Ahead of the STORM

By Alan Lammey

Is Another Economic Meltdown Inevitable?

On top of the recently sluggish Texas economy, which largely stems from the major downturn in oil and natural gas prices over the last year and a half, comes another potential major economic juggernaut that could potentially cause even more grief for struggling businesses in the Lone Star State along with the rest of America: the newest global debt implosion.

It's no secret that for decades, politicians in the U.S., Europe, and Asia have been allowed to buy votes to essentially purchase power with borrowed money. They've initiated massive social programs for hundreds of millions of people and then pay for them with debt. Money is borrowed from investors through the sale of bonds or in treasuries issued by the U.S. government and dispersed via program names such as "quantitative easing," "economic stimulus," "bailout packages," etc.

It appears that the time has come to pay the piper. Several historically accurate, long-standing, major economic indicators and powerful long-term cycle indicators are all pointing to mark the conclusion of an era in which governments could amass obscene amounts of debt with near total impunity. While this might seem to be a situation that is chiefly a government problem, the fact is that its wrath is likely to be felt in nearly every sector of business in the U.S. (and Texas). This is true for any serious financial crisis, including the Great Recession of 2008-'09. In this case, the crisis appears poised to strike within the next couple of years, particularly heading into late 2016 and 2017. However, this time around, there are few (if any) options for an expedited rebound as there will not likely be any governmental bailout dollars to fund another series of artificial stimulus to the economy and various industries.

Preparing for the Worst, Hoping for the Best

Fortunately, business owners in Texas may have some time to prepare before the brunt of this newest global economic debt storm makes landfall in the U.S. In fact, America will have a front row seat to preview how the coming economic crisis may unfold in our own country. This is because the crisis is slated to begin in Europe in the months ahead. Essentially, 22 "Greeces" are rapidly approaching the brink of bankruptcy, which will trigger a rapid deterioration of markets and assets throughout a majority of the EU in 2016.

Despite repeated bailouts over the last several years, 22 of the 28 EU member states, including the largest states such as Spain, France, Italy, and the UK, are deeper in debt now than ever before. In Spain and France, it would take nearly all the money generated by their economies in an entire year to equal their national debts. The governments of Cyprus and Belgium also each owe more than their economies produce in a year. Ireland owes 10 percent more than its economy produces. Portugal owes 30 percent more. Italy owes 32 percent more. The Greek government, still in the worst shape even after six huge bailouts and its recent troubles, owes 77 percent more than its economy produces.

The bottom-line here is that economic growth in the EU is dead in the water, and European governments have become desperate as there are no easy outs this time around. The Italian economy is barely growing. France is stagnating. Germany, the economic powerhouse of the EU, recently slipped into recession. In Spain, the government has begun taxing bank deposits: essentially, you pay an income tax on your paycheck and then pay another tax when you deposit it into the bank. In Cyprus, the government literally confiscated its own depositors' money; account holders with more than 100,000 euros watched powerlessly as the government seized up to 40 percent of the money in their bank accounts.

How the U.S. Markets Might React to a European Economic Collapse

All of these economic woes add up to a situation that has finally come to a head, according to several power economic cycle indicators. In coming weeks and months, while the euro and European stock markets collapse, trillions of euros in a flight-of-capital-to-quality returns will likely begin pouring into the United States, which will be perceived as the world's last safe haven. In turn, this will drive the U.S. dollar and stock-market sky-high in the coming months.

Beginning in 2016, it will be Japan's turn to step up to the plate of economic chaos. Its debilitating debt will implode, leaving the yen and Japanese stock market in shambles. The Japanese government is fraught with not just one but two deadly crises. First, Japan is burdened with the largest government debt in the world: more than 1 quadrillion yen. That's a one followed by 15 zeros – 1,000,000,000,000,000 yen in debt. In fact, Tokyo's debt is nearly two and a half times the size of the entire Japanese economy and more than double the debt load that recently pushed Greece, Ireland, and Portugal to the brink of collapse.

Japan's second crisis is that its people are saving instead of spending—and for good reasons. Because prices for various goods in Japan have fallen for 15 years, most items Japanese consumers and companies want to buy will be cheaper tomorrow. They have little reason to spend money and every reason to save money.

Japanese citizens are also hoarding cash because they fear that Tokyo will have to cut their retirement checks and the other government benefits. They're saving as much as they possibly can for the economic hardship that they believe is coming. Like the debacle in Europe, trillions of yen in flight capital will flood into the U.S., once again driving the U.S. dollar and stock market prices even higher.

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The Day of Economic Reckoning in America

However, the day of reckoning and astronomical debt contagion will finally come to America within a couple of short years—perhaps by 2017—as the U.S. pays the price for the largest amount of debt created in more than 5,000 years of human history. Most everyone knows and worries about our $18 trillion national debt, which equals 107 percent of the value of all the goods and services the U.S. produces. In addition to that debt, according to the latest statistics from the U.S. Department of the Treasury, our government owes another $97 trillion that it never wants to talk about.

Within a couple of years, it's highly likely that investors who have loaned Washington the money it needs to pay its bills will snap their coffers shut as the economic tsunami unfolds. In a nutshell, the multi-trillion dollar deferred debt that has been racked-up over the last multiple years by the U.S. government will come due. With the real potential for aggressively climbing interest rates to occur in coming months and years as global debts are essentially charged-off, the U.S. government (like Europe and Japan) will find it nearly impossible to service its astronomical debt-load. This will result in postponed U.S. government payments to private companies and individuals that will sooner-than-later be stopped altogether.

While this sort of information is difficult to stomach because, after all, no one wants to read or believe such pessimism, there have been many assumptions made as to when these events are likely to take place. However, the reality is that there are no set dates for these sorts of economic situations to occur. There are only projections made based on various predictive models. With that said, as cliché as it may sound, "Knowledge is power," and if the above economic events do begin to first occur in Europe and Japan as I've laid out, then businesses can remain ahead of the curve by instituting plans to ride out the economic storm out before it even arrives. N

Alan Lammey has 18 years' experience as an energy markets analyst and journalist. He can be reached via his website, www.TexasEnergyAnalyst.com or alammey@TexasEnergyAnalyst.com.