

Business Briefs

Oil and Gas

Greenspan: Energy Prices To Stay High

In a speech before the Georgetown CSIS on April 27, Federal Reserve Chairman Sir Alan Greenspan said that “the dramatic rise in six-year forward futures prices for crude oil and natural gas over the past few years . . . can be viewed as effective long-term supply prices,” and that if those prices are sustained, “it could alter the magnitude and manner in which the U.S. consumes energy.” The major factor in rising oil and natural gas prices is trading in the spot and futures markets, and this market mechanism—built up in the 1970s by ex-fugitive Marc Rich—is likely now the main determinant of consumer energy prices. The price rise would force changes, or reductions, in consumption, and could prompt some gas-intensive industries, such as petrochemicals and fertilizer manufacturing, to move facilities to parts of the world where natural gas and labor are cheaper.

Mortgage Market

Chicago Foreclosures Up, New Applicants Drop

With relaxed loan qualification standards as well as rising long-term unemployment, the number of homes entering foreclosure in the Chicago metro area, for example, is extremely high. “We’re seeing an average of 508 new filings per week for the month of March and the first two weeks of April,” said foreclosures.com president Alexis McGee. “That’s almost double the normal historic baseline of 260 per week for the six Chicago metro counties.”

In California, mortgage defaults show that many homeowners are in “financial distress.” In eight of nine San Francisco Bay Area counties, 4,654 default notices were filed in the first three months of 2004; and in Los Angeles, 1,872 in March alone, according to the April 27 *San Jose Business Journal*.

Mortgage market troubles are deepening nationally. New home mortgage applications dropped for the fifth consecutive week,

as higher interest rates began to take hold. For the week ending April 16, the Mortgage Bankers Association’s Market Composite Index of loan applications fell to 744.5, a 33% fall from an index level of 1117.1 for the week ending March 12. For the same period, refinancings collapsed by 49%.

Steel

Predator ISG Largest U.S. Steel Producer

The approval by a bankruptcy judge of the ISG takeover of bankrupt West Virginia-based Weirton Steel was reported April 23 in the *Charlotte Observer*. This makes ISG the largest steel producer in the United States. ISG, created only three years ago by the Rothchild-connected “turn-around” expert Wilbur Ross, has achieved this status entirely by picking up bankrupt steel companies (LTV, Bethlehem, ACME) at bargain basement prices and then running them on a non-union model with elimination of work rules and the introduction of productivity incentives and bonuses, lay-offs, elimination of health care benefits, and reduction of pension benefits. The remaining Weirton workers who have been through round after round of lay-offs and wage reductions over the past ten years, just approved a five-year contract with ISG and have more of the same coming.

Unemployment

Jobless, With Exhausted Benefits, To Increase

The number of unemployed workers who will have exhausted their jobless benefits will rise to nearly 1.5 million by April 30, according to the Center on Budget and Policy Priorities. According to its analysis, the number of Americans exhausting their regular state unemployment benefits in March without qualifying for any additional Federal unemployment assistance, surpassed the record high that was set only in January. In March, about 354,000 more jobless workers used up their regular benefits without being

able to receive additional Federal aid—the highest monthly level ever, according to Labor Department statistics going back to 1971. Moreover, since Dec. 20, 2003 a whopping 1.47 million unemployed workers will have exhausted their state jobless benefits by the end of April—without receiving extra aid. The April 2 Bureau of Labor Statistics report, which claimed a recovery was underway, showed a worsening of both the number and proportion of long-term unemployed workers. The number of Americans out of work at least 27 weeks, rose to 1.988 million in March, at the same time that a purported 308,000 jobs were created. The proportion of the unemployed who are “long-term unemployed” increased to 23.9%, the largest ratio in more than 20 years.

Congress failed to renew the Temporary Extended Unemployment Compensation (TEUC) program, when it lapsed on Dec. 20. This would have provided up to 13 weeks of Federally funded benefits to jobless workers who have run out of state-funded benefits.

Foreign Reserves

China Diversifying Foreign Reserves

China, the second-largest buyer of U.S. Treasury securities, is changing the portfolio of investments in its foreign currency reserves to include more European and Asian bonds, due to worries over dollar weakness. Guo Shuqing, head of the State Administration of Foreign Exchange, told the April 23 *Financial Times* that Beijing had recently purchased more European (including Italian) government bonds, and was looking at buying Asian bonds. China’s purchases of U.S. Treasuries are a key source of financing for the surging U.S. budget deficit.

“As China’s foreign exchange reserves grow continuously, we are actively studying opening up new areas of investment in order to spread risk and increase returns,” said Guo, also a deputy governor of the People’s Bank of China, the central bank. He indicated that while U.S. dollar-denominated debt would still be the biggest part of China’s foreign currency reserves, the diversification was triggered by considerations of currency strength and capital market conditions.