

Business

Fed's QE2 plan: Place your bets

For months, I've been whining about the Federal Reserve Board's plan to ramp up the printing presses and create hundreds of billions of dollars out of thin air in a plan they call "Quantitative easing." This is the second sailing of quantitative easing, so we refer to it as QE2.



ROBERT DOKKEN

This Wednesday, the day after Election Day, is when we expect to hear more specifics about QE2 from the Fed, like how many new dollars will be involved.

What will they do with the money?

The Fed says the first thing it will do with the mountains of funny money is to buy up its own Treasury notes. Just to set the record straight, if you buy a Treasury note, you're actually loaning the government money, and the interest you make is in reality the difference between the discounted amount you paid for the note and its actual value at maturity. It's like buying a savings bond for \$25; when it matures, it's worth \$50. Quantitative easing is an interesting concept; print up your own dollars, loan those dollars back to yourself and then pay yourself interest on the debt.

What will they really do with the money?

When the Fed says they'll buy Treasury notes with the dollars they print, our attention gets misdirected. We look one way when something is really happening in the other direction that we don't notice. We often forget to "follow the money." After the Treasury receives the money from the notes it has sold itself, what does it do? Anything it wants. The government then goes on with unchecked spending. This year, it will spend over a trillion dollars more than it makes.

Why go to the trouble?

Why go to the charade of buying your own treasury bills when you could simply print the money and spend it? The fact is that many other governments and individuals buy our Treasuries, and if we can participate in the bidding, we can help drive the prices higher. The likely result is that your nest egg can crack because of inflation.

Inflation is the result.

Inflation is the result of the last round of quantitative easing. Since June, crude oil is up 31 percent, soybeans are up 32 percent, cotton has climbed 72 percent, while wheat has skyrocketed 85 percent, never mind that Social Security will not be passing out any cost of living raise again this year.

I've not been whining about QE2 itself, I'm concerned about the very real danger of inflation that comes on the heels of easy money. If you're not convinced QE2 will result in higher inflation, wait until next week's column.

This column is a paid ad from Robert Dokken, chartered financial consultant. Dokken is an author and business correspondent on TV and radio. He lives in Panama City with his wife, Monica, and daughters, Kristen and Lauren. Send e-mail to askrobert@dokkenreport.com.

EU power struggle likely over bailouts

BRUSSELS (AP) — European leaders' decision to create a permanent financial backstop for future eurozone crises — but without spelling out who pays — looks set to trigger a power struggle among governments in the months to come.

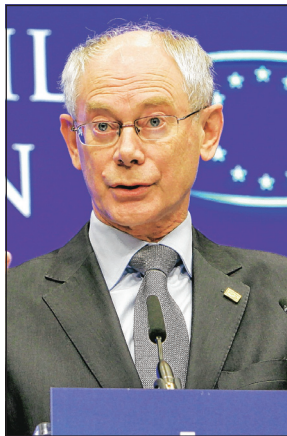
The deal that emerged from a two-day summit of EU leaders in Brussels Friday is vague on how private creditors such as banks and hedge funds — and not just taxpayers — would share the cost of financial rescues such as the one that pulled Greece from the edge of bankruptcy in May.

Forcing private bondholders to pay for some of the consequences of risky lending was a key demand from Germany, which was the biggest contributor both to a \$176.2 billion emergency loan for Greece and a \$704.8 billion stability fund for the wider eurozone.

Other governments, backed by the president of the European Central Bank, fear that threatening bondholders with debt restructuring would send up funding costs for countries like Greece, Portugal or Ireland and again imperil the stability of the euro.

Both the emergency loan and the stability fund run out on June 30, 2013. By then, Greece's debts likely will stand at 150 percent of gross domestic product, a level many economist think is unsustainable.

Markets were quick to remind



“A permanent crisis mechanism should be able to address financial distress and avoid contagion from one country to another. It should also avoid moral hazard.”

EU President Herman Van Rompuy

politicians that the European debt crisis is far from over. The interest rate on Ireland's national debt reached a new euro-era high Thursday as investors sold off Irish bonds amid skepticism that the country can reverse its soaring deficits.

In Portugal, talks between the government and the opposition on how to slash the country's budget broke down Wednesday. Greece is still awaiting final deficit figures for 2009, which might force Athens to impose even more painful austerity measures.

EU leaders backed "limited" changes to the EU treaty to allow for the creation of what they call a "permanent crisis resolution mechanism." Such a mechanism, they said, is needed save governments from having to scramble for a solution like

they did this spring, when funding costs for highly indebted states like Greece and Ireland soared and the euro plummeted.

But leaders left it to the European Commission, the EU's executive, and a task force around EU President Herman Van Rompuy to work out the details of how such a mechanism should function and what role, if any, should be played by the International Monetary Fund, the Washington, D.C.-based international organization that joined in the Greek bailout.

By December, those two groups will explore "the role of the private sector, the role of the IMF and the very strong conditionality under which such programs should operate," Van Rompuy said.

Though EU leaders agreed that

it was necessary to support eurozone countries that run into fiscal troubles, interpretations of what the crisis resolution mechanism will look like gyrate widely.

"For some it could simply mean that the current Financial Stability Facility would become permanent," Carsten Brzeski, senior economist at ING, said in a note. "For the German government, it rather means a debt-rescheduling facility."

Indeed, Van Rompuy stressed that "we didn't talk about restructuring debts."

Berlin has ruled out extending the financial stability fund, unless private creditors bear some of the costs when a highly indebted country runs out of money, either by giving the country more time to pay or by accepting a reduction in the total sum they are owed.

"A permanent crisis mechanism should be able to address financial distress and avoid contagion from one country to another," Van Rompuy said. "It should also avoid moral hazard."

Figuring out how such moral hazard — which allows investors to make risky bets without the threat of losing their money because they know governments will bail them out — can be avoided, without sending those same investors into a panic about losing their money, will be a tricky task for the EU and its member states in the months to come.



Shoppers look at Panasonic's flat-panel TVs at a discount store in Tokyo, Japan.

Electronics companies brace for weak demand

TOKYO (AP) — Three of the world's biggest names in electronics — Samsung, Sony and Panasonic — are bracing for weaker global demand and a rocky road even as they reported stellar quarterly profits Friday.

South Korea's Samsung Electronics Co. booked a record net profit for the third straight quarter thanks to brisk sales of semiconductors and mobile phones.

Japanese rival Sony Corp. climbed back to the black as consumers clamored for its PCs and the PlayStation 3 gaming console. Panasonic Corp.'s net profit surged more than fivefold on strong demand for flat-panel TVs and Blu-ray Disc recorders.

The results underscore how major Asian manufacturers have benefited from a recovering global economy and government

stimulus measures that boosted consumer spending. But with that recovery now in doubt in key overseas markets like the U.S., companies are preparing for a tougher fight for customers and with each other. Rising currencies in Asia also cloud their outlooks.

"We believe the operating environment will become more severe," said Sony's Chief Financial Officer Masaru Kato.

What happens to Samsung matters because it is such a major force in the global electronics industry. In addition to dominating in memory chips and flat screen TVs, the company is the world's largest manufacturer of large-sized liquid crystal displays and ranks second in mobile phones behind Nokia Corp. of Finland.

Business MOVES

StaffBuildersHR, headquartered in Lakeland, has promoted **Jamie Sims** to area manager. Sims covers the Panhandle area for StaffBuilders. For more information, call 320-8206 or visit the company's website, www.staffbuildershr.com.

The Panama City Downtown Improvement Board announced the addition of **Brian Hinton** as its new Main Street coordinator. Hinton is a native of southern Indiana and has called Panama City home for the last eight years. He has worked in the marketing and real estate industry for a number of

years. Hinton serves as a board member and past president of the Kiwanis Club of Panama City.

The Resort Collection of Panama City Beach announces the hiring of **Tricia Culpepper** as sales manager. Culpepper will be responsible for coordination of groups and meetings and will oversee all aspects of association meetings and events.

If you have recently made a new hire, e-mail us at business@pcnh.com. The deadline for submission is Thursday at 5 p.m., with publication on Sunday's business page. Please include a contact phone number.

PANAMA CITY MORTGAGE GUIDE

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http://www.quickquotemortgage.net					
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10 yr fixed	3.250	0.000	\$545	20%	3.320
5/1 ARM	2.500	0.000	\$295	20%	2.659
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MORTGAGE UPDATE

Mortgage rates zoom higher By Holden Lewis

Mortgage rates rose this week, as the Federal Reserve prepares to whip up a little inflation. The benchmark 30-year fixed-rate mortgage rose 9 basis points this week, to 4.51 percent, according to the Bankrate.com national survey of large lenders. A basis point is one-hundredth of 1 percentage point. The mortgages in this week's survey had an average total of 0.33 discount and origination points. One year ago, the mortgage index was 5.35 percent; four weeks ago, it was 4.5 percent.

The benchmark 15-year fixed-rate mortgage rose 8 basis points, to 3.9 percent. The benchmark 5/1 adjustable-rate mortgage rose 7 basis points, to 3.67 percent, while the benchmark 30-year, fixed-rate jumbo rose 2 basis points, to 5.1 percent.

QE and lower rates

Next week, the Federal Reserve's rate-setting committee is expected to announce a second round of what it calls "quantitative easing." The minutes of the panel's most recent meeting, in late September, showed most members thought inflation was too low.

The committee "discussed several possible approaches to providing additional accommodation but focused primarily on further purchases of longer-term Treasury securities and on possible steps to affect inflation expectations."

So if the Fed does embark on another round of quantitative easing, it probably will do so by purchasing Treasury securities. That would pour cash into the economy. Theoretically, more cash would cause prices to rise, spurring businesses and consumers to buy now instead of later. Increased demand, in turn, would create more jobs.

The Fed's method -- buying longer-term Treasury bonds -- would push interest rates down, at least at first. Rates eventually would rebound higher as employment picked up. This week, it looks like mortgage rates skipped the initial phase of lower rates and headed straight for the rebound and its higher rates.

Home value uncertainty

If rates are topsy-turvy, so are house values. This week saw the release of numerous house price indexes. Taken together, the reports yielded year-over-year increases in confusion and month-to-month decreases in certainty.

- The National Association of Realtors said the median price of a resale home in September was \$172,600, down 1.9 percent from September 2009.
- The Census Bureau said the median price of a new home was \$223,800 in August, up 3.3 percent from August 2009.
- The Standard & Poor's Case-Shiller Index found that prices rose 2.5 percent in 10 large markets from August 2009 to August 2010.
- In the same 10 markets and over the same 12-month period, another company found that prices fell 2.6 percent. That result came from FNC, an analytics company based in Oxford, Miss.
- Clear Capital, an analytics company in Truckee, Calif., announced early in October that prices nationally rose 2.4 percent from September 2009 to September 2010. But last week, the company issued a "special alert" saying that prices in its Home Data Index had fallen 5.9 percent in the two months ending in mid-October.

When reviewing these contradictory reports, keep this in mind: These indexes aren't built for consumers. Rather, they're compiled to inform other audiences: Realtors, regulators, bankers, mortgage bond investors and mortgage servicers. Don't rely on a house price index to tell you when to buy or sell a house.

Kevin Marshall, president of Clear Capital, says it's possible that prices could fall for another couple of years, although that's not a sure thing. But short-term price fluctuations matter little to someone who owns a house for 15 or 30 years.

"Get back to the mindset (of) saying, 'I'm going to invest in my home, I'm going to live in it, I'm going to mow the lawn, take care of it, raise my kids there,'" Marshall says. "Right now, if people are employed and they have good credit, they're in a great position to buy."

Mark Fleming, economist for CoreLogic, an analytics firm based in Santa Ana, Calif., advises consumers "not to get so much hung up on individual numbers" when looking at house price indexes.

"Their methodologies are different, the data that they're using is not exactly the same, so you get slightly different answers," Fleming says. "But they're directionally often very similar. It's not the magnitude but the trend that is most important."

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