

October 26th, 2013

A new wave is developing in the mature global economics and globalizing quickly. Anti-government groups are popping under the banner of “Free man” on the land. The aim of “Free man” is to opt out of the tax collection system. In contrast to say the Tea Party of America which rose to power out of frustration due to the lack of fiscal discipline and out right uncontrolled spending of both sides of the political divide. According to the Tea Party neither side should govern. Back in 2006, a young senator named Barack Obama made a very similar statement. Today, President Obama is eating his words and is a net contributor to uncontrolled spending. The fact we see a rise in such groups as the “Free man” points to the overall state of the political system and massive failure of fiscal policies in the developed world. Tax collection and the coffers they flow in have been mismanaged and abused. No need for Canadians to look much farther than our senate and the province of Ontario to see blinding examples.

As we have discussed at the onset of the great recession, in the future governments must become leaner and smaller in order to continue to serve their purpose. We are at a breaking point, either government must learn to adapt just as corporations have or lose their right to govern!

Has America turned the corner? The answers do not just lay in the economic data but in the overall confidence of Americans. China and Europe’s economic malaise have driven jobs and manufacturing back to North America. Unfortunately, Brinkmanship in American politics has not changed at all. The last minute deal to save America from sequester was not reached by congress as should but by the senate. In 2011, when both sides failed to agree on the debt ceiling, legislators put in place a punishment process that hurts both sides for failing to reach an agreement. As the world watched a few weeks ago, both sides failed to agree and “sequester” took place. Sequester is a package of spending cuts to cherished budgets of both political parties. The punishment legislators are doling out is slowly working. Fiscal responsibility is being forced. Don’t expect this type of legislative punishment to end anytime soon.

Economically, America is marching towards sustainable economic growth. The economic engine is no longer broken but does suffer from dysfunctional fiscal policy. Monetary policy has allowed a speedier recovery but fiscal policy is standing in the way. Even so, markets are pushing forward regardless and the greenback continues to strengthen without hurting growth. Current economic data released by the Commerce department shows manufacturing rising 3.7% in the month of September compared to just a 0.2% growth in August. Wholesale numbers also rose up 0.4% month over month.

Overall, unemployment numbers are improving along with housing sales and inbound capital flows. Is the worst over? Underestimating the stubbornness of democrats and republicans alike and the ability of such events to disrupt and even delay economic prosperity would be unwise.

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Across the Atlantic in Europe, Angela Merkel reigns supreme once again over Deutschland. This time though she no longer has her French dancing partner. The current Prime Minister of France has proven to be difficult often bringing frustration and embarrassment to the German chancellor. It appears Germany's chancellor, known to be a one trick economic pony, must move away from austerity and look hard at stimulus. Until about six months ago, Eastern Europe was roaring with economic growth while the rest of Europe was living under a blanket of recession. Now that too has been eclipsed by the great recession. Overzealous austerity managed to even kill the unending growth of Eastern Europe. Given the fact the only performing economic house is Germany, chancellor Merkel must look to empower member nations ensuring Germany remains strong and EU markets exist for her nation to sell products and services as competition for North American and Chinese markets become ultra aggressive.

On this note, the Ifo institute showed German business sentiment worsened unexpectedly in October from 107.7 to 107.4. Economists were forecasting a rise to 108.

In Asia, market retreated except for Australia's All Ordinaries which remained unchanged. Japan's strengthening Yen is hurting the Nikkei pushing it down 2.75%. China's Shanghai also dipped 1.45%.

Oil prices have been seeing a brief recovery up \$0.74 to \$97.85 a barrel.

Gold prices rose by \$2.20 an ounce to \$1,352.50. The disarray of legislative power to put sound fiscal policy in place has the precious metal glittering once again.

In Canada, our economy pushes forward despite the unusually strong Loonie. Our economy managed to add jobs but for how long? Just as with the rest of the developed world, true fiscal reform has been ignored leaving corporate Canada to fend for itself. The government's failure to tackle critical issues will leave future jobs exposed. Instead our government believes it can sustain itself from the tax revenues generated by Western Canada's oil and resource boom. Leaving the Loonie unattended has multiplied government tax revenue handsomely. Politicians still see this nation as a land full of metals, minerals, energy and timber to be sold to the highest bidder at a deep cost to developing sustainable job growth. Bad political habits are hard to break. Canada has seen its way through such messes before but don't expect the EU free trade agreement to be one of them. The EU free trade agreement favours European product with the hope of some EU firms locating in Canada a decade down the road, if and when our Loonie favours such a shift.