm, it found that it could not hold-off the endless invasions from the uncivilized world. We too cannot expect that the destiny facing America is not or will not be upset by the shifting eternal sea of political change outside our borders. As it has been said that no man is an island, this is also true for all nations. In our domestic quest to help the few, we must not endanger the safety of the many ignoring the lessons that led to the sack of Rome.

The eternal sea of politics touches every shore giving rise to one nation at the expense of another. The history of man is indeed a history of political struggle between the will of politicians, kings, ministers or dictators and the reality of their actions. In total, the political system of today is never the same tomorrow. With each new law or regulation that is past, even a democracy has been transformed into the very thing it once stood so proudly against. To this day, a complicated over-regulated system of government is often called "**Byzantine**" after the once great Eastern remnant of the Roman Empire. Byzantium collapsed under the weight of its own regulations that far too often made no sense as one department contradicted another.

The history of politics has been nothing more than a never ending battle between the liberty of the people and the desire to control them be it a king, emperor, landlord or politician. This eternal battle has existed from the very dawn of time. The first emperor of China had all the scholars killed because they believed in the teachings of Confucius who taught a ruler should encourage the goodness of man. The Emperor's view held that the people were evil and required regulation and a firm rule. Stalin in Russia took the same path for very much the same reasons.

These two very different schools of thought in politics continue today. There are those who believe

in the goodness of the people and those who believe it must be tempered and controlled. Both sides have their varying degrees of intensity. The big government group believes in regulating every aspect of life stamping out the individuality of humanity. Thus the philosophies of Karl Marx sought to eliminate individuality through the progressive income taxation schemes. This branch of political thought has often been the most dangerous for in the name of the people, communism emerged extinguishing freedom and imposing poverty in the name of equality for all.

The freedom of Democracy of Confucius and Pericles, produced some of the most productive periods in the history of mankind from freedom of thought to the wonders of art. Yet these periods of bright shining optimistic hope often disappeared in the brief time span of mankind. Many great periods exist throughout history, but few ever last beyond 200 years. Once a democracy begins the exploitation of one group to satisfy another, history warns that the slow gradual decline begins leading ultimately to its death by suicide.

The long-term changes in our political-economy are an accumulative process. While today we marvel at how political change can spring forth so quickly, we ignore the years of accumulative frustration. The spark of freedom that appeared in China and Russia in the short time span of a single year startled the world. While we might assume that such sweeping political change is solely due to modern communication, history would dare to argue otherwise. During the brief and shining moment of one generation, democracy was born, influenced the world, and died back in ancient Athens. Rome too revolted against its Tarquin king and the Roman Republic was born within one year of the birth of democracy in Athens. But it too was replaced by Imperial Rome 200 years later following a bloody civil war on the heels of a major debt crisis.

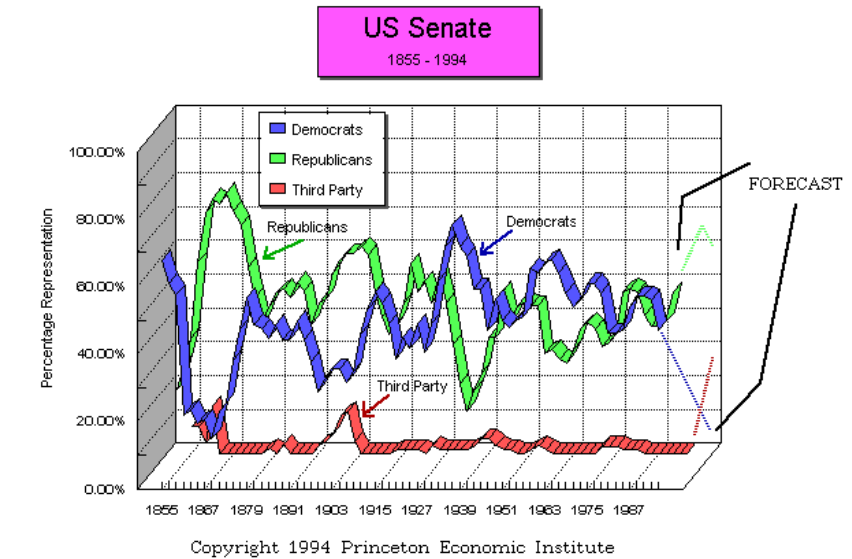


Figure #2

Change indeed has always come with a burst of vigor and energy often appearing in the blink of an eye to the casual observer. But to the student of history who seeks the knowledge and understanding of how things change, this notion is rejected. Such sweeping bursts of political change are **NOT** mere abnormalities or random events within the long continuum of time. The long-term trend is not stagnant, but rather very much a dynamic scheme that is self-evident throughout all natural systems. Our attempts to run our political-economy from a linear approach has never worked. For within the vast complex of the universe, nothing moves in a pure linear motion from weather, disease and animal populations right down to the human activity of booms and busts.

As the 21st century calls to us on the horizon, a new age of major change is about to unfold. It will be a new age of enlightenment. A new beginning that will finally see the collapse of Marxist socialism in the west and communism in both Russia and China. These major sweeping changes are coming and they will arrive within our lifetime perhaps by storm. Let us hope that the collapse of debt markets that

prompted the first civil war in Rome will not be the catalyst for change in our lifetime. Such events are at least possible to avoid, if we know that we should at least consider such possibilities.

Such monumental sweeping political changes around the world will be both exciting and painful. The benefactors of the old system will not go quietly into the sunset. Their utopian world is gradually disintegrating before their eyes taking with it their hard fought power to exploit one group for the benefit of another. The Socialists and Marxists, who have sought to control mankind seeing only material evil instead of long-term economic growth, will seek to prevent the natural change in political thinking from ever happening. They will fight to the last ignoring all the failures created by their tampering with the natural course of society. The greed of the socialists have created vast hoards of capital residing offshore - just beyond their greedy interventionist hands. Today, nearly \$4 trillion rushes around the world from offshore investment forever growing day by day.

In the United States, the death of the Democratic Party will be inevi-

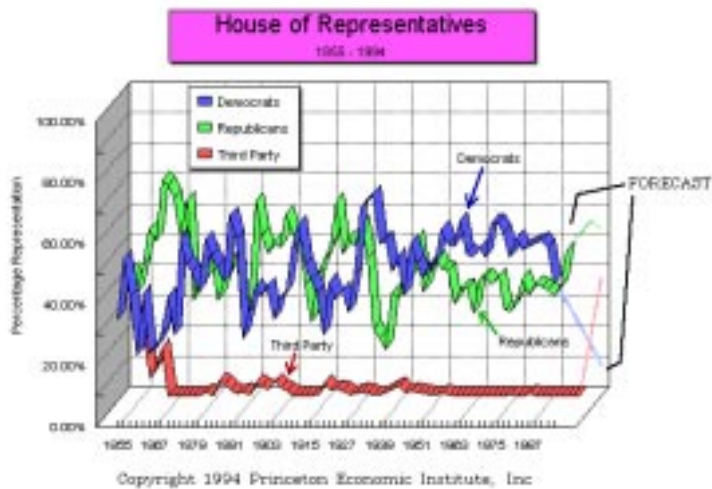


Figure #3

table. This party that has fought so hard for the establishment of the "Byzantine" style big government will lose the generation that voted in so overwhelmingly with FDR as we pass beyond the year 2000. As the entitlements bring the unfunded obligations into focus by 1998, the middle class will demand change as sweeping in our day as it once was when FDR took office. These shifting tides within the eternal political sea may not necessarily benefit the Republican Party. For here too, much of the established party members still believe in a socialistic purpose for big government. They prefer incremental change that is as destined to fail as the slow pain-staking attempts at reform in Russia are giving rise once again to the Communists as an alternative to reform.

We can see that historically, the American people have never been long-term believers in big government (**Figure #1**). Our illustration of the Concentration of Political Power since 1856 is very enlightening. Only two big government democrats have ever won the office of president by an overwhelming majority (**FDR and LBJ**) in comparison to 7 former Republican presidents. With the exception of FDR, the total concentration of government in the hands of the Democratic party has never been that overwhelmingly successful. De-

spite the fact that the Democrats controlled the House of Representatives for 40 years until 1994, their concentration of power was steadily declining since FDR. Bill Clinton was able to capture the office of the president with 43% of the popular vote (**a level below that of even Dukakis**) only because of a split in the Republican vote for Perot. The Clinton victory is far from a reversal of the overall declining trend of the Democratic party since the last major high established by LBJ.

If we look at the Senate (**Figure #2**) and the House (**Figure #3**) we also see that the concentration of power for the Democratic party peaked with FDR. In both cases, as the bureaucracy has grown, there is an undeniable gradual decline in the concentration of power for the Democrats. While this may at first glance appear to benefit the Republican party, the appearance of Ross Perot in 1992 demonstrated that the frustration with government as a whole is rising.

Ross Perot himself is not the cause of this rise in third party activity. The beginnings of the Reform Party were there long before Perot appeared. He just happened to be at the right place at the right time. Perot may in fact capture **LESS** of the popular vote in 1996 than he did in 1992. Nonetheless, this will in no

way diminish the threat to both political parties in the United States for 2000 or 2004. Perot may have started something that is bigger than Ross Perot - a forum that could emerge as a totally new party for the 21st century. The Reform Party, or some amalgamation of it with other smaller groups, could emerge in 2000 to pose a serious threat to the two party system. Indeed, it appears that we may in fact one day have a president who is neither Republican nor Democrat by 2004.

An analysis of our computer models for the 1996 election shows something that the polls do not - at least at this time. We find that if the third party vote is in fact less for the 1996 election as our computer is forecasting, then a very close race can emerge between the Republican and Democratic parties.

TABLE #1
1996 PROJECTIONS FOR
PRESIDENTIAL ELECTION
as per cent of the popular vote

<u>DEMOCRAT</u>	<u>REPUBLICAN</u>
-----	59.17
53.77	-----
51.05	-----
-----	48.95
46.12	46.23
-----	-----
-----	43.08
40.83	-----

We can see from **Table #1** that if a third party vote comes in under 8% of the total popular vote then a near dead-heat becomes possible with Democrats at 46.12 and Republicans at 46.23. **Anything above 8% for a third party could cause the Republican vote to be 43.08. It is interesting to note that our long-term forecast for the Democratic party declining sharply would begin in 1996 should the Democrats come in UNDER 40.83%.**

TABLE #2
1996 PROJECTIONS FOR
ELECTORAL COLLEGE

<u>DEMOCRAT</u>	<u>REPUBLICAN</u>
-----------------	-------------------

-----	525
432	-----
297	-----
277	-----
-----	240
-----	145
-----	99
13	-----

The previous **Table #2** offers our computer model guide to the Electoral College projections. Here we can see that while 270 votes are needed to elect the president, the Democrats seem to have resistance forming at the 277 level while Republicans have support at 240. This again suggests a very close race is possible. This also suggests that the Republicans could be favored to win again if the third party activity is kept to a minimum. Given the fact that the economy is not at an extreme at this time according to interest rates, unemployment or inflation, third party activity may not be altogether strong for the 1996 elections.

Nevertheless, if the Democrats do win, they do not appear to be in a position where a super majority victory is likely. Despite the current polls showing as much as a 20% lead for Clinton, our computer model warns that this will be narrowed significantly by the November 5th election.

It is unfortunate that regardless of the victor, the next president will be faced with monumental problems beginning in the Fall of 1998. We may be looking at the Dow rising to as much as 10,000 by mid 1998 and then falling like a stone as unfunded liabilities explode into the headlines nationwide. We show that Medicare plan A will move into deficit in 1997 - NOT 2003. We also see that Social Security is most likely to move into a deficit position in 1997. Thanks to Bill Clinton's shifting of the national debt to 70% short-term and 33% funded one-year of less (see Clintonics 05/96), short-term interest rates have doubled during his administration. This results in the government static model forecasts for futures entitlement expenditure being way-off the mark. As interest

rates rise, the default dates for our unfunded liabilities come in much faster with each passing day. The low in the "**combined**" deficit (**using SS surplus to offset budget deficits**) is clearly going to be 1996 in line with our Economic Confidence Model forecast. Therefore, as both Medicare and Social Security move into deficit next year, the "**combined**" deficit, as reported by the Treasury, will rise sharply in 1997 right after the elections.

In our view, the unsound finance policies of the past 40 years will start to rise to the surface during the next administration. If the Democrats win, then this time their party will be blamed for the debacle. Should the Republicans win, then unless they immediately come clean with the American people letting them know what has happened to our budget and entitlement programs, this time bomb will explode between 1998 and 1999 causing a high probability of a third party victory in 2000.

In conclusion, the 1996 election for president of the United States is going to be a critical turning point in the long-term scheme of things. There is a brief and small window in time here where the fate of the nation can honestly be reversed. If we do not deal with the time bomb of tomorrow now, our model clearly warns that it will be too late once we pass 1998. Thereafter, the entire political landscape for the 21st century will not be anything like it is today. Perhaps we will return to a more responsible form of government. But there is also the danger of moving toward a more authoritarian form of government as well.

The blame for this debacle that we face is traditionally placed on the current administration of the era. Like Herbert Hoover, who entered office less than 1 year before the fateful Crash of 1929, the president who is in office next year runs the risk of receiving all the blame for the sins of the past 40 years. Consequently, political swings of this nature are never fair and often short-sighted at best. As a result, a Republican victory that included a

sweeping change to the tax system without dealing with the hard issues of tomorrow, could easily be blamed for the coming mess just as Hoover once was despite the fact that he had nothing to do with creating the Great Depression. The forces of unsound finance throughout Europe were already underway long before Hoover ever took office. When all the European, Asian, South American and Russian governments defaulted on their public debt in 1931 (except Britain and Switzerland), the destructive forces that depleted our capital formation worldwide could hardly be prevented by a newly elected president of the United States.

With history in mind, we must realize that fate is never fair. At critical turning points in history, the final direction can be decided by the fickle winds of chance. If the blame is laid upon the socialistic policies of the Democrats over the past 40 years, then the political change will swing toward less government and greater freedom. If the blame is placed upon barely a 1 year term of the Republican agenda, the winds of change might just as easily carry us off into an even more authoritarian state. Keep in mind that during the depths of the Great Depression, an elected senator rose to the floor on capital hill and stated that "**even a dictatorship is preferable to what we are experiencing today!**" When the going gets tough, the last vestiges of a democracy become very fragile indeed.

The die will be cast perhaps right here and now in 1996. Even a Republican victory will **NOT** save the nation unless a full overhaul of our system is carried out now before it is too late. A continued incremental approach on the part of the Republican party will make little difference from that of an ignored approach by the Democratic party.

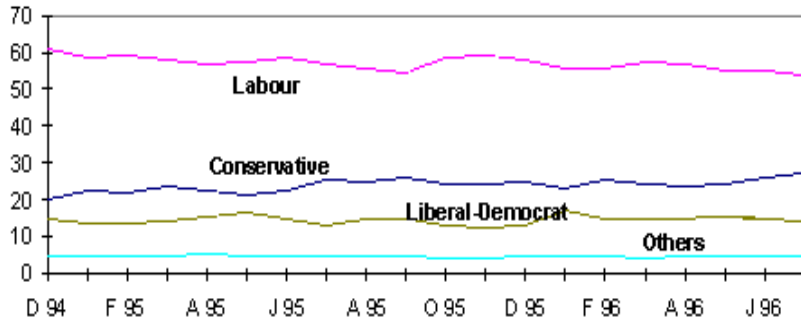
UK Government Elections - Let Battle Begin

by **Bruce Allen**
Executive Director
PEI UK & Middle East

With only nine months left before a general election of members of the House of Commons must be held, the Conservative Government of Prime Minister John Major, holds onto an overall majority of one seat in the 651 seat parliament. The Conservatives narrowly won in the last (1992) elections against the trend of the opinion polls which indicated Labour with equal or more support and the Liberal Democrats increasing their support with each passing month in third place. Half way through this parliament the popularity of John Major slumped to 18.1 percent in December 1994, the lowest result since The Gallup Organisation started this poll in 1945. Less than 10% of the 9,000 polled approved of the government's record and voting intention support dropped to 20% giving Labour its greatest ever lead of 40% over the Conservatives. That lead has now narrowed to 27% and approval of the government's record has climbed back to 25%.

In addition the so called "feel-good" factor within the electorate has climbed back from a low point of minus 35 to the levels around the 1992 election and trending positive. Some of the other polls who after their failure to pick the last election adjust their results by

If there was an election tomorrow, which party would you support?



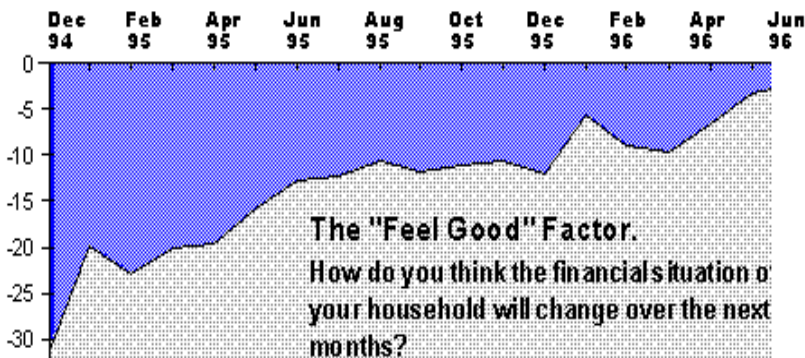
weighing towards the Conservative vote, are showing a more convincing swing equally split from Labour and the Liberal-Democrats towards Conservative.

There is no doubt a Labour government would be returned if an election was held today based on their still very large opinion poll lead. And there is also no doubt that many votes for Labour would be a vote for changes after fourteen years of Tory (Conservative) rule rather than a vote for specific Labour policies. In deed it is difficult to see where major differences are now in stated policy between Tony Blair's "new" Labour Party and the traditional right wing Conservatives. Both parties espouse soothing and vague centre ground policies to attract the floating voter. Both parties have their bogie man. In the case of the Tories it is John

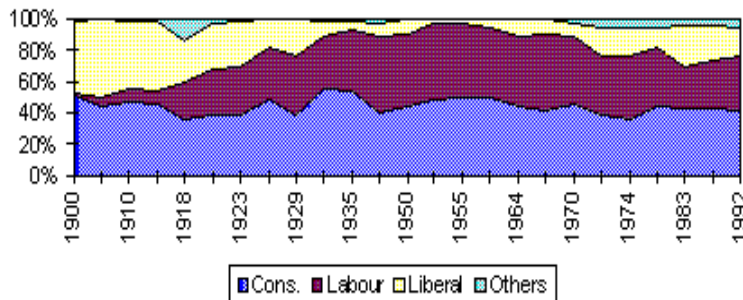
Redwood who sees himself as the true heir to the Margaret Thatcher throne and is a confirmed Euro-sceptic. In the case of Labour it is Clare Short, who after demotion within the shadow cabinet, called "new" Labour a "lie" and described Blair's advisors as "the people who live in the dark".

So the media campaigns are falling into place. The Conservatives attacking with "New Labour, New Danger" showing a satanic Tony Blair looking through the dark with glowing red eyes, and Labour countering with the slogan "Same old Tories, Same old Lies". What we can expect not to get is effective debate during the run up to this election on the major issue at stake for the United Kingdom - its relationship with Europe. The reason for this is that both major parties would have to reveal the intense differences within their respective parties on European Union issues. And both John Major and Tony Blair know that voters prefer a united party rather than one racked by feuding.

Enter Sir James Goldsmith and his Referendum Party officially to be launched on the 19th of October this year at a convention in Brighton. This event will introduce the candidates and provide the initial publicity for the Referendum Party campaign and its single issue policy to hold a referendum on further European integration and the common currency. There have



% of total votes in elections between 1900 and 1992



been many minor political parties formed but apart from regional influence for nationalist groups there has been little long term success in breaking the mould of British politics. Even the Social Democrats formed in 1981 with 26 sitting MPs (Members of Parliament) failed to gather enough momentum before subsiding partly into a merger with the Liberals in 1988 with the remnant suspending activity in 1990.

The results of all elections held this century in the UK show the Conservative Party has attracted

40% to 45% of the vote consistently and the Labour Party has grown at the expense of the Liberals who had their last taste of power in the 1920's coalition governments. A rash of independents squeezed both the Liberals and the Conservatives after the First World War but it was not until the 1970's that minor parties started to take any significant share of popular support. This has not been proportionately transformed into seats in the House of Commons because of the "first past the post" political system. However, an increasing minor

party vote will have an impact on the ability of the Conservatives or Labour to form a majority government.

Will the Referendum Party create this situation? Certainly the relationship with Europe is the most emotive political issue since the 1975 referendum when the then Prime Minister Edward Heath took the UK into Europe on a platform of trade and stability. As he recently admitted, political integration was the hidden government agenda.

The Conservatives have a battle to win back sufficient public opinion for a credible chance of another term in office. The factors affecting them will be more than their negative poster campaign against Labour. The issue of Europe will become impossible to downplay over the next nine months. A continuing recession in Germany and France together with a final peak in the Deutschemark this October or first quarter 1997 will provide the instability for monetary and political union sufficient to ensure this is the case.

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The View From Germany

By Harry Groenert
Executive Director,
PEI Continental Europe

Politics is not a science... but an art

Otto von Bismarck, 15. March 1884

Chancellor Helmut Kohl might not enjoy his holiday as much as he expected. Some of his political partners from CDU, CSU and FDP are obviously keen to grant interviews on one of the most exciting subjects while he is away; they talk about the tax-reform in Germany. It is amazing, without even having started a discussion about the reform, the involved parties argue already over the start date - and the ruling party, including Mr. Kohl, believes that the value-added tax would need to be raised in the next legislative period, beginning in late 1998. This would be merely be a switch from direct taxes to indirect taxes.

Tax reform has taken a particular importance as Mr. Kohl's government hurries to get its finances into shape in order to join Europe's planned currency union at the end of the decade. The Tax-Reform will be on of the most difficult tasks for the years ahead and the issue is, could a serious tax reform change the course of the economy, avoid the budget crisis, reduce the number of unemployed people and also bring back the production which has already left the country because of high taxes.

Fact is, that the current tax system is one of the most complicated and unfair systems in the world. Even tax advisers struggle to understand and implement the flood of 40 ministerial acts, 200 tax verdicts of the Bundesfinanzhof, 1000 new tax procedures and about 3000 verdicts of the Finanzgerichte on average per year.

The following concepts do exist:

The "Uldall-Modell" proposes three tax rates of 8, 18 and 28 percent. The maximum rate would apply above 30,000 DM (\$15,000) taxable income for a single person. The cost of that are estimated at 122.5 billion DM (\$81 bln). This will be financed by the abolishment of all tax relief.

The "Solms-Modell" is based on three rates as well: 15, 25 and 35 percent. The maximal rate starts at 60,000 DM (\$40,000). This would cost about 75 billion DM, financed by some reductions of tax relief and an increase in VAT.

The "CDA-Modell" is similar to Uldall's. It adds a fourth rate of 35% above 120,000 DM (\$80,000) taxable income

The "Bavarian Modell" increases the tax rate linear-progressively from 20% to 40%. The maximum rate will apply for income above 150,000 DM (\$100,000). This shall be financed solely by expense savings, abolishment of tax relief and restructuring of the tax system.

However, Mr. Kohl's problem is not the tax reform, nor the question whether Germany is heading for recession or not. The real problem

is that Germany's version of the "social market economy" is breaking down. Germany is facing some major problems:

1. The budget deficit is still increasing. The tax revenues from the corporations are decreasing.

2. The real disposable income has not even beat inflation for the last decade.

3. The unemployment rate has exceeded the 10 percent level.

4. Labor cost, rules and regulations to not attract foreign investment in Germany and domestic corporations invest in more competitive countries.

5. Investments in the capital markets are less riskier and bring a higher net-return than investments in the corporate economy.

Disposable income is decreasing, unemployment is increasing and the economy is close to a recession. The budget deficit is swelling because the social spending is enormous. - Is Germany only suffering because the world economy is sluggish or is it the strong DM that causes all the trouble? Is this all just another temporary recession or is Germany (and subsequently Europe) due for something worse to come? The wait and see policy in the past did not improve nor change any of the structural problems which are now at least recognized.



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Forecasting the World

Canada Update

By Chris Quigley

Premiers Conference Begins

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The premiers of Canada's provinces began their annual meeting in the Rocky Mountain resort town of Jasper on August 21st. For the first time, corporate sponsors are picking up part of the tab. Canadian Airlines, CN Rail, Nova Corp., Telus and 20 to 30 smaller companies are expected to cover about \$150,000 of the conferences expenses.

Democracy Watch, an Ottawa-based advocacy group, sees a clear conflict of interest. "This sounds worse than the US Congress that is known for these types of junkets. The message it sends to the public is if you have the money and corporate backing, you have greater influence and access to politicians," said coordinator Duff Conacher. However, Mitchel Gray, national research director of the Canadian Taxpayers Association points out that these companies are already huge contributors to political parties and therefore any influence gained through sponsorship is moot.

Move to Decentralize Derailed

The agenda for the conference was to include a movement by two of the premiers to decentralize the federal government's control over the provinces. But the idea was

scrapped because of resistance from Canada's poorer provinces. Ontario Premier Mike Harris and Alberta premier Ralph Klein want to put more of Ottawa's control back into the hands of the provinces. Harris described the planned move as a "rebalancing of the powers of Confederation." He wants provincial rights he feels were centralized by the federal government over time to be restored to the provinces. The thrust of the plan is to let the provinces set their own standards for social spending. The main argument for increased decentralization is the fact that Ottawa has cut health, education and social services contributions to the provinces by 42.2 percent while relinquishing no control over the provinces. Klein said, "Most, if not all premiers are willing to accept those reductions, but they are saying if there are going to be reductions, at least give us the flexibility to deliver services."

The poorer provinces derailed the idea because the poorer provinces feel they will lose out in any deal that lets the provinces set their own social standards. Saskatchewan Premier Roy Romanow said of the proposed decentralization "it breaks down between the have and have-nots...its the elephants dancing among the chickens."

British Columbia Separatism Rising

While the premiers meeting in Jasper are discussing decentralization of federal powers, citizens of B.C. are thinking about separating from Canada completely. A three-page analysis titled *British Columbia Separatism*, itemizes BC's reasons for wanting to separate. The report says that B.C. is not getting

its fair share back from Ottawa, that the federal government is insensitive to provincial interests, that B.C. feels alienated from federal government decisions, that geographic isolation gives B.C. more in common with its American neighbors and the Pacific Rim countries than the rest of Canada and that 10 years of economic growth has given B.C. a sense of economic independence.

Canadian Doctors Suggest Two-Tier Medicare System

At a conference of the Canadian Medical Association, Canadian doctors brought up the subject of a two-tiered medicare system - one where individuals could buy private insurance while those who could not afford private insurance would still be covered by the government. This idea was immediately shot-down by Federal Health Minister David Dingwall. He said moving towards a two-tiered system would betray the trust of the Canadian people and violate the fundamental principles of Canada's current medicare system. This discussion comes at a time when many Canadians who can afford to are buying US health insurance and going to the US to receive treatment. So, effectively, a two-tier system already exists. A two-tier system is also supported by just under half of Canadians surveyed in an Angus Reid poll. Many of those polled saw private health insurance as a way to substitute for money the provinces and federal government have cut from health care budgets recently.



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Australia Update

by Nigel Kirwan

The Governor of the Reserve Bank of Australia, Bernie Fraser, has dampened speculation about interest rate cuts by dismissing the importance of the Government's mooted fiscal cuts in determining shorter term monetary policy. Fraser, a Keating appointee has also suggested that increased taxation measures should be part of the measures used to reign in the budget deficit.

Treasurer Peter Costello wants any new appointment to the position of Governor of the Reserve Bank of Australia to exchange mutual letters of understanding with the Government on appointment. In doing this the Government would be seeking to emphasize the primary importance it places on a role for the central bank of fighting inflation first. The government cannot legislate an inflation first strategy for the central bank, which as part of its charter must also ensure economic and employment growth, and former Prime Minister Paul Keating has weighed into the argument with the assertion that inflation first would have meant 2.5% growth versus 4.5% for the past year - disingenuously ignoring the underlying deficit and continued high unemployment under his regime.

Several of the more contentious items in the August 20 Federal Budget are being announced in advance in order to diffuse some of the expected public outcry. \$1.8bil-

lion will be saved over 4 years through cuts to universities and rises in new students fees and rates of student loan repayments. Students have taken to the streets! \$400 million over 4 years will be slashed from aboriginal cultural and legal services with programmes for aboriginal health, housing, education and employment left intact. The Australian Broadcasting Corporation is also to have its budget trimmed provoking an outcry among the "chattering classes". However, the mining and agriculture sectors have been spared cuts in the \$1.4billion p.a. diesel fuel rebate scheme which keeps diesel fuel prices at 28c a litre for these industries as opposed to 58c for other users due to federal taxes - mining stocks rallied strongly on this news as several mines would have become uneconomic if diesel fuel prices had been increased to 58c.

Further pressure on the federal government to overhaul the tax system is coming from the Green Senators currently holding the balance of power in the Senate. The Government needs to broker a deal with either of the 2 Greens in order to ensure passage of key legislation including the Budget, privatisation of Telstra and industrial relations reforms. However, the left leaning Greens' idea of reform is probably more likely to be of the "tax the rich" type of rhetoric than constructive economic argument.

The Federal Government's Productivity Commission has also placed a GST on the agenda of needed reforms along with reform

of Federal-State finances, most tariffs to be cut to zero and business assistance schemes to be scrapped. The commission's report recommends acceleration of industrial relations and workplace reforms and increased efficiencies for roads, rails and ports.

A bill to curtail administrative red-tape has been introduced by the Federal Government. The bill will place an automatic 5 year repeal on all non-legislated rules, codes, determinations and declarations and a mandatory consultation process with business groups before any new regulation is introduced under delegated legislation.

A growing number of companies are establishing their Asia-Pacific regional headquarters in Sydney or Melbourne. Since 1993 around 150 international companies have located branch centres in Australia attracted by cheaper rents, lifestyle factors and a stable skilled workforce. The main impediment to this emerging trend is Australia's uncompetitive tax regime compared to its Asian neighbors. The trend is also creating a strong demand for Australian executives with experience in the Asian region.

Industrial unrest is rising across several sectors including car manufacturing, oil refining, construction, coal mining and sea-ports. The unions are yet to adapt to the new industrial relations regime adopted by the federal government and we will possibly see quite a bit of kicking and screaming yet before things settle down.

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Hong Kong's Growth - Six Year Low

by **Craig Stephens**
Chief Analyst
Hong Kong Branch

In Hong Kong the downgrading of territory's Gross Domestic Product (GDP) growth forecast by two major banks proved timely after the government said first quarter GDP growth came in at 3.1 per cent - the lowest level in six years. Earlier Hong Kong Bank revised its 1996 forecasts downwards to 4.6 per cent from 4.8 per cent while Hang Seng Bank lowered it even further from 4.8 per cent to 4.5 per cent. These figures will represent the bottom of the economic cycle, but a substantial pick-up will be needed in the 2Q for the government's full year estimate of 5 per cent GDP growth to be realised. The main drag on growth was a flagging export performance as domestic exports fell 7.4 per cent while re-exports grew by a weak 7.5 per cent in the 1Q. This was attributed to the impact of a new export tax regime in China, a fall in intra-regional trade because of cross-strait tensions and the strong US dollar eroding Hong Kong export competitiveness. However with these factors absent in the 2H, a stronger performance is expected, buoyed by a recovering Chinese economy.

The main positive news from the figures was signs of a pick-up in private consumption expenditure which rose 3.5 per cent compared with 0.1 percent in the 1Q of 1995. The critical factor for a continued recovery in private consumption will be a sustained revival in the property market due to the multiplier effect on related housing purchases and also the wealth effect on Hong Kong residents. The spectre of a rise in US interest rates should alone not be enough to knock the recovery in the property market off course. It should only have an initial psychological impact on demand as increasing economic activity in China and the

growing wealth in the territory should more than offset the impact of interest rate increases.

Good Times Roll for Hong Kong Banks

Looking at the banking sector's interim results, it would be hard to tell Hong Kong's economy had been stagnating. Market heavyweight HSBC Holdings came in with a whopping 34% increase in interim pre-tax profits to HK\$27.5bn leading to across the board earnings upgrades for the full year. This result set the tone for the banking sector which generally reported above the best expectations. As well aggressive expansion of their property loan books after two years of retrenchment, increasing fee income and credit card penetration all boosted earnings. Despite uncertainty over US rate moves, banking stocks are expected to remain the focus of attention in the near future.

Thai Baht in Trouble

Recently we have seen speculative attacks on Asian currencies with the Thai baht and the US - Hong Kong dollar peg coming under attack. In Thailand, this was a reaction to uncertainty over the government's management of the economy as it attempts to juggle cooling the economy to curb inflation while containing a ballooning balance of payments deficit without sending the economy into recession. The Bank of Thailand now forecasts that GDP will expand just 7.8 per cent this year, the slowest growth in a decade. Something had to give and we saw the worst run on the baht since the Mexican peso crisis in 1994 - at one stage overnight interbank rates rocketed to 22 per cent and the Thai Central Bank spent \$1.8bn in open market operations to support the currency. Most agree that the Thai economy is not terminally ill, rather going through a period of structural ad-



justment as it moves from labour intensive industries to higher value-added products. However a lack of resolve or clarity in government policy has fuelled speculation dating back to April when the idea of widening the dollar - baht trading band was first muted. The IMF has also called for a change to the Thai exchange rate system as the only way to achieve "enduring improvement" in monetary controls, adding weight to speculators' interest. The next attack may be more difficult to defend.

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Russian Political High Tide - Receding or just Coming In?

by **Dana Schneider**
Director Russian Studies

Russia's political turmoil had barely calmed with Boris Yeltsin's victory when rumors of presidential illness quickly surfaced. An uneasiness surrounding the health of Yeltsin was in the making a week before the election when he was nowhere to be seen in public. No sooner after taking the oath of office on August 09 did Yeltsin again retreat from the public. Rumors have recently been floated in the media that the President may have suffered another bout of heart trouble or even be preparing for by-pass surgery. The mystery and lack of information surrounding President Yeltsin has undercut the stability and confidence gained by the recent elections.

Concern over leadership succession in the event Yeltsin were incapacitated was eased when the popular moderate Viktor Chernomyrdin was re-elected as Prime Minister the day after Yeltsin's inauguration. The Russian constitution calls for the Prime Minister to lead for three months while the Central Electoral Commission prepares for another presidential election during that time. The communist and nationalist majority in the parliament's Duma cast 314 votes of 450 in favor of Chernomyrdin.

The shaky ground under the Kremlin is causing cracks in Yeltsin's newly formed government. Two key officials began an internal power struggle and allowed it to slip into the public forum. Alexander Lebed, who was appointed head of

security after winning 15% of the popular vote in the run-off, surprised many. Having just received broad oversight of the military and government agencies in Chechnya, Lebed accused Minister of Interior Anatoly Kulikov of incompetence and prolonging the Chechnyan War at the expense of Russian soldiers and issued an ultimatum of his resignation or Lebed's own. Kulikov countered that Lebed withdraw his criticisms or he would resign. A spokesman for Yeltsin said that a resolution had been reached and neither man would be resigning. Lebed, praise or condemnation aside, has moved to expand his influence over primary security ministries while directly lining up beside Chernomyrdin as a major power in Yeltsin's new government. After many private meetings with Chernomyrdin and finally endorsing him, the Communists and their allies are sure to be watching carefully as they recall Lebed's distinct refusal of their party's positions and courtships.

All of this comes with the beginning of yet another national campaign season where the 87 district governments will elect their chief officers (similar to the US governors). The Communist Party has pledged to run campaigns in every district and is heavily favored to make serious gains. The Communist Party has a strong party organization and many of the regional officials were in these seats before the Soviet Union broke apart. A communist victory and stronghold at this level of government will add to the budgetary woes of the Kremlin as tax evasion, corruption, and political favors has grown un-

checked. It will also make implementation of continued reform more difficult thus straining the economy further.

Meanwhile, the war in Chechnya has shown little sign of resolution as promised by Yeltsin and the reformers by association. The cost of continuing this conflict is adding more deficit to a budget already ballooned by Yeltsin's campaign spending. Rather than waiting for the public to simply forget and shrug off the election promises, a resolution was passed through the legislature withdrawing the promises and prohibiting any funding. Associated Press reports place Russia back in the lead for arms sales to developing nations contracted during 1995 - boosting federal revenue by an estimated \$6 billion. This figure brings Russia back to the 1990 level of the Soviet Union. At the same time, the United States continues to underwrite over one-third of the UN's "peace-keeping" activities and contributes a hefty portion to the IMF and World Bank that is keeping Russia afloat. As domestic pressure is building for Congress to severely limit its funding to world organizations and even to withdraw from the UN, Russia's political and economic stability is sure to be affected. The IMF has again released lending to Russia after a one month suspension; Yeltsin has still not appeared in public to dispell rumors of heart failure; and the control and direction of Russia's military is coming under growing conflict within the highest level of the government. The high tide of Russia's political and economic instability did not recede with the Yeltsin victory but rather has yet to come in.

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World Capital Market Review

US STOCK MARKET

The US share market is poised for a reaction high ideally during the week of 08/19 with a target objective in the 673- 678 range basis the S&P500 futures. We see that as long as this market does not produce a weekly closing above the 678 area, then the subsequent decline ahead is likely to be moderate with a low perhaps in October around the 598 level.

In the event of a weekly closing above 678, then we would expect to see one more new high. However, our computer models are warning that new highs are simply not sustainable at this time. If we see new highs by the week of 09/09, then there will be a risk of a sharp decline into October with a minimum objective in the 560-573 range.

The worst possible pattern for the US market would call for a rally into the 1st quarter of 1997. This would then signal a major crash next year of up to 28% by year-end. Therefore, the best pattern would call for an August reaction high at this time followed by a test of 598 in October with a year-end rally and retest of the low in Jan/Feb. This type of pattern would then set this market up for a truly explosive move to the upside where the Dow Jones Industrials could come very close to reaching the 10,000 market by June of 1998.

PRECIOUS METALS:

Gold and silver remain captive to what appears to be the inevitable start of IMF gold sales. Any rally attempt in gold is being met with massive selling by the trade. It does not appear that gold is quite ready for prime time until early next year.

The seasonal summer rally is more likely to be evident in silver. Here we see a rally up to the 525 level as likely with an outside pos-

sibility of testing 531 with a maximum target objective of 541-545. Nonetheless, a weekly closing above 523 basis spot silver for the week of 08/19 would suggest that silver could punch a bit higher up to the 528-533 area for the week of 08/26. Still, silver appears to be going nowhere fast. Only a monthly closing above 538.8 would even remotely raise some hope of a sustainable breakout to the upside.

As it stands at this time, an August high should be followed by what may prove to be the final low in the Feb/Mar time period next year. This suggests that we could expect a final low in the \$3.14 area if silver penetrates \$4.62 at any time between now and year-end.

US DOLLAR

While our long-term models continue to suggest that the dollar is going to rally dramatically into 2003, we do see that the potential for one more dollar low does exist during the first half of 1997 against most major continental European currencies, with the noted exception of the pound. Only a monthly closing for the dollar above 15840 on the Dmark would suggest that this forecast is wrong and that the dollar low is in place. Otherwise, a monthly closing below 13985 for the dollar vs Dmark would suggest that this forecast is correct and that an appropriate hedge position is warranted.

The dollar/yen is a different story. The low for the dollar against the Japanese yen is clearly in place but a reaction back to the par level is not out of the question. Overall, a decline should continue taking the dollar up to 12500 or 14500 level over the next two years. As we stated last month, resistance stood at the "11300 level and a failure to move above that level by September would also raise the possibility that a retest of support at the 10489-10315 level is likely. A

monthly closing below 10315 would then raise the potential for a very sharp decline back to the 10065 area or 9755 at worst."

US 30 YEAR BONDS

Here the primary monthly closing support remains at the 10801 level. A monthly closing beneath this area will signal that a sharp decline to the 10100-10200 area is possible. We do see that the number of 30 year bond auctions have been increased and that the August auction included a greater amount of supply than originally anticipated. Extreme caution should be used here since we believe that the Treasury will begin a new trend of issuing more long-term debt than previously announced. There is still the possibility of a new high on the 30 year bond. However, this is now appearing to be linked with perhaps geopolitical events rather than economic.

NIKKEI

Our last report stated... "The Japanese share market has most likely reached a temporary top in June. Here we see that a monthly closing below 21170 will signal that a correction is underway once again. The bulk of support lies at the 19628 and 18896 levels. A monthly closing below 18896 would warn that a retest of long-term support is possible taking this market back to the 15292 zone." Indeed July closed at 20692 warning that a temporary high is in place. Still, a reaction back to resistance is likely going into the end of August reaching the 21349 area. However, only an August closing back above 22347 would signal that new highs are possible from here. Otherwise, expect a decline perhaps into October.

CANADA TSE

In our last report we stated... "The Canadian share market basis the TSE reached a high during May at 52490. Here we see that a correction back to the 48182 to 44867 level is likely. A monthly closing below 44867 would warn that a much more serious decline is possible where a sharp drop to the 39307 level is likely. We do see that a year-end closing below 43300 would warn that the overall correction could extend into early 1997 before reversing to the upside for new highs going into mid 1998." Indeed, the July low came in at 48105. Here we see that a sharp rally into late August is likely. However, important resistance will stand at the 51550 level. Only an August closing above this area would raise the possibility of new highs along the same pattern as the US market. Otherwise, an August reaction high is likely to be followed by a retest of support going into October.

LONDON FT

The British share market basis the FT100 is very strong at this time based largely on inter-European capital flow movement. Here new highs seem to be likely going into late August. Resistance will stand at the 39100-39500 level basis the cash index. Timing models indicate that a high in this market could extend into the first week of September. If September closes lower than August, then expect a correction back down into October with a potential of pressing further downward into the February time period. Here too, as long as the 34334 area holds during and correction on a monthly closing basis, then the FT could follow the US market into new highs for 1998. Only a continued rally from here into Jan/Feb of next year reaching at least the 41500 level would warn of major crash in 1997.

GERMAN DAX

In our last report we stated... "The German share market basis the DAX futures reached a high the week of June 24th. Vital support here begins at the 24875 and 22750 levels. A weekly and monthly closing below 22750 would warn that a correction is possible where we see long-term support forming at the 21450 and 20185 levels." The correction into July took the DAX down to 24530 holding key support. This suggests that a rally into late August is possible. We still see that a downward direction change appears likely starting in early September. Only a breakout to new highs going into Jan/Feb of next year would signal a major top for this decade.

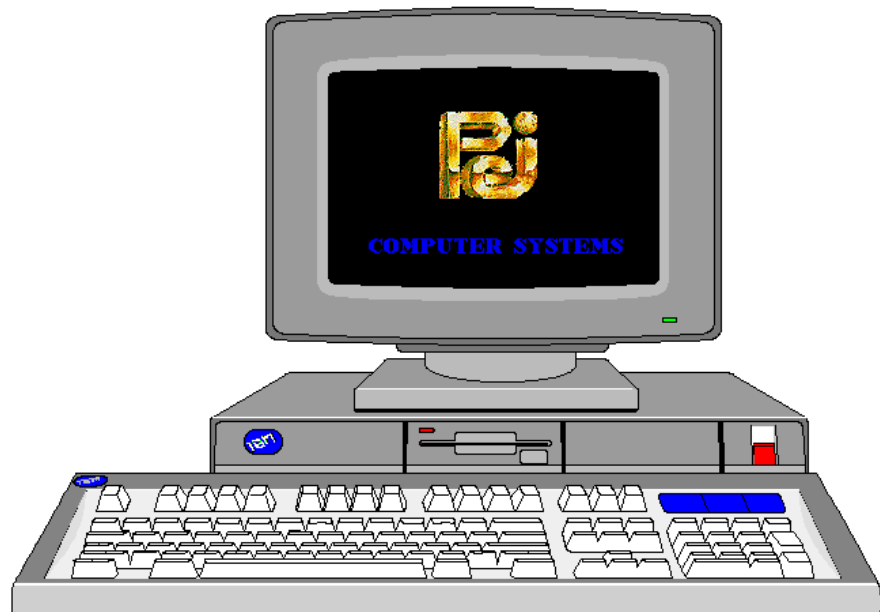
FRENCH CAC 40

The French share market basis the CAC 40 futures has continued to underperformed most other world share markets. Here the major high took place back in February 1994. Major resistance continues to stand at the 22380 level followed by 22620-22765. Here we see that 1996 must close at least above 20252 in order to hold on to any hope that a retest of resistance is possible in the months ahead. A closing below 20252 will leave the

possibility that a penetration of the 1995 low could develop in early 1997. Major year-end closing support lies at the 17968 area. Should 1996 close below this level at year-end, then a drop back to the 15750 area will be possible next year.

SWISS MARKET INDEX

The Swiss share market basis the nearest futures was one of the strongest European markets. In our last report we stated... "There is a potential for a July high to form if we see a weekly closing below the 35435 area. This will immediately warn that a correction into October is possible testing at least the 31650 zone. A weekly closing below 31360 will signal that an overall correction back to the 27690 or at worst 25450-24400 area will become possible." This market did reach a high on July 11 at 38155. However, the lowest weekly closing so far has been 35330. We do see that a weekly closing below 35100 will now signal that a correction is likely to continue. Still, a reaction back to resistance is probable going into late August. As long as we do not see a weekly closing above 37890, then a decline should resume into October.



World Economic Review

By Harold Ludwig
Director PEI US

UNITED STATES

FOREIGN INVESTMENT: Foreign investment in the US rose for the third consecutive year in 1995, the Commerce Department said, but at a much slower rate than the boom levels of 1994 and 1993.

The department said outlays for new investment increased by \$8.7bn, or 19 percent, to \$54.4bn last year. They had jumped 74 percent and 71 percent, respectively, in the two previous years.

Despite these increases, the department said new investment remained well below the 1988 peak level of \$72.7bn, largely because of a sharp reduction in the level of new investments from Japan.

The largest foreign investors in 1995 were Germany with \$14.2bn against only \$3.3bn in 1994; Britain with \$9.7bn (\$17.3bn in 1994); and Canada with \$6.5bn (\$4.1bn in 1994), the department said.

PURCHASING MANAGERS' INDEX: The US Purchasing Managers' Index rose to its highest level in 16 months in June, signaling a strong rebound of economic activity in the manufacturing sector.

Purchasing managers said their index -- closely watched as a guide to cyclical economic trends -- rose to 54.3 percent last month against 49.3 percent in May. This was the highest level since February last year and well above the Wall Street predictions of an increase to about 51 percent.

The index has climbed above 50 percent -- the threshold for expansion in manufacturing industry -- only twice in the past year. Earlier

this year growth of manufacturing output was depressed because companies were cutting production to reduce excessive stocks of unsold goods. The association's index of new orders rose sharply from 52.4 percent in May to 61.3 percent, its highest level since November 1994.

CONSUMER SPENDING: Consumer spending rose 0.8 percent in May, easily outstripping a 0.4 percent increase in personal incomes. However, the pattern of spending was distorted by tax payments which fell last month, boosting disposable incomes, following a sharp rise in April.

EMPLOYMENT COST INDEX: The labor department said the wage and salary component of the employment cost index -- the broadest measure of pay pressures -- rose 0.9 percent in the second quarter and 3.2 percent on an annual basis. The quarterly gain was slightly lower than in the first three months, when wages rose 1 percent, but significantly higher than last year when quarterly gains averaged 0.7 percent. The overall employment cost index -- which includes fringe benefits -- rose 2.9 percent on an annual basis, up from 2.8 percent in the first quarter.

CONSUMER CONFIDENCE: The Conference Board, a business analysis group, said its index of consumer confidence rose sharply to 107.2, a six-year high and a gain of more than 7 points from June. The index is volatile on a monthly basis, but the latest reading is consistent with rapid growth of employment and personal incomes.

HOME SALES: New US home sales soared to their highest level in a decade in May. The Commerce Department said sales rose 7.5 percent to a seasonally adjusted annual rate of 828,000, the highest level since April 1986. The figures surprised Wall Street as

most economists had projected a decline in sales of about 3.7 percent in response to recent increases in mortgage rates.

DURABLE ORDERS: According to the Commerce Department, new orders for US durable goods rose sharply last month, reflecting a surge in demand for commercial aircraft. Orders rose by 3.3 percent last month and by 7.7 percent in the year to May. The data surprised Wall Street economists, who had projected an increase of about 1.2 percent. Excluding transport, orders rose 0.7 percent, roughly in line with expectations.

LEADING INDICATORS: The conference Board, a business group based in New York, said the index of leading economic indicators rose 0.3 percent in May to its highest level in more than a year. The leading index is designed to predict changes in economic activity six to nine months ahead.

The rise in the leading index for a fourth consecutive month indicated the economy was likely to remain strong for the rest of this year. The main components pushing up the index were increases in sensitive materials prices, a longer factory working week and higher orders for plant and equipment.

UNEMPLOYMENT: The US Labor Department said the unemployment rate fell from 5.5 percent in May to 5.3 percent in June, its lowest level since the peak of the previous business cycle in 1990. Payroll employment rose 239,000 against Wall Street expectations of an increase of about 150,000, and data for May was revised to show a gain of 365,000.

President Bill Clinton said the figures showed the economy was in the best shape for a generation. "It is good news when American can have high job growth, strong investment and low inflation," he said.

The jobs data left little doubt that economic growth is accelerating. Monthly gains in employment averaged 265,000 in the second quarter, up from 200,000 in the first quarter and 171,000 in the final period of last year.

The report showed employment growth concentrated in service industries which created 223,000 jobs in June, following a gain of 316,000 in May. Manufacturing employment fell 7,000 after a 16,000 in May.

TRADE DEFICIT: The US trade deficit for May surged by more than 13 percent to \$10.9bn with both imports and exports rising to record levels, the Commerce Department said.

It was the third consecutive month that the overall deficit had worsened. The surge of imports defied market expectations that the deficit would fall from \$8.6bn in April to \$8bn. Many economists attributed the shortfall to the strength of the US economy at a time when US trading partners in Europe and other regions are recording weaker growth rates.

The goods trade deficit to Japan, which has pulled out of its recession, fell from \$4bn in April to \$3.1bn, the lowest point since February 1992. US merchandise exports to Japan were \$5.9bn, the second highest level on record.

The bilateral goods deficit for the year is \$19bn, a sharp decline from \$29bn for the same period in 1995. The trade deficit is down by 11.6 percent in the first five months of the year compared with the same period in 1995.

BUDGET DEFICIT FORECAST: The Clinton administration forecast that the federal budget deficit in the current fiscal year, ending in September, will drop to \$116.8bn, \$29bn less than its previous estimate in March and nearly \$50bn under the \$164bn shortfall of last year.

Estimates see a small increase in the deficit--to about \$125bn--in the 1996-97 fiscal year, but steady declines thereafter to a projected small surplus in 2001.

The also project real economic growth from the fourth quarter of last year to the same period this year at 2.6 percent, up from 2.2 percent in the March projections. Consumer prices rises are forecast at 3.2 percent this year, up a little from the 3.1 percent estimate of March.

INDUSTRIAL PRODUCTION: Industrial production rose solidly for the third consecutive month in June, by 0.5 percent the same as in May and only slightly below the 0.7 percent advance of April.

CONSUMER PRICES: Overall consumer prices in June went up by 0.1 percent, in spite of the largest jump in food prices in three years. Declines in the cost of energy proved a countervailing factor.

RETAIL SALES: US retail sales fell modestly in June, providing the first hint that the pace of economic growth may slow in coming months after an uncomfortably strong second quarter.

The Commerce Department said retail sales fell 0.2 percent last month, after a strong 0.8 percent gain in May. The sharpest setback was in the car industry, where sales fell 1.4 percent, after a 1.8 percent gain in May. Department store and clothing sales were also weak.

However, the underlying trend remained quite strong. Sales rose at an annualized rate of 5.5 percent in cash terms in the second quarter as a whole. Excluding cars, a volatile sector, the annualized increase was 9.3 percent.

PRODUCER PRICES: Data on wholesale prices showed an unexpectedly large increase in producer prices reflecting a surge in food prices.

The producer price index for finished goods rose by 0.2 percent

last month and by 2.7 percent in the year to June. However, the modest overall increase masked sharp variations in individual prices. Energy costs dropped 2.1 percent, the biggest monthly decline since December 1993.

But this decline was more than offset by a surge in food prices which jumped 1.6 percent in June -- the largest monthly gain in six years. Excluding food and energy, the "core" producer price index rose 0.2 percent after a zero increase in May.

UNITED KINGDOM

OVERSEAS ORDERS: British construction companies struggling to make headway in a depressed home market increased the value of overseas orders by 45 percent last year to BP5.5bn, (\$8.58bn) according to figures published by the Department of the Environment.

The biggest gains were achieved in Hong Kong where British companies have been highly successful in winning work for the colony's new international airport at Chek Lap Kok and also in North America where British companies have been expanding through acquisitions.

PRIVATE CAR BUYERS: Registrations of new cars by private buyers, as opposed to businesses and car fleets, rose 9.7 percent between April and June compared with the equivalent period a year earlier. It was the fastest year-on-year growth for about eight years.

In the second quarter of 1996, registrations of new cars by private individuals came to 197,067 compared with 179,668 in the equivalent period last year. The society has data for private sales only to the early 1990s, but it seemed likely that the year-on-year growth was the highest since around 1988.

Consumer interest in buying new vehicles -- an industry worth some BP9bn a year at a retail level -- has until recently been extremely

muted, in contrast to business purchases which have grown fairly strongly.

MANUFACTURING OUTPUT:

Manufacturing activity expanded in June for the first time in six months as it responded to strengthening consumer demand. But price competition intensified and companies laid off workers for the second successive month. The latest monthly survey by the Chartered Institute of Purchasing and Supply has shown manufacturers restraining output this year in the face of faltering export sales and a buildup of unsold goods. But the latest report suggests growing consumer demand fueled by rising personal incomes may now be stimulating industry.

CONSUMER BORROWING:

Figures from the Bank of England provided support for the view that rising consumer demand will underpin economic growth. Consumers borrowed a net seasonally adjusted BP684m (\$1.05bn) in May from banks and other lenders, below the record BP1.1bn consumer credit borrowed in April, but gross lending remained strong at BP8.1bn.

GROWTH FORECAST: A forecast from the Society of Business Economists, a grouping of 800 independent economists, provides firm backing for the view that the UK is poised to enjoy strong consumer-led growth. The society predicts that annual growth in gross domestic product will accelerate from 2.1 percent this year to 3 percent next year led by strong consumer spending growth. It will then slow in 1998.

BUSINESS FAILURES: Business failures slowed sharply in the past three months to the lowest level for 1 1/2 years, says a survey from Bun & Bradstreet, the business information company. About 9,300 companies went out of business in Great Britain in the second quarter of this year compared with 11,033 in the comparable period of 1995. London had the biggest drop in the failure rate, and about 1,447

companies went out of business in Greater London during the second quarter compared with 2,142 in the corresponding period last year.

GROWTH FORECAST: London's economy is forecast to grow at an above-average 4.3 percent in 1996 and 3 percent next year, according to the London Chamber of Commerce and Industry's quarterly economic report.

In spite of its prediction of "healthy growth in London over the next few years" the latest results from the chamber's London economy model, produced with the Centre for Economics and Business Research, represents a downward adjustment on previous forecasts.

The main cause for caution is a "less optimistic outlook for the finance sector", even though finance remains one of the areas on which the London economy will be relying for its growth. Forecast growth in manufacturing has also been downgraded.

CONSUMER SPENDING: Shops outside the UK's food sector are now seeing the fastest increase in sales for eight years, official figures showed. Consumer spending in no-food stores was 2.4 percent higher between April and June than in the previous three months -- the sharpest rise since 1988.

Measured overall, the value of sales in June was 7.4 percent higher than a year earlier, while the seasonally adjusted volume was 3.3 percent higher. In the three months to June, sales were 1.3 percent higher than the previous three months and 2.7 percent above last year's levels, the strongest picture since early 1994. Food sales showed steady growth, but there was a sharp increase in sales of household goods, clothing and other durable items.

CONSUMER BORROWING: Consumer borrowing slowed in June to its lowest level since January, official figures showed. This was in spite of the strong pickup in town-centre sales in June.

The Bank of England -- the UK's central bank -- said net consumer credit rose a seasonally adjusted BP636m (\$992.16m) in June, down from BP691m in May and after a record BP1.06bn in April.

Robust spending on retail sales prompted expectations of stronger consumer borrowing.

But the weaker than expected figures suggest spending was financed by cash rather than borrowing as consumers' incomes have strengthened.

Overall borrowing by the personal sector rose BP6.6bn in the second quarter, the biggest quarterly gain since 1991. Both the Bank and the Treasury have said they expect consumer activity to strengthen further as this year progresses.

About BP183m was borrowed on credit card, compared with BP190m in May and BP312m in April. Mortgage lending was BP1.4bn, down from BP1.7bn in May, but still above levels earlier in the year.

Lending by banks declined to BP255m from BP522m in May. Most new borrowing was due to lending by non-bank specialist lenders, which more than doubled to BP368m.

INFLATION: The UK's Office for National Statistics said British inflation fell to 2.1 percent in June, its lowest rate for 30 months, thanks mainly to lower housing costs. The retail prices index rose 0.1 percent between May and June to 153.0.

The annual inflation rate in the tax and prices index, which includes tax payments, services and goods, rose 0.6 percent in the year to June, the smallest rise since January 1993. This implies the average household would have needed a rise of only 0.6 percent in pretax income to maintain its living standards.

Only a year ago the rate of TPI annual increase was running at about 4 percent, but it has fallen sharply since April as last November's Budget tax cuts came into effect. At present, average earnings are growing at an annual rate of 3.75 percent, suggesting annual real post-tax earnings growth of about 3.15 percent.

More disappointing for the government was the rate of underlying inflation, the government's favored measure which excludes mortgage interest payments. This was unchanged at 2.8 percent. The government's target is to bring inflation to 2.5 percent or below over the next two years.

RETAIL SALES: The Confederation of British Industry's distributive trades survey shows that almost two-thirds of retailers are now seeing higher sales than a year ago -- a much higher proportion than in recent months.

M4 MONEY SUPPLY: The Bank of England revised up its estimate of the annual growth rate in June of M4, the broad measure of the money supply, from 10 percent to 10.1 percent. M4 growth still far exceeds the government's monitoring range of between 3 percent and 9 percent. This has prompted some concerns that it may fuel inflationary pressures in about two years' time.

But a large proportion of the M4 growth was due to borrowing by companies, which may signal increased investment, or be linked to takeover activity. The Bank has argued that the latter effect may mean M4 growth is not inflationary and will slow as companies pay back their loans once the takeovers are completed.

BANK LENDING: Figures published from the British Bankers Association showed lending by the UK's large banks to consumers rose strongly over the whole of the second quarter. It rose BP1.1bn, the largest quarterly increase since the association's series began in 1991.

GERMANY

UNEMPLOYMENT: The federal labor office in Nuremberg said the pan-German jobless total increased by an adjusted 3,000 to 3.93m in June, reflecting a rise of about 7,000 in western Germany to 2.77m and a decline of about 3,000 in eastern Germany to 1.16m.

The office also revised down its earlier estimate of May's seasonally adjusted jobless decline to just 2,000 from the 7,000 reported last month.

April remains the only recent month with any notable improvement in labor market conditions. Seasonally adjusted unemployment fell 65,000 in that month, while figures released yesterday pointed to a 27,000 adjusted increase in total employment in April.

Average employment, at 34.4m in April, was 389,000 lower than the year before.

On an unadjusted basis, unemployment across Germany fell by 33,800 between May and June, but the latest jobless total of 3.78m was 327,700 higher than in June last year.

Jobless data brought the unadjusted pan-German jobless rate below 10 percent for the first time this year with 9.9 percent of the labor force registered as unemployed last month against 10 percent in May and 9 percent in June last year. On a seasonally adjusted basis, the rate was unchanged between May and June at 10.3 percent but was higher than last June's 9.4 percent.

PLANS TO CUT SPENDING: The German federal government plans to cut spending in 1997 for the third year in succession as part of its intensifying efforts to bring the country's public sector deficit below the limit set by the Maastricht treaty.

The draft budget envisages a 2.5 percent drop in federal spending to

DM440.2bn (\$289.6bn) next year from a planned DM451.3bn this year and a decline in Bonn's net borrowing requirement to DM56.5bn from DM59.9bn.

According to Mr. Theo Waigel, the Finance Minister, the federal government will fulfill the promise made in April to cut existing spending plans by DM25bn next year as part of its program of spending reductions, supply side reforms and welfare restructuring to boost growth and jobs.

Bonn is aiming to bring Germany's overall deficit down to 2.5 percent of gross domestic product next year and so below the 3 percent Maastricht ceiling. but success will depend crucially on whether the federal states or Lander can produce a total of DM25bn of budget cuts through their individual efforts after failing last week to agree a joint austerity program.

Cuts are envisaged in 18 of 26 individual spending plans next year, with the ministries of economics, transport, defense and agriculture accounting for DM4bn of the DM7bn of cuts negotiated in recent weeks. The transport budget is set for a particularly sharp fall to DM45bn in 1997 from a planned DM51bn this year, although investments should be protected because of increases in other revenues including asset sales.

Defense will see its budget cut to DM46.5bn next year from the DM48.2bn set aside in recently published plans for this year. The budget of Mr. Gunter Rexrodt, the economic minister, will decline by 8.4 percent to DM17bn from DM18.6bn planned for this year.

The labor and social affairs ministry remains the biggest federal spender by far next year, although its budget is set to decline to DM122.1bn from a planned DM124.6bn in 1996.

Increased spending will mainly cover the growing costs of the planned move of Germany's government from Bonn to Berlin. How-

ever, the cost of servicing the federal debt is also set to rise to DM89.2bn from DM86bn.

Mr. Waigel's budget will be set in the context of slow real growth of 0.75 percent this year with a pick up expected in the second half. Growth of between 2 and 2.5 percent is expected in succeeding years.

The DM56.5bn of net borrowing projected for 1997 will be about DM7bn higher than anticipated a year ago. According to the draft, the federal borrowing requirement will not fall below DM50bn until 2000, when it should total DM48.9bn.

M3 MONEY SUPPLY: The money supply figures from the Bundesbank showed a continued decline in the growth rate and a slowdown in bank lending.

The bank said M3 increased in June at an annualized rate of 9.6 percent, down from 10.5 percent in May and 11.2 percent in April. Bank lending to the private sector rose 7.2 percent (on a six-month annualized basis) compared with around 8 percent in the two previous months.

TRADE SURPLUS: Germany's trade surplus widened to DM8.2bn (\$5.38bn) in April and the current account deficit narrowed to DM900m according to the Federal Statistics Office. Compared with the same period a year earlier, German exports rose 11.7 percent to DM63.6bn in April, while imports were up 11 percent at DM55.4bn. In March, the trade surplus was DM6.2bn and the current account deficit was DM1.4bn. In the first four months of 1996, the German trade surplus widened to DM28.4bn from DM27.3bn in the same period in 1995. The current account deficit grew to DM5.4bn in the period from January to April from a deficit of DM4.6bn during the same 1995 period. German exports rose 4.8 percent to DM247.6bn in the first four months of the year while imports rose 4.9 percent to DM219.2bn.

INDUSTRIAL ORDERS: German industrial orders rose 0.3 percent in May from April, much less than the 2.8 percent surge in April. West German orders fell by 0.3 percent month-on-month but were outweighed by an 11 percent increase in the east, which kept the pan-German figure positive.

INFLATION: Western Germany's annual rate of inflation fell in June to 1.2 percent, reverting to the level reported for April and down from May's 1.5 percent. Announcing data based on returns from four of Germany's 16 states, the federal statistics office said the cost of living in western Germany was unchanged between May and June. Falling car prices were a key factor holding down prices. The 1.2 percent year-on-year inflation rates for April and June are the lowest since August 1988.

IMPORT PRICES: German import prices fell 0.7 percent in June from May and were up 0.2 percent year-on-year. Export prices slipped 0.2 percent in June from May and were up 0.2 percent from a year earlier.

INDUSTRIAL PRODUCTION: German industrial production advanced in May on a seasonally adjusted basis for the third month in succession, prompting hopes the economy is on the way to recovery.

The Bonn economics ministry said May's 1 percent seasonally adjusted gain in production compared with April reflected a "noticeable expansion" of manufacturing output. This contrasted with April's 1.7 percent gain compared with March, more narrowly based on a sharp rebound of construction activity after a long, harsh winter.

Using the two-month figures that normally iron out big erratic movements, there was a 2.5 percent jump in output in April and May compared with February and March.

Seasonally adjusted construction activity in April and May rose by 16.5 percent compared with the

two preceding months against a 1.5 percent gain in manufacturing output in the period. Better weather and the greater weight of the construction sector in the eastern German economy caused a 14 percent jump in output in the new Lander in the two months compared with 1.5 percent gain in the west.

CONSUMER PRICES: Consumer prices in west Germany rose 0.4 percent in July from June, a year-on-year increase of 1.3 percent.

JAPAN

TOKYO DEPARTMENT STORE SALES: Sales at department stores in the Tokyo area rose for the sixth straight month in June due in part to favorable weather, the Japan department stores association said. Sales at the 29 stores operated by 14 member-companies grew 1.4 percent from a year earlier to Y199.4bn (\$1.8bn). The June growth was bigger than the 0.5 percent increase recorded in May, it said.

The association attributed the growth in the reporting month to favorable weather conditions. There were also five weekends in June, once more than the same month last year, which helped to boost sales. Corporate demand remained stagnant, and demand related to the summer gift season was also sluggish, the association added.

RESEARCH SPENDING: The Japanese government adopted a "master plan" to allocate Y17,00bn (\$155bn) to science and technology over the next five years, a substantial increase in state spending on basic research. The government's science and technology agency believes the country's weakness in research is a serious competitive handicap. "The nation's technology is currently in its most severe condition in recent years" its report said.

The agency says the Japanese R&D structure's main deficiency is

the domination of public research laboratories by senior lifetime employees. The country's respect for seniority still takes precedence over promoting the best young scientists, it says. It proposes an overhaul of the research career system, to employ scientists on short-term contracts related to projects and to allow state-employed researchers to take second jobs in the private sector, a common practice in the west.

The plan would lift state-funded research spending to US and European levels of about 1 percent of gross domestic product. But officials admit actual spending might fall short of the target because the finance ministry, keen to curb the budget deficit, retains control over the annual research budget.

If the funding target is met, the plan would represent 5.8 percent increase in research spending compared with the past five years. It proposes that spending should rise by just over 12 percent a year until 2000, to reach Y4,300bn annually. That would be double the level in 1992, when the agency drew up the plan.

Mr. Hoshiba said spending would focus on training, cooperation between research projects and the purchase of equipment and computers for the government's research laboratories.

Currently, 80 percent of Japan's \$130bn a year science and technology spending is carried out by the private sector with nearly all devoted to applied, rather than basic, research.

VEHICLE PRODUCTION: Japanese vehicle production fell 4.3 percent in the first half of the year. Total vehicle production in Japan declined to 5.1m units in the first six months, according to the Japan Automobile Manufacturers' Association. It was the first fall for the period in two years. In June alone, vehicle production slumped 6.7 percent, reflecting the weakness of domestic demand and a sharp drop in exports.

The fall in domestic production, larger than initial industry expectations, underlines the weakness of domestic demand and the shift of production overseas as Japanese car makers have sought to avoid the impact of a higher yen.

Vehicle production in Japan has declined since its peak of 13.5m units in 1990 and is expected to fall under 10m units, a level seen in the industry as critical to maintaining domestic jobs.

Last year, domestic production dripped 3.4 percent to 10.2m units as exports fell 15 percent to 3.79m units. The poor first-half results stemmed from a weaker-than-forecast market, in the middle of a replacement cycle that was expected to lift demand 2.3 percent to 7m units this year. First half sales were less than 1 percent higher than a year ago, at 3.6m units, prompting fears that full-year sales will not reach the industry target.

Domestic production in the second half could yet rise to reverse the disappointing first-half performance, as stronger overseas demand lifts exports and the continuing domestic economic recovery gathers pace, helping to stimulate consumer spending.

Imports, which have risen 64 percent over the past five years to 362,265 units last year, have continued their steady increase this year, while Japanese car makers' extra overseas capacity of 500,000 to 600,000 units is expected by the end of the decade.

STORE SALES: Further evidence of an improvement in Japanese consumer confidence emerged in the form of the first six-monthly rise in department store sales in four and a half years. Department store turnover rose 3.7 percent to Y4,120bn (\$38bn) in the six months to June against the same period last year. The Japan Department Stores Association warned the improvement came from an unusually low base.

Sales nationwide were strong in personal goods and clothing, but weak in household goods and furniture, the association added.

UNEMPLOYMENT: Unemployment in Japan remained at a record high in June, according to official figures. But underlying labor market conditions continued to improve in line with the gradual economic recovery.

The government's management and coordination agency said the headline jobless figure remained at 3.5 percent of the work force in June. It was the same as last month's figure, the highest since data were first collected 40 years ago.

The job-offer-to-applicants ratio, a better measure of activity in the jobs market, improved to 0.71, the highest level for three years, amid further signs that companies have completed their job-shedding programs.

The total labor force grew by 0.8 percent on a year earlier, its fastest rate of growth since last December.

Total employment grew by 0.5 percent on a year earlier, also the strongest rate of growth this year. The number of job offers was 0.5 percent higher than in the previous month while applicants fell by 1.3 percent.

SPENDING CAPS: The Japanese government yesterday approved ceilings for the core elements of public spending for the coming fiscal year.

The cabinet approved an overall maximum rise of about 3.5 percent for general operating expenditures to Y44,600bn (\$411bn) for the year 1997-98, well below the 4.2 percent rise last year.

The figures signal a move towards fiscal retrenchment among government departments as the final budget is compiled later in the year.

The totals are the permitted maximum rises in budgetary re-

quests from the various government agencies and ministries that will be accepted by the finance ministry in the core areas of social security, defense, education, and public works.

The relatively tight constraints are an attempt to rein in spending which has been bloated in the last four years by the effects of the country's longest recession since the second world war.

INDUSTRIAL PRODUCTION: Japan's economic recovery continued unevenly in June, with a sharp fall in industrial production after increases for three months. Output from the nation's factories and mines fell 3.9 percent in June from a month earlier, but government statisticians were quick to point to aberrant factors. Car production was especially weak, an official at the Ministry of Trade and Industry said, largely because June had two fewer working days than last year, while May had one more. The fall was also exaggerated by gains of 3.2 percent and 2.4 percent in April and May. But MITI said production "remains on a moderate uptrend" with inventory levels still high.

Second quarter output was down overall 0.1 percent on the previous three months. Output of smaller cars fell 10.4 percent from May to June, with medium-sized vehicles down 11.7 percent. Semiconductor output was weak.

FRANCE

INFLATION: French inflation slipped in June for the first time in 11 months, reflecting weak consumer demand and the waning impact of a rise last year in the country's value added tax, official figures showed. The national statistics institute said June consumer prices fell 0.1-0.2 percent month-on-month compared with a 0.2 percent rise in May, surprising many economists who had expected inflation to be flat.

TRADE SURPLUS: France's seasonally adjusted trade surplus

rose to a provisional FF11.592bn (\$2.3bn) in May from a revised FF3.423bn in April.

CONSUMER PRICES: French consumer prices fell 0.1 percent in June from May and rose 2.3 percent over 12 months.

FOREIGN CAR SALES: Foreign car makers significantly increased their share of the French car market in the first six months of this year. Figures released by the Committee of French Car Makers, an industry body, put the share of the market captured by non-French manufacturers in the first half of 1996 at 43.5 percent, against 37.7 percent in the corresponding period a year earlier.

A total of 1.03m new cars were registered in the first half, an increase of 18,000 on a year ago. However, the committee said that after a good first quarter, the last three months were "marked by an appreciable and continuous slowdown in the market."

FALL IN TAX RECEIPTS: The French government may impose further budget freezes after tax receipts to the end of April fell more than FF30bn (\$5.8bn) below projected levels. Mr. Philippe Auberger, secretary of the National Assembly finance commission, said the government was looking at new spending restrictions on top of a FF20.9bn freeze in February.

MONEY SUPPLY: French M3 money supply grew 0.6 percent in May after shrinking 0.9 percent in April. The central bank said M3 grew 2.4 percent year-on-year.

CONSUMER SPENDING: The French government announced that household consumption of manufactured goods climbed a robust 1.9 percent in June. Insee, the national statistics agency, also adjusted its figure for May to show a 0.3 percent advance, against a 0.1 percent decline. This still resulted in an overall decline of 1.6 percent in consumption of these goods in the second quarter, following an increase of 4.9 percent in the first

three months. Moreover, the improvement in June was partly attributable to one-off factors. Good weather helped lift sales of clothing and shoes by a healthy 8.5 percent and there were, unusually, five Saturdays in the month.

NUMBER OF FRENCH BANKS FALLS: The number of French banks and other credit institutions has fallen by a third in 10 years and many have changed hands in the same period, according to an annual government report.

Of 2,170 institutions in 1987, 725 had closed or merged by the end of 1995, said the Credit Establishments Committee, an arm of the banking regulatory and supervisory body under the control of the Bank of France.

In spite of the criticisms of them by the country's commercial banks, it is the French mutual and savings banks which have undergone the greatest rationalization over the past few years, reducing their numbers through mergers from 1,127 in 1984 to 342 in 1995.

CURRENT ACCOUNT: The French current account surplus dropped sharply in April, taking the cumulative decline for the first four months of the year to more than 20 percent. Seasonally adjusted figures from the ministry of economy and finance put the April surplus at just FF1.75bn (\$330m), down from FF10.3bn in March and FF10.9bn in February. This brought the surplus for the four months to April 1996 to FF36.27bn -- down from FF45.48bn in the corresponding 1995 period.

The figures were foreshadowed in June by a sharp decline in the country's trade surplus from FF11.94bn in March 1996 to FF3.82bn in April. Mr. Jean Arthuis, the French finance minister, at the time played down the unexpectedly weak performance, noting an "exceptionally strong" surplus recorded in March.

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AUSTRALIA

INFLATION EXPECTED TO FALL: The Reserve Bank of Australia believes the country's annual inflation rate will fall back into the 2-3 percent target range during the second half of this year. The last reported figures, for the March quarter, showed a headline rate of 3.7 percent.

In its latest bulletin, the bank, the country's central monetary authority, said its optimism was based partly on a moderation in the growth of wages, a key area of concern in recent month. "The majority of economic indicators point to modest growth in activity overall, with no general pressure on labor markets or capacity constraints".

BUILDING INDUSTRY ACTIVITY: Dwelling approvals in June fell by 7.9 percent, seasonally adjusted, from the previous month. The news coincided with a regular meeting of the board of the Reserve Bank (RBA), the central monetary authority. The housing sector was already acknowledged to be very weak, and the market had been expecting a small rise in the number of approvals. Instead, the fall left June approvals almost 15 percent down on last year. The June housing data is the latest in a run of statistics and surveys which have indicated that the Australian economy is much weaker than suggested by the 4.8 percent growth rate posted for the March quarter.

CURRENT ACCOUNT DEFICIT: Australia's current account deficit dropped to a seasonally adjusted A\$1.29bn (\$US\$1.02bn) in June, the smallest monthly total since March 1994 and an improvement on the revised A\$2.2bn recorded for the previous month. This was due partly to a 4.1 percent rise in merchandise exports, with rural and non-rural sectors enjoying an improvement. By contrast, merchandise imports fell 4.5 percent. The June figure was significantly better than the A\$1.6bn-A\$1.8bn most analysts had been predicting, but leaves Australia's

current account deficit for the 1995-96 financial year at A\$20.5bn, equal to 4.2 percent of gross domestic product.

INFLATION: Australia's annual inflation rate dipped to 3.1 percent in the June quarter, still slightly above the Reserve Bank of Australia's desired 2-3 percent range, but the lowest figure recorded since the December quarter in 1994.

The "underlying" inflation rate, which attempts to strip out one-off, distorting factors, also stood at 3.1 percent.

Prices rose 0.7 percent in the June quarter alone. This was slightly more than most economists were predicting.

CANADA

UNEMPLOYMENT: Canadian unemployment jumped to its highest level in almost two years in May, largely because of heavy job losses in Quebec. According to Statistics Canada, the jobless rate climbed to 10 percent from 9.4 percent in April. The figures confirm earlier evidence that the Canadian economy is much weaker than that of the US.

May's jump in unemployment was due to a combination of 56,000 lost jobs and 36,000 new job-seekers. Almost three-quarters of the job losses were in Quebec, where business confidence is at a low ebb and the separatist government has begun to implement a sweeping public sector austerity program. The French-speaking province lost 1.3 percent of its jobs in May.

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